sezzle

The way forward.

2020 ANNUAL REPORT

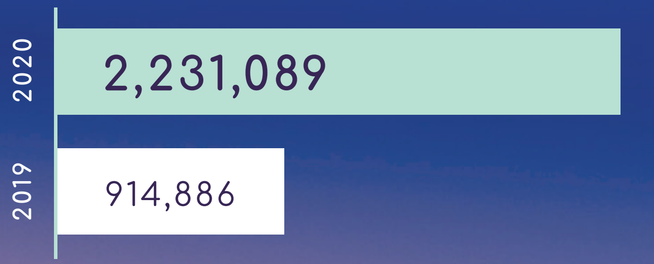
OUR MISSION

Financially empowering the next generation.

CONTENTS

Performance highlights.

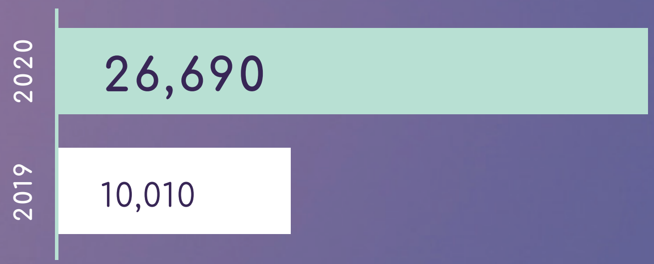
ACTIVE CONSUMERS



+ 144%

Active Consumers increased by 144%.

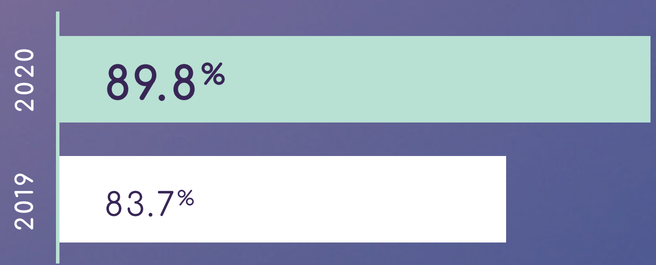
ACTIVE MERCHANTS



+ 167%

Active Merchants increased by 167%.

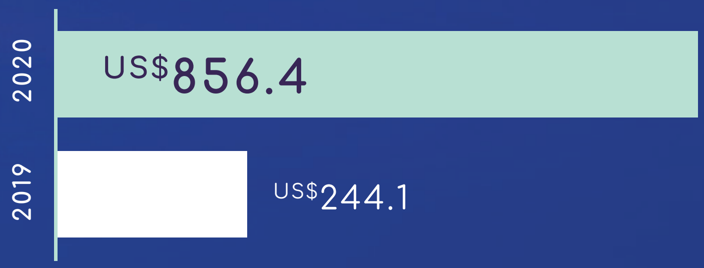
REPEAT USAGE



+ 6.1pp

Repeat Usage increased 6.1 percentage points (pp) and is calculated as the percentage of cumulative orders made by returning end-customers to date relative to total cumulative orders to date. This is an indication of increasingly positive user experience and growing brand loyalty.

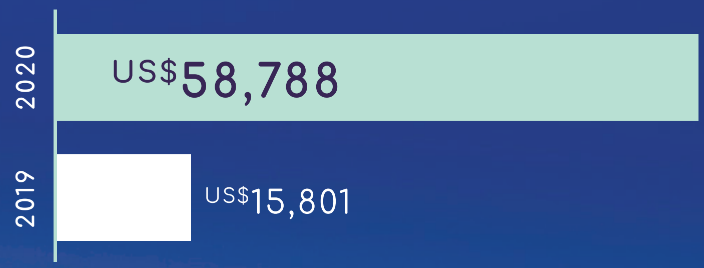
UNDERLYING MERCHANT SALES (UMS) ($000,000s)



+ 251%

Underlying Merchant Sales (UMS) increased by 251%.

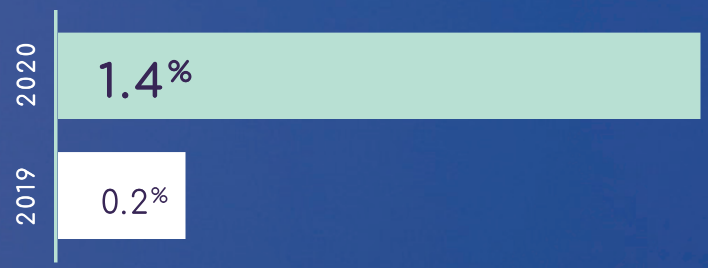
TOTAL INCOME ($000's)



+ 272%

Total income increased by 272% from 2019 reflecting strong top-line growth.

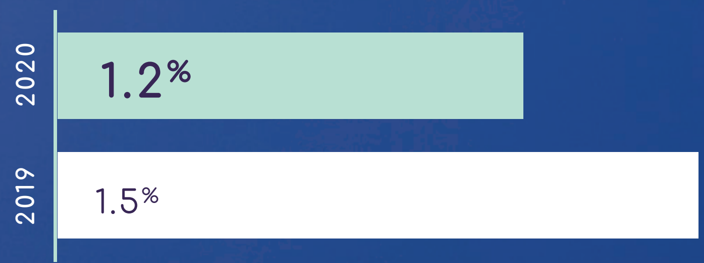
NET TRANSACTION MARGIN (NTM)AS A PERCENTAGE OF UMS



+1.2pp

NTM as a percentage of UMS increased 1.2pp in 2020 reflecting lower processing costs, improved net loss rates, and increased usage.

NET TRANSACTION LOSS AS A PERCENTAGE OF UMS



+ 0.3pp

Losses as a percentage of UMS decreased 0.3 pp since 2019 reflecting disciplined credit risk management and increased usage.

Who we are

Launched in 2017, Sezzle is a purpose-driven payments platform with about 2.4 million Active Consumers[1] and a growing base of over 29,200 Active Merchants[2] online and in a select number of brick-and-mortar retailers.

Sezzle's core product allows consumers to split purchases into four interest-free payments over six weeks, which increases purchasing power and offers them a built-in way to budget their purchases. Sezzle has one of the highest approval rates in the industry giving more consumers the credit they deserve. Approval is instant and applying never negatively impacts consumers' credit scores.

Sezzle's greatest differentiator is its mission: to financially empower the next generation of consumers.

An overwhelming percentage of the US population lacks access to financial knowledge and resources. Young consumers are particularly wary of credit and worry about their finances more than any other generation. Sezzle's focus on giving this next generation of consumers access to credit while avoiding debt-traps is fueling dramatic growth.

Sezzle's business model has proved to be mutually beneficial for all. Over 80% of Sezzle's total income is derived from merchant fees and for consumers who pay on time, Sezzle's product offering is completely free. In turn, merchants experience improved conversion rates, higher spend per transaction, and lower return rates without any credit risk.

Tech savvy and socially-minded, this generation of consumers expects brands to stand for something. By championing financial inclusion, Sezzle is enabling all consumers to take control over their spending, be more responsible, and gain access to financial freedom.

[1] Active Consumers is defined as those using Sezzle within the last 12 months as of 31 January 2021.
[2] Active Merchants is defined as those that have had transactions in the last 12 months as of 31 January 2021.


sezzle
The way forward.

Driving value by delivering our mission.

EXECUTIVE CHAIRMAN AND CEO'S LETTER

"We see change as an opportunity to shape the future."

Dear Fellow Shareholders,

As a purpose-driven company, our mission to financially empower the next generation of consumers took on deeper meaning in 2020. The impact of COVID-19 on our consumers, merchants, employees, as well as the world of e-commerce presented new challenges and opportunities. Even in this challenging time Sezzle remained a bright spot, creating increased value and positive outcomes across all stakeholder segments.

Amid uncertainty, e-commerce is dominating the retail landscape and means of payments are shifting. Now more than ever, a flexible payment solution is a valuable partner — especially one that mirrors the values of a new generation of consumers. Providing a tool to empower our consumers to spend responsibly without stretching themselves too thin is proving to be a solution to some of the most acute problems caused by this pandemic.

95% of Sezzle consumers report that Sezzle has helped them ease their financial anxieties. We saw countless consumer reviews that thanked our team for helping their family through difficult times. Having that kind of impact is incredibly satisfying.

Our enormous growth in merchant acquisition is proof that retailers value Sezzle's ability to attract incremental consumers with a flexible payment option that encourages responsible spending.

Delivering on our mission has resulted in exceptional growth across all our operating metrics. Each month in 4Q20 represented new records for Underlying Merchant Sales (UMS), Active Consumers, Active Merchants, and Repeat Usage:

- For the first time, our December UMS beat November, which included Black Friday and Cyber Monday.

- In 4Q20 we added, on average, 150,000 Active Consumers per month, well ahead of our previous record pace of 108,000 in 2Q20.

- By the end of 2020, over 5.0M consumers have signed up to use Sezzle.

None of this would have been possible without our stellar team. Our people remained incredibly resilient during the year and did not miss a beat. So much so that we were able to grow our team and develop new levels of expertise during such a challenging period.

Our focus on three key areas has succeeded in laying a solid infrastructure to support explosive growth.

1. EXPANSION

2. INNOVATION

3. EMPOWERMENT

EXPANSION

From startup to enterprise.

CAPITAL RAISING ACCELERATES GROWTH

In July 2020, Sezzle completed an equity capital raising of US$60 million to accelerate our growth strategy and drive long-term value. The capital raise is fueling development of infrastructure and expansion in a number of areas including sales and marketing, platform enhancements and systems integration, international expansion, as well as strengthening the balance sheet.

In February 2021, we signed a new US$250 million receivables funding facility to support the expansion of our business in the US and Canada. The new 28-month facility replaces our US$100 million receivables facility, extends the maturity of our funding well into 2023, and lowers our cost of funding, which will provide a positive effect on Sezzle's net transaction margin over time.

TAPPING INTO A GLOBAL MARKET

As we continue to invest in the United States we are pursuing a thoughtful approach to global expansion, pinpointing opportunities for our product offering. Launched in the Spring of 2019, our efforts in Canada are gaining significant traction. In 2020, Sezzle's Canadian Active Consumer count rose over 800% YoY, its Active Merchants increased more than 400%, and its Canadian UMS jumped over 1,500%. We are proud to note that we have approximately 1,500 Canadian-based Active Merchants on our platform at the end of 2020.

In Canada, we saw a YoY increase of over 1,500% in UMS.

In July 2020, we launched a pilot in India to test for product market fit. While it is still in the very early stages, we are optimistic about the opportunity to be a first-mover in such a high growth market. In Europe, Sezzle is in the discovery stages. We are cost effectively building the infrastructure for future expansion.

DEVELOPING OMNICHANNEL OPPORTUNITIES

As technology becomes more integrated into our daily lives, Sezzle aims to improve the payment experience and drive better relationships for our merchants across all points of contact. In November 2020, just in time for the holidays, Sezzle launched multi-channel offerings with GameStop, the world's largest video game retailer, creating a seamless experience in-store, online and in the GameStop app. 2021 will be a big year for the expansion of our in-store capabilities. We believe our

TRENDING

small and medium-size merchants will have the most to gain as we expand our offering into brick-and-mortar retail. The ability to pay with Sezzle in-store will create another way we can support retailers who were hit hard during COVID-19.

INCREASING RETAIL PARTNERSHIPS

As we added to our stable of small business merchants, this year saw an increase in partners at the enterprise level.

Sezzle is one of the leading Buy Now Pay Later companies in North America with over 29,200 retail partners.

While growing our core offering in apparel and accessories at an astounding rate, we continue to grow other merchant categories to serve new trends in our consumers' spending habits such as vitamins and supplements, health and wellness, and electronics. We even created new themed verticals that allow consumers to shop their values with category options like Black-owned, sustainable, and location-specific offerings. Sezzle is broadening the footprint of diverse, boutique e-commerce merchants across the country.

STRENGTHENING OUR BENCH

In response to rapid growth, we've more than doubled our workforce in 2020 across the company and are continuing to add throughout the organization in areas such as product development, sales, and marketing. Sezzle's enterprise retail expansion efforts have been effective, and we're building out our team to increase momentum and execute strategic initiatives. We hired new leaders with large enterprise experience to strategically expand our Sales and Marketing Teams, including Chief Revenue Officer Veronica Katz, VP of Enterprise Sales Reid Bork, and VP of Marketing Penelope Holt. A growing workforce with this specific expertise puts Sezzle in a strong position for the future. We are especially proud of increasing our women in leadership at Sezzle. Our leadership is now 35% women, reflecting our commitment to a diverse and inclusive culture. With the ability to attract and retain top talent, Sezzle is prepared to sustain growth.

VERONICA KATZ
Chief Revenue Officer

REID BORK
Vice President of Enterprise Sales

PENELOPE HOLT
Vice President of Marketing

INNOVATION

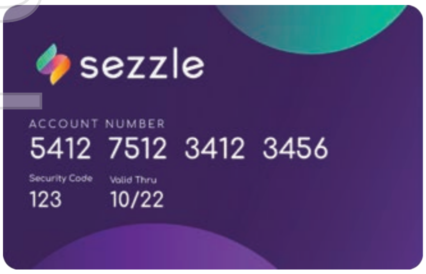
Engineering the most consumer-friendly product on the market.

SEAMLESSLY INTEGRATING IN-STORE

Sezzle's new virtual card gives consumers the power to Sezzle their purchases in-store. The virtual card is a frictionless, touch-free payment method that can be used on both Apple Pay and Google Pay.

Immediate, effortless integration makes Sezzle's virtual card ideal for rapid installations and also allows for risk-free testing with large enterprise merchants. Notable merchants such as GameStop are using it in-store with positive results.

Adding the ability to use Sezzle for in-store transactions was an important strategic company initiative that is propelling new opportunities for significant growth.



BUILDING CREDIT FOR THE FUTURE

The launch of our groundbreaking product, Sezzle Up, started with one simple question: How can we further promote our mission of financial empowerment?

In partnership with TransUnion, our world-class team of developers engineered an "upgraded" version of the Sezzle experience that allows consumers to build their credit scores.

Sezzle Up uses expanded payment features and benefits, along with Sezzle U's education and support, to aid consumers in building their credit scores and spending limits, while unlocking additional purchasing power. No other Buy Now Pay Later company offers this solution to their consumers.

Gen Z has a deep understanding of how technology can transform everyday life. Sezzle Up is targeting a new generation of aspirational credit builders and acting as a financial co-pilot in aiding them on the path to financial empowerment.

PIONEERING NEW PRODUCTS THROUGH PARTNERSHIPS

To enhance our customer financing options, in 3Q20 Sezzle entered into an agreement to provide long-term loans through a new partnership with Ally Lending. Ally Lending is the B2B2C lending arm of Ally Bank, the banking subsidiary of Ally Financial (NYSE: ALLY). Ally Financial is a leading digital financial services company with over US$180 billion in assets as of December 31, 2020.

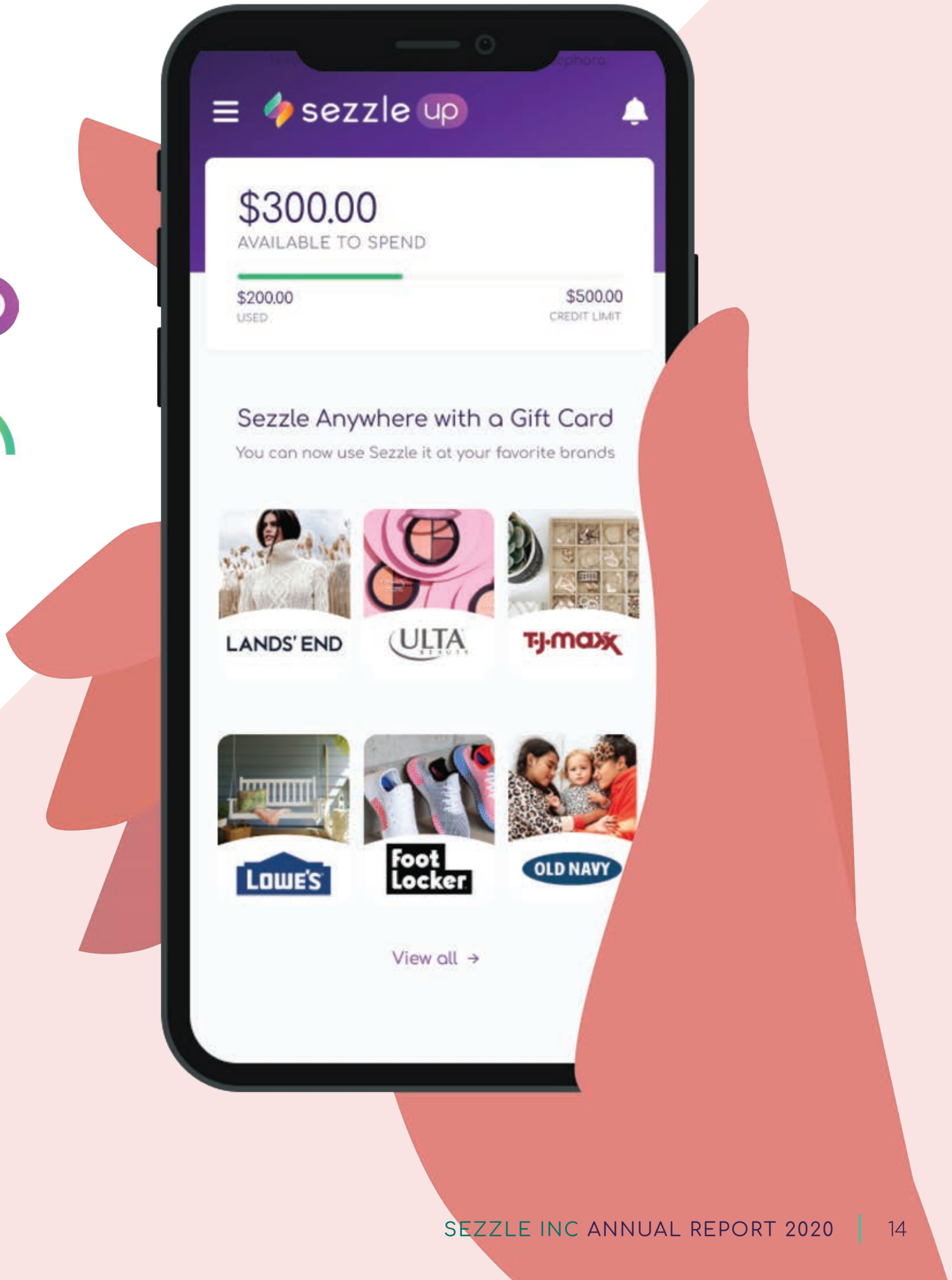
Through Ally Lending we will offer our consumers and merchants monthly fixed-rate installment-loan products that extend up to 60 months and US$40,000 per installment plan through a fully digital application process.

Providing access to long-term options at lower rates than traditional credit cards has the potential to extend our relationship with consumers over a lifetime and compliments Sezzle's existing short-term, interest-free offering without adding any balance sheet risk to Sezzle.

Collaborating with like-minded partners, those with a consumer-obsessed focus like ours, will help expand our product universe and build brand loyalty.

sezzle up

Build credit
for your future
with Sezzle Up.



EMPOWERMENT

Creating social impact for the good of all stakeholders.

SUPPORTING A CULTURE OF PURPOSE

Beset by COVID-19, we quickly recalibrated our day-to-day operations. As a tech company, we put telecommuting and productivity tools at our employees' fingertips to make the shift from working at the office to operating from home seamless. One example is the change to our policies allowing for unlimited sick time for any of our employees experiencing COVID-19 symptoms.

Creating a virtual workplace has enabled us to tap a national talent pool and hire world-class professionals, integrating them into a growing high-performance team. We have developed outstanding, highly-skilled resources and are deploying top talent across all functions.

The ability to attract and retain top talent is key to forging Sezzle's future. Engaging our team in our mission and offering an opportunity to own shares is maximizing value for the entire organization. While 'acting as owners' is a common phrase used throughout Sezzle, we believe our employees should be owners. In 2020, we introduced a new short-term incentive plan for our employees so that they may become shareholders.

These efforts have not gone unnoticed. Our Employee Net Promoter Score rose and remains near an all-time high. Additionally, Sezzle was named by Forbes as one of the nation's Top Startup Employers for 2020.

CONNECTING COMMUNITY THROUGH SOCIAL GOOD

Sezzle is leading the revolution in using business as a force for good and the effects are being felt throughout our local communities. Our dollar-for-dollar charitable match program encourages employees to contribute and the company directly supported a number of causes including No Kid Hungry, Sponsor a Family Minnesota, Make a Wish, and the YMCA.

Recognizing the disparity in opportunity for minority students in technology, we launched the Sezzle Scholars program awarding a 4-year scholarship to a deserving minority undergraduate student who may not be able to afford or complete a technical degree due to the financial burden. Additionally, Sezzle has pledged to continue offering a full-ride scholarship for this cause every year moving forward.

As a Public Benefit Corporation we are committed to making a positive, social impact in the world by engaging in the same issues and values that our Sezzle community pursues.

We are on the path to becoming a Certified B Corporation, reinforcing our commitment to build trust and value for all stakeholders.

Protecting the environment is one of the most pressing issues of our time and a key cause for our stakeholders. We're starting down the environmental improvement path by implementing a program to reduce our carbon footprint and become Climate Neutral certified. Climate Neutral measures the impacts of a company's greenhouse gas emissions and offsets it by investing in renewable energy.

But, we're not stopping at carbon neutral. We are going to push beyond that frontier to become a carbon negative company.

In collaboration with Trees for the Future, Sezzle has committed to planting one tree for every new, active user.

Finally, this COVID-19 environment has shown us how we can operate a high-performing company with a remote work approach. We've shifted our mindset and have embraced a new approach for the foreseeable future. This shift will reduce our team's emission of greenhouse gasses and increase their efficiency, as the hours will not be wasted in rush-hour traffic.

These environmental efforts are indicative of Sezzle's firm focus on the future and our commitment to making the right decisions for the benefit of all of our stakeholders.

GIVING CONSUMERS THE FREEDOM TO SPEND RESPONSIBLY

Sezzle was created for those underserved by traditional credit channels. Our proprietary risk management algorithm results in one of the highest approval rates in the industry, making credit accessible and increasing purchasing power for more people, especially for those with little to no credit history. Over 70% of our consumers are aged 18-39 and represent a young consumer in need of credit and often excluded from traditional credit options. For most of these users, Sezzle has become a safe-haven and improved their daily lives.

We expanded our fee forgiveness and payment flexibility programs during COVID-19, such as allowing consumers an additional free reschedule per order. Our best-in-class user experience, friendly payment reminders, and customer service support have resulted in extraordinarily positive consumer reviews.

PROSPERING WITH PRINCIPLE

The Sezzle brand has become a magnet for merchants who wish to win the attention, hearts, and loyalty of young, socially-focused and values-driven consumers. In 2020, over 90% of our Active Merchant growth came from inbound channels as word is spreading about the benefits of our merchant experience. With one of the highest consumer approval rates in the industry, merchants are experiencing an increase in average order value and conversions by implementing our

payment method in their checkout. Sezzle also has the benefit of reducing consumer return rates in comparison to other payment options.

Sezzle is uniquely positioned to collaborate with purpose-driven merchant partners on meaningful campaigns.

In 4Q20, Sezzle partnered with Ministry of Supply, a company offering performance apparel designed by MIT technologists. Together, we took out a full-page New York Times advertisement announcing our plan to offer 10,000 masks and Starter Clothing Kits to support Americans hit hard by COVID-19 as they sought fresh starts, new job opportunities, or simply the chance to have new clothes. A social media, email, and PR campaign that included coverage by Forbes magazine amplified the program, extending reach, consumer engagement, and positive social impact.

Page 15 image credit: Trees for the Future

ELEVATING OUR STANDARDS OF SUCCESS

In July 2020, we provided guidance that by the end of 2020, we would have achieved an annualized run-rate for UMS exceeding US$1.0B per annum. By the end of 2020, we significantly surpassed our guidance and reached an annualized run-rate of US$1.36B based on the month of December 2020. Our excellent execution throughout this trying year made this result possible.

As we look forward to 2021, we continue to expect Sezzle's growth to exceed the industry's and sales to perform better than the wider market. For 2021, we expect to exceed an annualized run-rate of US$2.5B in UMS.

On behalf of our leadership team, I would like to thank our employees, consumers, merchants, shareholders and our broader community of stakeholders for an incredible year of accomplishments and growth. 2020 has proved that we are not only here to stay, but that we are driving the future of payments by delivering on our mission. We believe that 2021 will be an important year for our company, and we are poised to deliver great results for all of our stakeholders.

Charlie G Youakim

Charlie Youakim
Executive Chairman and
Chief Executive Officer

Charlie.Youakim@sezzle.com

Sharing our vision for long-term value.

SUSTAINABILITY REPORT

Creating a culture rooted in integrity.

OUR PEOPLE POWER OUR PERFORMANCE

Sezzle employees are our company's greatest asset. Recruiting and retaining a team of highly skilled professionals is imperative to daily operations and to support our aggressive growth strategies. Sezzle currently has about 280 employees, which includes approximately 45 interns.

This year, a number of initiatives were created to hire and retain employees, and ensure that they thrive.

Sezzle is in the process of upgrading our Human Resources Information Systems (HRIS) to ensure state-of-the-art management, operation, and oversight of our workforce. Our system upgrade will ensure that People Operations is equipped with the tools to operate in the most efficient and effective manner. People Operations is critical to our success as our employees are the most valuable asset that we have to recruit and retain in order for Sezzle to succeed. The system upgrade will build upon our ability to promote and recruit the best-qualified people, while embracing the value of diversity in the workplace. We are excited to develop the full potential of our workforce by providing training and development for career enhancement, which will lead to long-term success in employee turnover, mobility, retention, and internal promotions.

Our new HRIS will also allow for more accurate measurement and accountability on our recently

updated Diversity and Ethics Policy. In addition to updating Sezzle's People Operations' Policies, Sezzle has updated its Legal, Finance and Information Technology Policies. These foundational changes have prompted a new training regime for the employees whereby each quarter employees will receive training on a different department's policies. Along with the industry standard training, Sezzle offers a wide and diverse set of training and informational sessions to better educate its employees on the basics of Sezzle, the market, the industry as a whole, and the roles and responsibilities within each department.

To hold ourselves to a high standard of employee safety, Sezzle has Workplace Safety and Workplace Expectations Policies. However, the recent COVID-19 pandemic has shifted us to a primarily remote workforce. From an employee health and wellness perspective, we do not count COVID-19 related sick days against an employee's sick leave. The shift to remote working due to the pandemic has shown us that we can continue to perform at a high-level and has resulted in a flexible, remote-work approach for the foreseeable future.

In an effort to give our employees a voice, Sezzle conducts frequent employee surveys. Every month, Sezzle issues a survey to measure overall employee happiness. Each monthly survey also includes an additional rotating topic of, Autonomy/Ownership, Management/Team Work, Benefits, Morale/Retention, Learning/Growth, and Recognition/Performance. Sezzle averaged a 95% overall happiness rating by its employees during 2020. Our employee reviews garnered Sezzle a Glassdoor rating of 4.9 out of 5.

glassdoor

4.9 ★★★★★

Furthermore, Sezzle recently conducted an inclusivity and belonging survey. Of the 97 employees who took the survey, 81% agreed that Sezzle is committed to Diversity and Inclusion, 17% were neutral, and less than one percent disagreed. 92% of those who responded felt included in the company.

DIFFERENCES FUEL OUR SUCCESS

We pride ourselves on a diverse and inclusive workplace and recognize the financial benefits of bringing together different insights and perspectives to improve performance and innovate quickly.

A Diversity Policy was published to ensure our commitment to maintaining a culture that embraces inclusivity, diversity and equal opportunity, and to supporting all employees regardless of gender, age, physical and mental disability, religious, or cultural background.

A Diversity, Equity and Inclusion (DEI) Committee was formed to address three key areas: Representation & Retention, Inclusive Experience, and External Impact.

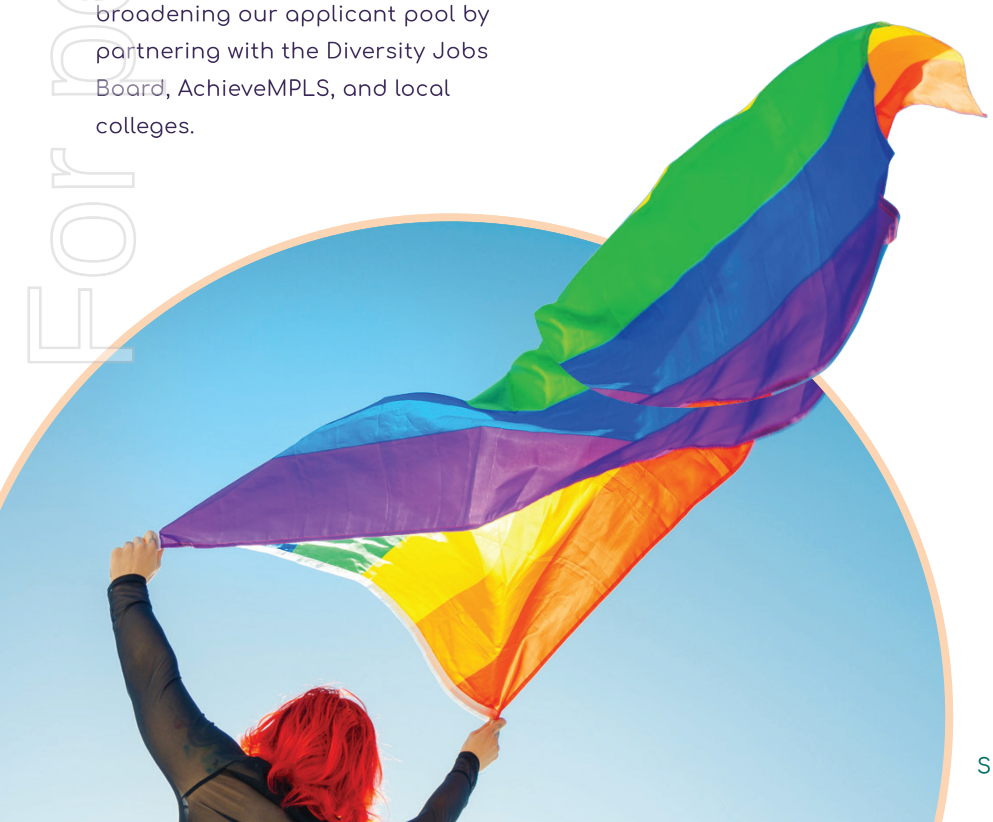
To enhance hiring of underrepresented groups and minimize bias in the recruitment process, Sezzle established Hiring Manager best practices. We are broadening our applicant pool by partnering with the Diversity Jobs Board, AchieveMPLS, and local colleges.

Embedded in our brand is a belief in inclusivity. To create an inclusive culture where every individual feels welcomed, respected, and supported, we are instilling responsibility for DEI throughout the organization. The Committee's efforts include providing unconscious bias training and empowering the Sezzle team through Employee Resource Groups (ERG).

Sezzle Pride is an ERG that celebrates and empowers the LGBTQ+ community — giving people a chance to share experiences and foster relationships.

The Women of Sezzle group provides a variety of mentoring opportunities from basic Slack channel discussions to a monthly fireside chat with various female leaders outside of Sezzle.

Our commitment to diversity and inclusion is evident throughout the organization. 35% of our leaders are women and we are especially proud of their positive impact.



FEMALE LEADERSHIP

Veronica Katz
Chief Revenue Officer

Penelope Holt
Vice President of Marketing

Candice Ciresi
Chief Legal Counsel

Mel Burckhardt
Vice President of People Ops

Karen Hartje
Chief Financial Officer

Kathleen Pierce-Gilmore
Board Member

Sezzle is focused on acting openly, equitably, and consistently in our pursuit of uncompromising quality. To meet this goal, we are committed to recruiting, developing, rewarding and retaining our global workforce.

Doing good for the good of all.

A COMMITMENT TO LIVING OUR MISSION

In alignment with our ethos, Sezzle became a Public Benefit Corporation (PBC) in June of 2020. Beyond maximizing value for investors, our designation as a PBC will drive company governance and ensure our focus on creating a positive impact for all stakeholders.

Sezzle is the first PBC in the "buy now, pay later" payments space.

PBCs are a relatively new class of corporation that are intended to produce a public benefit and to operate in a responsible and sustainable manner. Under Delaware law, PBCs are required to identify in their certificate of incorporation the public benefit or benefits they will promote and their directors have a duty to manage the affairs of the corporation in a manner that balances the pecuniary interests of the stockholders, the best interests of those materially affected by the corporation's conduct, and the specific public benefit or public benefits identified in the PBC's certificate of incorporation.

Sezzle's management team and fiduciary board strongly believe that the company's long-standing commitment to financially educate young adults, as well as creating alternative means for consumers to purchase items they need without incurring high-interest finance charges, benefit the community and serve as a public good.

Accordingly, Article II of Sezzle's Third Amended Certificate of Incorporation directs that in, "pursuing any business, trade, or activity which may lawfully be conducted by [Sezzle], [Sezzle] shall promote a specific public benefit of having a material positive effect (or reduction of negative effects) on consumer empowerment, education, and transparency in [Sezzle's] local, national, and global communities."

To bolster our mission even further, it is our goal to become a Certified B Corporation. Independently assessed by B Lab, B-Corp Certification is the only certification that measures a company's entire social and environmental performance from supplier policies and employee benefits to consumer transparency. Our desire to become a Certified B Corporation label will be attractive to all stakeholders and further aligns our business interests and the interests of our world.

TAKING ACTION TO IMPROVE THE ENVIRONMENT

One of the most critical challenges facing the world and future generations is inheriting a healthier planet. Leaving our imprint on the world better than we found it is a top priority for Sezzle and our customers. Sezzle's efforts to create a healthier environment help ensure long-term, sustainable value for all stakeholders.

Sezzle has made the commitment to reduce our carbon footprint by implementing a carbon offset program with Climate Neutral, a non-profit organization that works to decrease global carbon emissions. Climate Neutral measures a company's impact and offsets emissions by purchasing credits in verified projects, neutralizing any unavoidable negative impacts a business may have on the environment. Many organizations are recognizing the benefits of taking care of the planet and carbon offsetting has emerged as a common area that many mission-driven, publicly- traded organizations pursue. Our goal is to not only clean up after ourselves, but to leave the planet better than we found it. Going beyond our Carbon Neutral efforts, Sezzle has committed to planting one tree for every new, active user through a collaboration with Trees for the Future. It started as a partnership with our merchant Keen - we would plant a tree for every new user. For 2021, we decided to take the commitment one-step further - planting a tree for every new, active user. Trees for the Future works with farmers to plant thousands of trees that protect and bring nutrients back to the soil. Planting trees is a tangible contribution to the greater good that demonstrates Sezzle's active participation in securing a sustainable future.

LAUNCHING OPPORTUNITIES IN OUR COMMUNITIES

To increase participation of underrepresented groups in technology, we were excited to participate in Black Virtual Career Fair (BVCF). BVCF connects talented Black professionals to companies committed to building a diverse and inclusive workforce. We are delighted to report the Virtual Fair was a success for our hiring managers.

We also established Sezzle Scholars, a new scholarship program in collaboration with the University of Minnesota College of Science and Engineering focused on supporting underrepresented students. The program, which includes a US$124,000 donation from Sezzle, provides a 4-year scholarship to a deserving undergraduate student who may not be able to afford or complete school due to the financial burden. Sezzle will continue to fund a full, four-year scholarship for a new, underrepresented student each year.

The sezzle® Scholars Program 2020

Jonathan Olaleye, a first-year University of Minnesota Honors Program student in the College of Science and Engineering and graduate of Champlin Park High School, was chosen as the inaugural Sezzle Scholar. During his high school years, Jonathan completed many Advanced Placement and International Baccalaureate classes, was named a National Merit Commended Scholar, and graduated with Highest Honors. He was involved in student council service projects and the school's Link Crew, which helps new students acclimate to the school. He's also a budding entrepreneur who has designed websites, computer apps, and his own gaming system. Olaleye plans to major in computer science or computer engineering.

EMPOWERING A NEW GENERATION RESPONSIBLY

Sezzle is moving beyond transactional engagement to grow and deepen our consumer relationships by empowering them to spend responsibly, encouraging them to build for the future, and educating them in financial wellbeing.

Our new product innovations are leading the way. The introduction of Sezzle Up allows consumers to opt-in to a product that enables users to make responsible spending habits and build the credit they deserve.

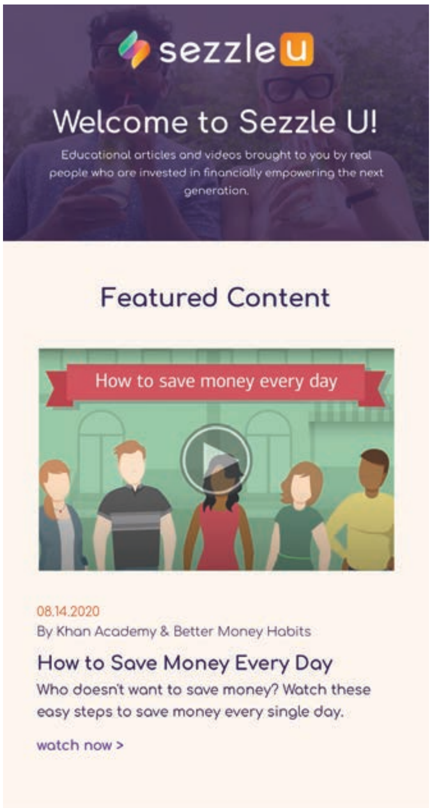
sezzle up

Sezzle Up reports payment history to credit bureaus. By paying on time, Sezzlers can increase their credit scores and buying power. Sezzle Up acts as a co-pilot aiding aspirational credit builders on the path to financial freedom.

As consumers build more credit and their needs grow, Sezzle Plus will have their backs with a long-term payment option. Sezzle Plus is a collaboration with ALLY and is currently in development. It will give our customers access to loan amounts of up to US$40,000 with payment options up to 60 months at our over 26,600 retailers.

sezzle u

We are expanding our offerings to financially empower consumers with the introduction of Sezzle U, a curated series of high-quality, engaging lessons on personal finance. Reaching consumers with bite-sized digital content, Sezzle is constantly integrating guidance and equipping users with knowledge to help them gain financial freedom.



Understanding our consumer's desire to avoid debt, being inclusive and transparent, and not lending them more than they can afford, has made Sezzle a trusted partner to over 2.2 million Active Consumers. We are extremely proud of our 4.8 Trust Pilot score.

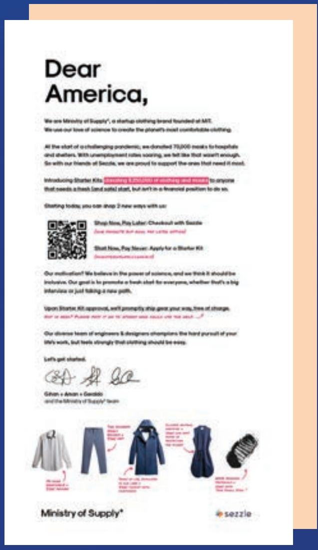
Reviews 5,390 • Excellent

★★★★★ 4.8

PARTNERING WITH RETAILERS TO AMPLIFY OUR PURPOSE

Sezzle scaled up its mission to financially empower the next generation by partnering with our friends at Ministry of Supply to support those in need of a fresh start. The increase in unemployment due to the pandemic has many Americans facing unexpected challenges.

Together we invested and assembled Starter Kits which included protective masks and professional clothing. Thousands of kits were gifted to those preparing for an upcoming job interview, pursuing fresh starts or simply in need of new, quality clothing. The initiative was promoted with a full-page ad in the New York Times and a PR campaign that included coverage by Forbes magazine. By partnering with purpose-led brands, Sezzle is forging new paths to make a better world.



SAVE THE HOLIDAY

Our Save the Holiday US$20K Giveaway brightened up a difficult year, with an old-school, prize-packed game designed to sweeten the season and make shopping a whole lot more fun. Daily instant wins, discounts, and prizes promoted through social channels engaged our consumers and more than doubled the pace of our daily app downloads and social network followers in November and December. Hearing how Sezzle helped consumers buy gifts this season was truly rewarding.

UNLOCKING PURCHASING POWER TO EXTEND THE CONSUMER LIFE CYCLE

By living up to our unique position as a payment with purpose and by bringing merchants a new generation of consumers, Sezzle is fast becoming the preferred partner for a growing stable of small-to medium-sized business. Sezzle added over 16,680 Active Merchants in 2020 raising our count to over 26,600. Sezzle's frictionless and seamless integration allows new merchants to onboard within 24 hours. It's not surprising that over 90% of our merchant signups are inbound.

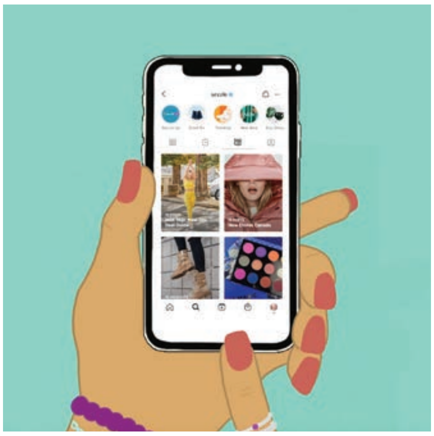
Sezzle is gradually expanding to large enterprise and broadening into new merchant categories with plans to add travel, grocery and general merchandising. Sezzle is also creating specialized markets that resonate with our audience's values by promoting black-owned businesses, eco-friendly products and small businesses. Plus our new virtual card enhances Sezzle's omnichannel offering and provides an easy interface for merchants to add Sezzle in-store.

Our commitment to educating our consumers is creating a new group of credit-worthy customers for our merchants. Unlocking more purchasing power for our consumers is leading to larger order amounts and increasing purchase frequency as well as extending the customer life cycle.

RELATIONSHIP BUILDING THROUGH MARKETING SUPPORT

Sezzle retailers become part of multi-leveled marketing efforts beginning with a launch campaign that introduces new brands to Sezzle consumers. With bi-weekly promotional support throughout the retail calendar year, Sezzle connects and converts deal seekers. Our quarterly, full-funnel mega campaigns such as Save the Holiday meet consumer needs and promote participating merchants with added, compelling incentives. These campaigns can increase average order value. In December, we developed a pop-up shop in collaboration with Thursday Boots creating a new infrastructure for many merchant partnership opportunities to come.

Moving from purchasing over time to credit building and financial empowerment, and constantly collaborating to support our position as a payment with purpose, Sezzle has become a rapidly growing platform for today's merchants and consumers. In 2020, our Active Merchant growth was 167% and our Active Consumer growth was 144%.



Doing good through governance.

WORKING WITH REGULATORS TO LEAD THE WAY IN RESPONSIBLE LENDING

Our consumer-friendly product puts us in a positive light with regulators who are typically focused on the prevention of predatory lending practices. However, we don't take our favorable position with regulators for granted. In 2020, we stepped up our proactive approach at the federal, state and provincial levels, giving them an overview of our consumer-friendly product and our burgeoning sector. Discussions have been well received by regulators because of Sezzle's consumer friendly product and the most senior levels of Sezzle's management have been involved in the discussions.

The "buy-now, pay-later" segment of the point of sale financing market in which Sezzle primarily operates is a developing field. Sezzle is subject to a range of legal and industry compliance requirements that are constantly changing. This includes consumer protection, consumer disclosure, licensing and data privacy, and security laws. Currently, Sezzle is not subject to specific "buy now, pay later" regulations in the United States or Canada for operating within the "buy now, pay later" segment of the point of sale financing market.

UTILIZING TECHNOLOGY IN RISK MANAGEMENT

A critical component to the Sezzle business model is the ability to effectively manage risk and data. Risk and data management are extremely important for, reputation/customer confidence, financial, productivity, fines/legal penalties, and safety and health. To that end, in-house Sezzle engineers built and continue to maintain Sezzle Platform systems in order to mitigate risks.

We never rest when it comes to protecting our data. Penetration Tests are performed annually on our web applications, external, and internal networks. Alongside our Penetration testing system, we operate a Bug Bounty Program, which enables security researchers to test sandbox environments and earn bounties for confirmed security items using an industry standard risk ranking system.

Sezzle is certified as Payment Card Industry I Level 1 Compliant (the highest level of compliance), as both a merchant and a service provider. PCI Compliance focuses on systems that pertain to cardholder data, but we leverage the same environment for all of our systems. This means that all of our systems get the same level of controls.

The external audit for compliance is conducted on our systems yearly to review our policies and test controls. We have 3 years of certification without any findings or required remediations.

The Sezzle Fraud Detection System and Sezzle Underwriting Engine are critical components to the Sezzle business model to effectively manage the repayment risk of providing consumers with the capacity to pay over time.

The Sezzle Fraud Detection System is a proprietary system developed by Sezzle's data sciences team, which utilizes numerous data points from a transaction to identify the likelihood of a fraudulent attempt within the Sezzle system. Shopper interactions with the Sezzle Platform are recorded and analyzed along with data points on the consumer and order itself. This data passes through the Sezzle Fraud Detection System, which scores the likelihood of fraud occurring in the transaction.

The success of our Fraud Detection System allows us to have one of the highest approval rates in the industry.

Our Sezzle Underwriting Engine assigns a score to each new user that passes through the Sezzle Fraud Detection System. Sezzle's view is that its product enables the democratization of credit, so unless Sezzle believes there is fraud involved, it gives every user access to an amount of credit. Based on data obtained from traditional and non-traditional sources, along with the order data and retailer data, Sezzle is able to give some shoppers a fair limit.

These additional data points allow Sezzle to optimize its initial credit limits for users, enhancing the effectiveness of the Sezzle Platform for its merchants. As consumers use the Sezzle Platform, Sezzle's system learns from the behavior of the individual consumers and adapts the consumer's limit to the appropriate level based on the consumer's success level within the Sezzle Platform.

BALANCING PURPOSE WITH FINANCIAL PERFORMANCE

Creating sustainable value for all stakeholders, employees, consumers, merchant partners, communities and shareholders requires a steadfast commitment to transparency and good corporate governance.

As we continue to disrupt a traditional credit system and empower a new generation of consumers, we are diligently managing growth and laying the foundation for a bright future.

We look forward to 2021 and many years to come.

Directors' Report

FOR THE YEAR ENDED DECEMBER 31, 2020

The Directors present their report, together with the consolidated financial statements, of Sezzle Inc. (ASX: SZL, Sezzle, or Company) and its wholly owned subsidiaries for the year ended December 31, 2020.

DIRECTORS

The following individuals were Directors of Sezzle for the full year ended December 31, 2020:

Charlie Youakim	Co-founder, Executive Chairman, and Chief Executive Officer
Paul Paradis	Co-founder, Executive Director, and President
Paul Lahiff	Independent Non-Executive Director
Kathleen Pierce-Gilmore	Independent Non-Executive Director
Paul Purcell	Independent Non-Executive Director

Additionally, the following individual was appointed to the Board of Directors during the reporting period:

Mike Cutter	Independent Non-Executive Director - appointed on June 1, 2020

INFORMATION ON DIRECTORS

Charlie Youakim

Executive Chairman and Chief Executive Officer

Charlie is a co-founder, Executive Chairman, and Chief Executive Officer of Sezzle. Charlie is a serial technology entrepreneur with over ten years of experience in growing fintech companies from inception to large-scale businesses. Charlie began his career as an engineer and software developer. After successfully advancing in his early career, he returned to business school where he was able to focus on expanding his knowledge of finance, marketing, and business strategy. In 2010, after completing business school, Charlie founded his first payments company, Passport Labs, Inc. ("Passport"). Passport became a leader in software and payments for the transportation industry. At Passport, Charlie led the construction and the original technology and led the company as it disrupted the industry through the introduction of white label systems and payment wallets. Passport is the technology behind enterprise transportation installations like ParkChicago, ParkBoston, and the GreenP in Toronto.

Charlie co-founded Sezzle in 2016 and also planned much of the business' technology architecture. Charlie has a degree in Mechanical Engineering from the University of Minnesota and an MBA from the Carlson School of Management at the University of Minnesota.

Other current Directorships: Charlie does not currently hold any other directorships.

Interests in Shares: 88,359,809

Interests in Options: 500,000

Paul Paradis

Executive Director and President

Paul is co-founder, Executive Director, and President at Sezzle. Paul has extensive experience in sales and marketing. He began his career in sales with the Minnesota Timberwolves. He left the Timberwolves to attain his MBA from the Carlson School of Management at the University of Minnesota, where he focused on marketing and strategy. After graduating from the Carlson School of Management, Paul spent six years leading sales and marketing at Dashe & Thomson and the Abreon Group, management consultancies focused on change management. Paul left the Abreon Group in 2016 when he co-founded Sezzle. At Sezzle, Paul oversees the revenue departments, international expansion, and corporate strategy.

Paul has a BA in Political Science from Davidson College and an MBA from the University of Minnesota.

Other current Directorships: Paul does not currently hold any other directorships.

Interests in Shares: 10,000,000[1]

Interests in Options: 500,000

[1] Paul Paradis holds 10,000,000 shares. As of the date of this Annual Report, 9,375,000 shares have fully vested with the remaining shares subject to vesting conditions as follows: 625,000 shares will vest in monthly installments over the next 10 months.

Paul Lahiff

Independent Non-Executive Director

Paul Lahiff was previously Chief Executive Officer of Mortgage Choice and prior to this, Chief Executive Officer of Permanent Trustee and Heritage Bank. He also held senior management roles for Westpac Banking Corporation in Sydney and London. He previously held Board roles with Sunsuper, Thorn Group, New Payments Platform Australia and Cancer Council NSW. Paul holds a BSC degree from the University of Sydney, and is a graduate of the Australian Institute of Company Directors.

Other current Directorships: Paul is a Non-Executive Director of AUB Holdings and NESS Superannuation. Paul is a Senior Non-Executive Director at 86400.

Interests in Shares: 42,627

Interests in Options: 250,000

Kathleen Pierce-Gilmore

Independent Non-Executive Director

Kathleen has been a payments and fintech executive for 20+ years across firms, including American Express, Capital One, PayPal, and most recently startup companies Raise Marketplace and Flexa Technologies. She has held leadership positions from leading Strategy to COO, President, and CEO roles. In addition to her deep expertise in customer experience, consumer lending, product development, and P&L management, she has also led businesses on the merchant side of the payments ecosystem. She is currently the Head of Global Payments at Silicon Valley Bank.

Kathleen graduated with a BA from the Integrated Sciences Program at Northwestern University and has recently completed the Non-Executive Director Diploma program through the Financial Times.

Other current Directorships: Kathleen serves as a Director for Tala.

Interests in Shares: 0

Interests in Options: 350,000

Paul Purcell

Independent Non-Executive Director

Paul Purcell has invested in financial services companies (public and private markets) for nearly 20 years. He maintains a specialization in emerging financial innovation as well as non-bank financial services. He has been the Chief Investment Officer of Jupiter Management since January 1, 2019 and prior to assuming that position led the sourcing and origination of investments at Continental Investors. Paul is a frequent panelist at industry conferences and has published several articles on the trends and developments in the emerging commerce and financial services marketplaces. Before joining Continental Investors, Paul was a co-founder of Continental Advisors, a manager of two sector-based hedge funds. He was also Manager of Internet marketing at the Chicago Board Options Exchange (CBOE), a department he helped found.

Paul is a graduate of the University of San Diego where he is a member of the Board of Trustees.

Other current Directorships: Paul currently serves on the Boards of Drizly, AeroPay, GigWage, Listo!, Veritec Solutions, Winestyr, Intuition LLC, CarHop, and What's Next Media.

Interests in Shares: 0

Interests in RSAs: 0[1]

[1] In accordance with Paul Purcell's director appointment agreement, 350,000 restricted stock awards were issued to Continental Investment Partners on 29 March 2019 which comprises compensation for Paul Purcell's services as director.

Mike Cutter

Independent Non-Executive Director

Mike has more than 33 years' experience in a wide range of financial services businesses in Australia, New Zealand, Asia, and Europe. Mike is currently serving as the interim Managing Director of Bambora Retail Pacific which follows his previous role as the Group Managing Director for the information services business Equifax ANZ. Prior that he held various CEO, CRO, Product and Operations roles with GE, ANZ, Wesfarmers, Halifax/BankOne and NAB. Mike is a Graduate of the Australian Institute of Company Directors (GAICD) and a Senior Fellow of the Financial Services Institute of Australia and has previously served on the Board of Directors of the Women's Cancer Foundation, Ovarian Cancer Institute, the Australian Finance Congress, the National Insurance Brokers Association and the Australian Retail Credit Association. Mike has a BSc (Hons) from Hertfordshire University.

Other current Directorships: Mike is currently a Director of Kadre Consulting and Retail Enterprise Services Australia as well as a Board Advisor to Pepper Money and Credit Clear.

Interests in Shares: 0

Interests in Options: 250,000

INFORMATION ON CORPORATE SECRETARY

Justin Clyne is a company director and/or company secretary for public-listed and unlisted companies. He has significant experience and knowledge in international law, the Corporations Act, the ASX Listing Rules and corporate regulatory requirements. Mr. Clyne was admitted as a solicitor of the Supreme Court of New South Wales and High Court of Australia in 1996 before gaining admission as a barrister in 1998. He had 15 years of experience in the legal profession acting for the country's largest corporations, initially in the areas of corporate and commercial law before dedicating himself full time to the provision of corporate advisory and company secretarial services. Mr. Clyne holds a Master of Laws in International Law from the University of New South Wales. He is also a qualified Chartered Company Secretary and a Member of the Australian Institute of Company Directors.

MEETINGS OF DIRECTORS

During the financial year ended December 31, 2020, Sezzle held eleven meetings of the Board of Directors and separate meetings of the noted committees, all of which were standard meetings.

	Full Board		Audit and Risk Committee		Remuneration and Nomination Committee	
	Held	Attended	Held	Attended	Held	Attended
Charlie Youakim	11	11	0	4[1]	0	5[1]
Paul Paradis	11	11	0	2[1]	0	2[1]
Paul Lahiff	11	11	4	4	5	5
Kathleen Pierce-Gilmore	11	11	4	4	5	5
Paul Purcell	11	11	4	4	5	5
Mike Cutter	6[2]	6[2]	1[3]	1[3]	2[4]	2[4]

[1] Not a committee member.
[2] Mike Cutter joined the board on 1 June 2020 following the approval of stockholders at the Company's Annual General Meeting. Mr. Cutter attended all 11 Board meetings held in the 2020 financial year, attending 5 meetings as a Board Observer and 6 meetings as a Director following his appointment.
[3] Mr Cutter attended all 4 meetings of the Audit & Risk Committee held in the 2020 financial year, attending 3 meetings at the invitation of the Committee and 1 meeting as a member following his appointment to the Committee on 17 August 2020.
[4] Mr Cutter attended all 5 meetings of the Remuneration & Nomination Committee held in the 2020 financial year, attending 3 meetings at the invitation of the Committee and 2 meetings as a member following his appointment to the Committee on 17 August 2020.

As of the date of this report, Sezzle has an Audit and Risk Committee and a Remuneration and Nomination Committee of the Board of Directors. All committee members are independent non-executive directors. The members of each committee are as follows:

Audit and Risk Committee	Remuneration and Nomination Committee
Paul Lahiff (Chair)	Paul Lahiff (Chair)
Kathleen Pierce-Gilmore	Kathleen Pierce-Gilmore
Paul Purcell	Paul Purcell
Mike Cutter	Mike Cutter

Operating and Financial Performance

PRINCIPAL ACTIVITIES

The principal activities of Sezzle are to provide a technology-driven payment platform that facilitates fast, secure and easy payments between consumers and retailers through its short-term, interest-free installment plans that delivers to consumers both a budgeting and financing value proposition.

FINANCIAL RESULT

The Company reported a net loss of US$32.4 million after tax for the year ended December 31, 2020, compared to a loss of US$13.1 million in the previous year ended December 31, 2019.

OPERATING AND FINANCIAL REVIEW

Refer to pages 49-58 for the Company's operating and financial review, which covers discussion of the Company's financial and operating performance as well as key risks and challenges.

FUTURE DEVELOPMENTS

The Company's UMS outlook reflects an annualized run-rate of US$2.5 billion by the end of 2021. Any other information on likely developments in the operations of the Company and its prospective financial future have not been included in this report because the Directors believe it to be commercial-in-confidence and, as a result, likely to result in unreasonable prejudice to the Company.

SIGNIFICANT EVENTS SUBSEQUENT TO THE END OF THE YEAR

On February 10, 2021, Sezzle entered into an agreement with Goldman Sachs Bank USA (the 'Class A' senior lender) and Bastion Funding IV LLC (the 'Class B' mezzanine lender) for a US$250,000,000 receivables funding facility. The funding facility has a maturity date of June 12, 2023 (a 28-month term from the agreement date). The agreement is secured by the Company's consumer notes receivable it chooses to pledge and is subject to covenants. Fifty percent of the total available funding facility (US$125,000,000) is committed while the remaining fifty percent is available to the Company for expanding its funding capacity. The funding facility carries an interest rate of LIBOR+3.375% and LIBOR+10.689% (the LIBOR floor rate is set at 0.25%) for funds borrowed from the Class A and Class B lender, respectively. In the event of a prepayment due to a broadly marketed and distributed securitization transaction with a party external to the agreement, an exit fee of 0.75% of such prepaid balance will be due to the lender upon such transaction. Additionally, the Company paid a US$1,000,000 termination fee to exit its previous receivables funding facility.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the consolidated entity during the financial period, except as otherwise noted in this report.

DIVIDENDS

No dividends on common stock were declared or issued during the year ended December 31, 2020.

STOCK-BASED PAYMENT PLANS

A summary of the Company's stock based payment plans is disclosed within Note 14 of the Consolidated Financial Statements.

SUSTAINABILITY

Sezzle supports the increased role environmental, social, and economic factors play into the sustainability of its businesses and its stakeholders. The Company also understands that there are stakeholders that expect additional information on the Company's sustainability initiatives. To this extent, the Company discusses its sustainability initiatives and stakeholder approach in pages 19-30 of this report.

The consolidated entity is not subject to any significant environmental regulation under the laws of the United States.

CORPORATE GOVERNANCE

The Company's Corporate Governance Statement for the year ended December 31, 2020 can be found at https://www.sezzle.com/investors.

REMUNERATION REPORT

The Directors of the Company present the Remuneration Report for Non-Executive Directors, Executive Directors and other Key Management Personnel (KMP), prepared in accordance with the *Corporations Act 2001* and the *Corporations Regulations 2001.*

The Remuneration Report is set out under the following main headings:

- Remuneration Philosophy and Structure;
- Performance;
- Details of remuneration;
- Service agreements;
- Share-based compensation;
- Remuneration of Non-Executive Directors; and
- Other information.

Remuneration Philosophy and Structure

The performance of Sezzle depends upon our ability to attract and retain KMP. To prosper, we must attract, motivate and retain these highly skilled individuals. To that end, Sezzle embraces the following principles in its remuneration framework:

- Offer competitive rewards to attract high caliber executives;
- Clear alignment of remuneration with strategic objectives;
- Focus on creating sustainable value for all of the Company's stakeholders;
- Merit-based remuneration across a diverse workforce; and
- Ensure total remuneration is competitive by market standards.

The Remuneration and Nomination Committee (RNC) is responsible for determining and reviewing compensation arrangements for the KMP. The RNC assesses the appropriateness of the nature and amount of remuneration for KMP on a periodic basis by reference to relevant market conditions within the overall objective of ensuring maximum stakeholder benefit from the retention of a high-quality board and executive team.

The Board of the Company believes the remuneration framework to be appropriate and effective in attracting and retaining the best KMP to operate and manage the Company.

The KMP remuneration framework is designed to support the Company's reward philosophies and to underpin the Company's growth strategy and is based on the following:

- Base salary - appropriate to the position and experience and is competitive in the market
- Short Term Incentive Plan
- Long Term Incentive Plan

For 2020, the RNC has approved the short-term and long-term compensation programs for executive KMP described below.

Short-Term Incentive Plan (STIP)

Executive officers and other personnel are entitled to participate in the STIP, which provides an annual bonus opportunity based on a STIP %, representing the employee's bonus potential. The payout is based on a combination of the Company Performance Score (CPS) and individual performance. CPS is determined each year by metrics within four weighted categories: Growth (50%), Stakeholder Satisfaction (20%), Optimization (15%), Innovation (15%), with the metrics including Revenue, Underlying Merchant Sales, Active Consumers, Stakeholder Satisfaction and Net Transaction Margin. Individual performance is based on outcomes achieved by the employee and how those outcomes are achieved (i.e., exemplifying Sezzle's values).

Each executive officer is participating in the STIP for the year ending December 31, 2020. Short Term Incentives awarded are settled as Restricted Stock Units (RSUs) in the Company that vest in 6 months upon the grant date to reflect goals met in the prior year. The RSUs awarded are, at a maximum, 50% of the base salary for the executive in question. Payout for each individual depends on achievement of the goals for corporate and individual performance. For Messrs. Youakim and Paradis, the grants of the RSUs are subject to prior shareholder approval.

Long-Term Incentive Plan (LTIP)

The use of long-term incentive awards (LTIs) is to reward senior executives in a manner that aligns remuneration with the creation of shareholder wealth. As such, LTI grants go to certain executives who influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against the relevant long-term performance hurdle. The formal LTIP comprises grants of market priced stock options under the 2019 Equity Incentive Plan, with vesting subject to formal long-term performance hurdles tested over three years, and subject to continued employment for a three-year period.

LTIs issued are subject to vesting conditions comprising both market and service conditions, and both hurdles must be satisfied for vesting to occur. Stock options will automatically vest in full upon certain circumstances including a sale, merger, or consolidation. Grants must be exercised within 10 years of the beginning of the performance period or they will lapse. Unvested options will automatically lapse.

The three-year performance period for vesting of the initial grants is from January 1, 2020 through December 31, 2022. and on a three year rolling basis for new KMP. Subject to the satisfaction of the performance hurdles and continued employment, options issued under the LTIP will vest and become capable of exercise three years from the beginning of the performance period. Performance for vesting purposes for each of the three years within the performance period will be tested against Comparative Total Shareholder Return (TSR). For each year, the Comparative TSR encompasses share price appreciation, measured against the S&P/ASX All Technology Index (excluding materials and energy companies). For comparative purposes, Sezzle's Volume Weighted Average Price (VWAP) over a 30-day period up to the end of the relevant performance period will be used and compared to the average S&P/ASX All Technology Index price over that same period.

The vesting for each year in the performance period are determined as follows based on TSR for the year:

Comparative TSR Target	Percentage of options available in the given year satisfying conditions
Less than 51st percentile of companies in S&P/ASX All Technology Index	0%
Greater than or equal to 51st percentile but less than the 90th percentile of companies in S&P/ASX All Technology Index	Pro rata between 1% and 100%
Greater than or equal to 90th percentile of companies in S&P/ASX All Technology Index	100%

The Board has the discretion to amend the Comparative TSR performance condition at any time during the relevant performance period applicable to those LTI grants if the Board believes it is appropriate to do so to reflect the Company's circumstances.

On May 22, 2020, key management personnel of the Company received an option from the LTIP plan to purchase shares at an exercise price of A$2.10 per share, based on the closing sale price of CDIs on the ASX on May 21, 2020 (the 'LTIP Options'). The amount of shares subject of the LTIP Options were calculated so that the value of options was equal to 300% of the individual's salary in effect at the time (i.e., 100% for each of the three years in the performance period). The fair value of the options was determined under a Monte Carlo Simulation valuation method. Grants issued to executive directors of the Company are subject to shareholder approval and, if not approved by the shareholders, the executive directors will be issued comparable compensation through payments in cash and/or the issuance of incentive compensation. As of the date of this report, no comparable compensation has been issued.

Performance

A summary of the Company's key performance indicators is included below:

Year ended December 31	2020		2019		2018	
Underlying Merchant Sales (US$)	$	856,381,590	$	244,125,995	$	31,081,277
Active Consumers		2,231,089		914,886		155,257
Active Merchants		26,690		10,010		2,228
Total income (US$)	$	58,788,273	$	15,801,111	$	1,609,305

Details of Remuneration

Details of the remuneration of KMP of the Company for the year ended December 31, 2020 are set out in the following tables. The KMP of the Company during the reporting period consisted of the following:

- Charlie Youakim, Executive Chairman and Chief Executive Officer;
- Paul Paradis, Executive Director and President;
- Kathleen Pierce-Gilmore, Non-Executive Director;
- Paul Purcell, Non-Executive Director;
- Paul Lahiff, Non-Executive Director;
- Mike Cutter, Non-Executive Director, and;
- Karen Hartje, Chief Financial Officer

	Short Term				Long Term
	Cash Salary and Fees		Non-Monetary		Options/RSAs
Non-Executive Directors (A$)					
P. Purcell	A$	20,000		—	—
K. Pierce-Gilmore	A$	80,000		—	—
P. Lahiff	A$	100,000		—	—
M. Cutter	A$	80,000		—	—
Executive Directors (US$)					
C. Youakim	US$	250,000		—	—
P. Paradis	US$	250,000		—	—
Executive Management (US$)					
K. Hartje	US$	250,000	US$	59,579	1,171,875 Options

Service Agreements

Remuneration and other terms of employment for KMP are formalized in service agreements. Details of these agreements are as follows:

Name:	Charlie Youakim
Title:	Executive Chairman and CEO
Agreement commenced:	June 21, 2019
Terms of Agreement:	Charlie serves as Executive Chairman and Chief Executive Officer. Charlie's agreement commenced June 21, 2019, and he receives an annual US$250,000 salary. He is entitled to participate in the Short-Term Incentive Plan (STIP) and Long-Term Incentive Plan (LTIP) and is entitled to severance upon termination of employment in some circumstances as described below. His employment may be terminated: (i) at an time upon mutual written agreement of the parties; (ii) by the Company immediately and without prior notice for cause; (iii) immediately upon Charlie's death or disability; (iv) by the Company other than for cause with advance written notice of at least 12 months; or (v) by Charlie, other than due to Charlie's death or disability, with advance written notice of at least 12 months.

Name:	Paul Paradis
Title:	Executive Director and President
Agreement commenced:	June 21, 2019
Terms of Agreement:	Paul serves as Executive Director and President. Paul's agreement commenced on June 21, 2019, and he receives an annual salary of US$250,000. He is entitled to participate in the STIP and LTIP and is entitled to severance upon termination of employment in some circumstances as described below. His employment may be terminated: (i) at an time upon mutual written agreement of the parties; (ii) by the Company immediately and without prior notice for cause; (iii) immediately upon Paul's death or disability; (iv) by the Company other than for cause with advance written notice of at least 12 months; or (v) by Paul, other than due to Paul's death or disability, with advance written notice of at least 12 months.

Name:	Karen Hartje
Title:	CFO
Agreement commenced:	June 21, 2019
Terms of Agreement:	Karen serves as Chief Financial Officer. Her agreement commenced June 21, 2019, and she receives an annual base salary of US$250,000. She is entitled to participate in the STIP and LTIP and is entitled to severance upon termination of employment in some circumstances as described below. Her employment may be terminated: (i) at an time upon mutual written agreement of the parties; (ii) by the Company immediately and without prior notice for cause; (iii) immediately upon Karen's death or disability; (iv) by the Company other than for cause with advance written notice of at least 6 months; or (v) by Karen, other than due to Karen's death or disability, with advance written notice of at least 6 months.

Name:	Paul Purcell
Title:	Non-Executive Director
Agreement commenced:	March 28, 2019
Terms of Agreement:	The Agreement shall continue until terminated by either party for any reason upon five (5) days prior written notice without further obligation or liability other than as otherwise set forth in the Agreement. 350,000 RSAs at US$0.05 per share were issued to Continental Investment Partners on March 29, 2019 which comprises compensation for Paul Purcell's services as Director. Additionally, Paul is compensated A$20,000 per year for serving as a member of the ARC and RNC committees.

Name:	Kathleen Pierce-Gilmore
Title:	Non-Executive Director
Agreement commenced:	March 26, 2019
Terms of Agreement:	The Agreement shall continue until terminated by either party for any reason upon five (5) days prior written notice without further obligation or liability other than as otherwise set forth in the Agreement. Kathleen received 350,000 options exercisable at US$0.05 each and expiring March 29, 2029 vesting monthly over 3 years engagement as a director but automatically vesting in full upon certain circumstances including a sale, merger or consolidation. Additionally, Kathleen receives a total of A$80,000 per annum comprising A$60,000 as a director and an additional A$20,000 serving as a member of the RNC and ARC committees.

Name:	Paul Lahiff
Title:	Non-Executive Director
Agreement commenced:	May 7, 2019
Terms of Agreement:	The Agreement shall continue until terminated in accordance with the provisions of the Agreement including in the event that Paul is not re-elected as a director of the Company by shareholders or becomes disqualified from acting as a director. Paul receives a total of A$100,000 per annum comprising A$60,000 as a director and an additional A$40,000 serving as the chair of both the ARC and RNC committees. Additionally, Paul was granted 250,000 options exercisable at US$0.84 each, vesting monthly over a three year term from the July 27, 2019 grant date.

Name:	Mike Cutter
Title:	Non-Executive Director
Agreement commenced:	June 1, 2020
Terms of Agreement:	The Agreement shall continue until terminated in accordance with the provisions of the Agreement including in the event that Mike is not re-elected as a director of the Company by shareholders or becomes disqualified from acting as a director. Mike receives a total of A$80,000 per annum comprising A$60,000 as a director and an additional A$20,000 serving as a member of the RNC and ARC committees. Additionally, Mike was granted 250,000 options exercisable at US$0.84 each, vesting monthly over a three year term from the July 27, 2019 grant date.

Remuneration of Non-Executive Directors

The Board sets the fees for Non-Executive Directors based on recommendations of the RNC.

The Board's policy is to reward Non-Executive Directors (NEDs) at competitive market rates to attract and retain NEDs of caliber and quality, having regard to fees paid and/or options granted for comparable companies and the size, complexity, and spread of the Company's operations.

Share-based Compensation

Shares/CDIs held by KMP:

The number of ordinary shares in the Company during the 2020 reporting period held by each of the Company's key management personnel, including their related parties, is set out below:

Member of KMP	Balance at Start of Year	Granted as Remuneration	Received on Exercise	Other Changes	Held at end of Reporting Period
Charlie Youakim	88,359,809	—	—	—	88,359,809
Paul Paradis	10,000,000	—	—	—	10,000,000[1]
Paul Purcell	—	—	—	—	—
Kathleen Pierce-Gilmore	—	—	—	—	—
Mike Cutter	—	—	—	—	—
Paul Lahiff	81,967	—	—	(39,340)[2]	42,627
Karen Hartje	—	8,075[3]	—	—	8,075

[1] Paul Paradis holds 10,000,000 shares. As of the date of this Annual Report, 9,375,000 shares have fully vested with the remaining shares subject to vesting conditions as follows: 625,000 shares will vest in monthly installments over the next 10 months.

[2] Mr Lahiff purchased 5,660 CDIs in the Company's Securities Purchase Plan announced to the ASX on 10 July 2020 and sold 45,000 CDIs as announced to the ASX on 14 October 2020.

[3] Karen Hartje vested into 11,621 shares of restricted stock units durng 2020, resulting in 11,621 CDIs issued and valued at US$59,579 on the vesting date. 3,546 of these shares were withheld to cover US income tax withholding obligations.

Options held by KMP

The number of options in the Company during the 2020 reporting period held by each of the Company's KMP, including their related parties, is set out below:

Member of KMP	Balance at Start of Year	Granted as Remuneration	Other Changes	Held at end of Reporting Period
Charlie Youakim	500,000[1]	—	—	500,000[1]
Paul Paradis	500,000[1]	—	—	500,000[1]
Kathleen Pierce-Gilmore	350,000[2]	—	—	350,000[2]
Paul Purcell	0[3]	—	—	0[3]
Paul Lahiff	250,000[4]	—	—	250,000[4]
Mike Cutter	250,000[5]	—	—	250,000[5]
Karen Hartje	2,235,000[6]	1,171,875[6]	—	3,406,875[6]

[1] 1/48th of the options for these KMPs vest each month after the grant of the options, provided the individual remains an employee of the Company as at the applicable date. The options were granted at a strike price of US$0.84 and expire 10 years from July 27, 2019.
[2] Kathleen Pierce-Gilmore received 350,000 options on March 29, 2019 with an exercise price of US$0.05, which comprises her compensation for her services. 1/36th of the options granted to Kathleen Pierce-Gilmore vest each month after the grant of the options, provided that she remains a Director of the Company as at the applicable date. The options expire 10 years from March 29, 2019.
[3] In accordance with Paul Purcell's director appointment agreement, 350,000 restricted stock awards were issued to Continental Investment Partners on March 29, 2019 which comprises compensation for Paul Purcell's services as Director.
[4] 1/36th of the options granted to Paul Lahiff vest each month after the grant of the options, provided that he remains a Director of the Company as of the applicable date and are exercisable at the exercise price per option of US$0.84 The options expire 10 years from July 27, 2019.
[5] 1/36th of the options granted to Mike Cutter vest each month after the grant of the options, provided that he remains a Director of the Company as of the applicable date and are exercisable at the exercise price per option of US$0.84 The options expire 10 years from July 27, 2019.
6 At the beginning of 2020, Karen Hartje held 1,735,000 options, exercisable at US$0.05 per share, and 500,000 options, exercisable at US$0.84 per share. On May 22, 2020, Karen was granted 1,171,875 options through the Company's LTIP plan. Refer to pages 41-42 of this Annual Report for detail around the vesting conditions of the LTIP option grants. All options held by Karen expire 10 years from the date of grant.

Other Information - Loans to KMP

There were no loans made during the year to any Key Management Personnel.

PROCEEDINGS ON BEHALF OF THE COMPANY

We are not currently involved in any material legal proceedings, other than ordinary routine litigation incidental to the business, to which we or any of our subsidiaries is a party or of which any of their property is subject.

INSURANCE OF DIRECTORS AND OFFICERS

During the year, Sezzle paid a premium for a Directors and Officers Liability Insurance Policy (D&O Insurance). This policy covers Directors and Officers of the Company and the Consolidated entity. In accordance with normal commercial practices under the terms of the insurance agreements, the disclosure of the nature of the liabilities insured against and the amount of the premiums are prohibited by the policy.

NON-AUDIT SERVICES

Sezzle may choose to employ its auditor for services additional to their statutory audit duties. Pursuant to the Sarbanes-Oxley Act of 2002, Sezzle and its affiliates do not employ its auditors on assignments related to:

- Bookkeeping;
- Financial information systems design and implementation;
- Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- Actuarial services;
- Internal audit outsourcing services;
- Management functions or human resources;
- Broker-dealer, investment adviser, or investment banking services; and
- Legal services and expert services unrelated to the audit.

In all other instances, the Audit Committee considers whether any service may impair the firm's independence in fact or appearance and approves the service before engagement.

Operating and Financial Review

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

OVERVIEW

Sezzle is a technology-enabled payments company based in the United States, with operations in the United States, Canada, and startup operations in India and Europe. The Company offers its payment solution at online stores and a select number of brick-and-mortar retail locations, connecting consumers with merchants via a proprietary payments solution that instantly extends credit at point-of-sale, allowing consumers to purchase and receive the items that they need now while paying over time in interest-free installments.

Merchants turn to Sezzle to increase sales by tapping into Sezzle's existing user base, improve conversion rates, raise spend per transaction, increase purchase frequency, and reduce return rates, all without bearing any credit risk. Sezzle is a high-growth, networked platform that benefits from a symbiotic and mutually beneficial relationship between merchants and consumers.

The Company's core product allows consumers to make online purchases and effectively split the payment for the purchase over four equal, interest-free payments over six weeks. The consumer makes the first payment at the time of checkout and makes the subsequent payments every two weeks thereafter. The purchase price, less processing fees, is paid to merchants by Sezzle in advance of the collection of the purchase price installments by Sezzle from the consumer.

The Company is headquartered in Minneapolis, Minnesota. Sezzle is a Delaware Public Benefit Corporation.

HOW WE EVALUATE OUR OPERATIONS

The following discussion of our results of operations includes references to and analysis of EBIT, EBITDA, Gross Margin, Net Transaction Loss and Net Transaction Margin, which are financial measures not recognized in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). These non-GAAP financial measures are used by investors to measure our operating performance, especially against competitors in our industry, and lenders to measure our ability to incur and service debt. These measures are not intended to serve as an alternative to U.S. GAAP measures of performance and may not be comparable to similarly titled measures presented by other companies. A reconciliation of these non-GAAP measures to their most directly comparable measure under U.S. GAAP is included below.

- EBIT is defined as earnings before interest and taxes.
- EBITDA is defined as earnings before interest, taxes, depreciation, and amortization.
- Gross margin is our gross profit divided by Total income, expressed as a percentage.
- Net Transaction Loss is calculated as the expected provision and actual losses against notes receivable and reschedule fee losses to be incurred (less consumers fees collected).
- Net Transaction Margin is expressed as a percentage and is calculated as:
    - Sezzle Income earned divided by Underlying Sales, expressed as a percentage;
    - Less the cost of consumer communications and the total fees paid by Sezzle to process transactions, divided by Underlying Merchant Sales, expressed as a percentage;
    - Less Net Transaction Loss, divided by Underlying Merchant Sales, expressed as a percentage; and
    - Less net interest expense, divided by Underlying Merchants Sales, expressed as a percentage.

Note, the amounts included in this section were rounded to the nearest US$1,000 (unless otherwise stated). Any discrepancies between totals and the sums of components contained within the Operating and Financial Review are due to rounding.

Below is a reconciliation of non-GAAP measures to GAAP measures:

	For the years ended December 31,	
(US$000s)	2020	2019
Operating loss	$ (27,932)	$ (11,252)
Other income and expense	(126)	(20)
Earnings before interest and taxes (EBIT)	(28,059)	(11,247)
Depreciation and amortization expense	428	245
Impairment losses	8	16
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	$ (27,622)	$ (10,986)

Net Transaction Loss and Net Transaction Margin are comprised of U.S. GAAP measures as disclosed within the 'Results of Operations' section below.

RESULTS OF OPERATIONS

Sezzle's management uses a variety of financial and key operating metrics to analyze the Company's performance. These financial and operating metrics include: (i) volume of Active Merchants and Active Consumers; (ii) Net Transaction Margins and Net Transaction Gain/Loss; (iii) Gross Profit and Gross Margin; (iv) EBITDA; and (v) EBIT.

Summary of Key Operating Metrics

The Company's key operating metrics continue to show signs of rapid growth during the financial year due to the continued success of onboarding and retaining Active Merchants and Active Consumers. A summary of the key operation metric results as of and for the years ended is shown below:

	For the years ended December 31,	
	2020	2019
Active Merchants	26,690	10,010
Active Consumers	2,231,089	914,886
Underlying Merchant Sales (UMS) (US$000s)	$ 856,382	$ 244,126
Merchant Fees (US$000s)	$ 47,581	$ 12,969
Net Transaction Margin (NTM) (% of UMS)	1.4 %	0.2 %
Net Transaction Loss (NTL) (% of UMS)	(1.2)%	(1.5)%

For the year ended December 31, 2020, Active Merchants increased by 167% to 26,690 compared to the year ended December 31, 2019. Likewise, Active Consumers has increased by 144% to 2,231,089 during the same comparative period.

Net Transaction Margin

The Company's NTM for the year ended December 31, 2020 improved by 1.2%, as a percentage of UMS, compared to the year ended December 31, 2019, driven primarily by improved efficiencies in Sezzle income, reductions in processing costs, and overall improvements in Net Transaction Losses. Summarized below, Net Transaction Margin for the years ended December 31, 2020 and 2019 is as follows:

Net Transaction Margin (NTM)	For the years ended December 31,					
	2020			2019		
		US$000s	% of UMS		US$000s	% of UMS
Underlying Merchant Sales (UMS)	$	856,382	— %	$	244,126	— %
Sezzle income		49,659	5.8 %		13,319	5.5 %
Cost of income		(22,490)	(2.6)%		(7,660)	(3.1)%
Net Transaction Loss		(10,459)	(1.2)%		(3,754)	(1.5)%
Net interest expense		(4,303)	(0.5)%		(1,307)	(0.5)%
Net Transaction Margin	$	12,408	1.4 %	$	598	0.2 %

Sezzle income relative to UMS was 5.8% and 5.5% for the years ended December 31, 2020 and 2019, respectively. The 0.3pp improvement in Sezzle income relative to UMS is due to lower promotional rates and efficiencies in direct loan origination costs, partially offset by the onboarding of large enterprise merchants. Cost of income relative to UMS was (2.6%) and (3.1%) for the years ended December 31, 2020 and 2019, respectively. The 0.5pp improvement is primarily driven by reductions in fees incurred for processing payments of consumer transactions.

Net Transaction Loss

During the year ended December 31, 2020, Net Transaction Loss improved 0.3pp of UMS compared to the year ended December 31, 2019, primarily due to higher collections of notes receivable and consumer account reactivation fees.

Net Transaction Loss (NTL)	For the years ended December 31,					
	2020			2019		
		US$000s	% of UMS		US$000s	% of UMS
Provision for uncollectible accounts	$	(19,588)	(2.3)%	$	(6,236)	(2.6)%
Account reactivation fee income		9,129	1.1 %		2,482	1.0 %
Net Transaction Loss	$	(10,459)	(1.2)%	$	(3,754)	(1.5)%

During the year ended December 31, 2020 the Company had improved collections on consumer notes receivable as a result of building its repeat usage and Active Consumer bases, along with refinements in the Company's underwriting processes. In the first half of the year, the various stimulus measures enacted by the U.S. government pertaining to the Coronavirus Aid, Relief, and Economic Securities Act (CARES Act) contributed to the Company's improved collections, in addition to underwriting changes made in anticipation of the COVID-19 impact. In the second half of the year, Sezzle saw higher Net Transaction Losses primarily due to seasonality and universe expansion testing.

Account reactivation fee income as a percentage of UMS remained relatively flat year over year.

As a percentage of Total income, Account Reactivation Fees were 15.5% and 15.7% for the years ended December 31, 2020 and 2019, respectively. The 0.2pp reduction, as a percentage of Total income, is a result of improved collections on consumer notes receivable and the expansion of the Company's fee forgiveness and payment flexibility programs offered to consumers as a response to COVID-19.

Financial Review

A summary of Sezzle's financial results for the years ended December 31, 2020 and 2019 are as follows:

	For the years ended December 31,		
(US$000s)	2020	2019	Change (%)
Total income	$ 58,788	$ 15,801	272 %
Cost of income	(22,490)	(7,660)	194 %
Provision for uncollectible accounts	(19,588)	(6,236)	214 %
Net loss after tax	(32,393)	(13,061)	148 %

The financial results of the Company for the years ended December 31, 2020 and 2019 are presented below:

	For the years ended December 31,		
(US$000s)	2020	2019	Change
Sezzle income	$ 49,659	$ 13,319	$ 36,340
Account reactivation fee income	9,129	2,482	6,647
Total income	58,788	15,801	42,987
Cost of Income	(22,490)	(7,660)	(14,829)
Gross profit	36,299	8,141	28,158
Gross margin %	*61.7 %*	*51.5 %*	*10.2 %*
Other income (expense)	(126)	(20)	(106)
Provision for uncollectible accounts	(19,588)	(6,236)	(13,352)
Other operating expenses	(44,207)	(12,896)	(31,311)
EBITDA	(27,622)	(11,011)	(16,612)
Depreciation and amortization	(428)	(245)	(183)
Impairment losses	(8)	(16)	8
EBIT	(28,059)	(11,272)	(16,787)
Net interest expense	(4,303)	(1,307)	(2,996)
Interest expense on beneficial conversion feature	—	(470)	470
Loss before tax	(32,362)	(13,049)	(19,312)
Income tax expense	(31)	(12)	(19)
Net loss after tax	(32,393)	(13,061)	(19,331)
Other comprehensive income	495	—	495
Total comprehensive loss	$ (31,898)	$ (13,061)	$ (18,837)

Total Income

Sezzle income totaled US$49.7 million for the year ended December 31, 2020, compared to US$13.3 million for the year ended December 31, 2019, an increase of 273% year-over-year driven by growth in Underlying Merchant Sales throughout the United States and Canada, including the addition of a number of enterprise merchants. Merchant fees and consumer reschedule fees, less direct financing origination costs, collectively comprise Sezzle income and are initially recorded as a deduction from notes receivable in the consolidated balance sheets. Deferred fees and expenses are recognized in the consolidated statements of operations over the average duration of the underlying notes receivable. Together, total consumer reschedule fees and note origination costs were US$1.9 million, or 3.9% of total Sezzle income recognized during the year ended December 31, 2020 compared to US$0.4 million and 2.6% of Sezzle income during the year ended December 31, 2019, driven by an improvement in note origination costs year over year.

Account reactivation fee income was US$9.1 million for the year ended December 31, 2020, compared to US$2.5 million for the year ended December 31, 2019. Account reactivation fee income made up 15.5% of Total income for the year ended December 31, 2020, compared to 15.7% for the year ended December 31, 2019. The relative reduction in this metric is driven by improvement in the Company's collections of consumer notes receivable, as well as an expansion of fee forgiveness and payment flexibility programs offered to consumers as a response to COVID-19.

Cost of Income

Cost of income primarily comprises payment processing costs paid to third-party payment processors, consumer communication costs, and merchant affiliate program and partnership fees. Payment processing costs as a percentage of UMS were 2.0% and 2.4% for the years ended December 31, 2020 and 2019, respectively. The 2020 results included the full benefit of Sezzle's change in card processing service providers, executed in April 2019, as well as 0.1pp year over year reduction, as a percentage of UMS, in customer communication expenses.

As a percentage of UMS, short-term referral fee costs stipulated by agreements with partners and merchants of Sezzle remained consistent year over year.

Receivables and Uncollectible Accounts

Sezzle's consumer notes receivables before expected losses and deferred net loan origination fees increased to US$95.4 million as of December 31, 2020, compared to US$29.7 million as of December 31, 2019, an increase of 221%, driven by increases in UMS and Active Consumers. Sezzle's notes receivable had a weighted average days outstanding of 34 days, consistent with prior year's duration.

Provisions for uncollectible accounts on the notes receivable were calculated on an expected loss basis. The total provision for uncollectible accounts was US$19.6 million or 2.3% of UMS for the year ended December 31, 2020, compared to US$6.2 million or 2.6% of UMS for the year ended December 31, 2019. For the 2020 year, overall the Company saw improved loss rates driven by several factors, including increased repeat usage among consumers, continuous improvements in Sezzle's proprietary underwriting processes, tightening of credit to consumers as an initial respond to COVID-19, and overall improved collections driven in part by U.S. government stimulus offered to many of Sezzle's consumers through the CARES Act. These improvements are offset by higher loss rates as a result of universe expansion testing of its underwriting processes and seasonality of loss rate patterns noted in the second half of 2020.

Other Operating Expenses

Overall, other operating expenses increased 243% year over year as a result of the Company's continued investment in its personnel, marketing, and other various third-party service provider and professional service expenses. Other operating expenses for the years ended December 31, 2020 and 2019 were comprised of the following:

	2020			2019		
		US$000s	% of Total		US$000s	% of Total
Compensation-related expenses	$	17,077	38.6 %	$	7,420	57.5 %
Equity and incentive-based compensation expenses		13,613	30.8 %		1,167	9.1 %
Third-party service provider costs		2,464	5.6 %		1,284	10.0 %
Marketing, advertising, and tradeshows		4,275	9.7 %		839	6.5 %
Professional services		2,357	5.3 %		720	5.6 %
Rent		540	1.2 %		369	2.9 %
Other		3,881	8.8 %		1,096	8.5 %
Other operating expenses	$	44,207	100.0 %	$	12,896	100.0 %

Compensation related expenses increased to US$17.1 million for the year ended December 31, 2020, from US$7.4 million for the year ended December 31, 2019. Sezzle continued to invest in its employees throughout 2019 and 2020. Total employees were 279 as of December 31, 2020, compared to 133 as of December 31, 2019.

Stock and incentive-based compensation expenses increased to US$13.6 million for the year ended December 31, 2020, from US$1.2 million for the year ended December 31, 2019, due to the increase in number of employees as well as the introduction of new incentive plans. In 2020, Sezzle introduced new short-term and long-term stock based incentive programs to attract, motivate and retain talented employees. The expenses for the new incentive plans totaled US$8.1 million for the year ended December 31, 2020.

Third-party service provider costs consisted primarily of costs incurred to obtain data used in underwriting consumers and fraud prevention. These costs increased to US$2.5 million for the year ended December 31, 2020, compared to US$1.3 million for the year ended December 31, 2019, driven by growth in Active Consumers.

Marketing, advertising, and tradeshow costs increased to US$4.3 million for the year ended December 31, 2020, compared to US$0.8 million for the year ended December 31, 2019, as a result of the Company's increased initiatives to co-market the Sezzle brand with its merchants.

Professional services included legal, consultation, recruiting, financial audit, and tax compliance related costs. Costs increased by US$1.6 million year over year as a result of costs associated with the Company's status of being publicly listed on the ASX, as well as additional financial statement audit, tax, and legal costs.

Other operating expenses as a percent of UMS decreased to 5.2% for the year ended December 31, 2020 from 5.3% for the year ended December 31, 2019, primarily related to reductions in costs in response to COVID-19. Most notably, the Company rolled out a work-from-home program for its employees beginning in mid-March 2020. In addition, the Company implemented restrictions in travel and attendance of group events, including industry-related conferences. These COVID-19 related measures resulted in lower than anticipated operating expenses, offset against expenses related to the Company's new short and long-term incentive plans, for the year ended December 31, 2020.

Net Interest Expense

Net interest expense was US$4.3 million for the year ended December 31, 2020, driven by the Company's continued utilization of both its revolving line of credit and its Merchant Interest Program to facilitate the growth in UMS and related consumer notes receivable. Refer to Notes 11 and 15 within the Consolidated Financial Statements for additional commentary on the Company's line of credit and Merchant Interest Program, respectively.

Interest expense on the beneficial conversion feature was incurred on the Company's Initial Public Offering date and resulted from the conversion of US$5.8 million of notes issued in the first half of 2019. Refer to Note 13 of the Consolidated Financial Statements for further information.

Financial Position Activity

Sezzle's total assets increased to US$174.1 million as of December 31, 2020 from US$64.5 million as of December 31, 2019. This growth of US$109.6 million was primarily driven by increases in both cash and cash equivalents and consumer notes receivable.

Merchant accounts payable increased to US$60.9 million as of December 31, 2020, compared to US$13.3 million as of December 31, 2019. This increase was related to the growth in Underlying Merchant Sales and Active Merchants during 2020, in addition to increased merchant participation in the Merchant Interest Program. Total liabilities increased to US$114.2 million as of December 31, 2020, compared to US$37.2 million in the prior year.

Stockholders' equity increased to US$60.0 million as of December 31, 2020, from US$27.3 million as of December 31, 2019, primarily as a result of the proceeds from the Company's capital raise in the third quarter of 2020. Refer to Note 9 of the Consolidated Financial Statements for further information.

Capital Management

To help manage the increase in UMS, Sezzle signed an agreement with the Syndicate to increase its debt facility to US$100 million in November 2019. As of December 31, 2020, Sezzle had drawn US$40.0 million from its revolving line of credit and had US$23.9 million in additional borrowing capacity.

On July 15, 2020, Sezzle raised US$55,316,546 of proceeds via an institutional placement. On August 10, 2020, the Company raised an additional US$5,140,710 of proceeds via a Securities Purchase Plan offered to existing investors. The total costs of the capital raise were US$2,484,504, resulting in overall net proceeds of US$57,972,752. In exchange for the capital raise, Sezzle issued 16,289,935 Chess Depository Interests (CDIs) at a price of A$5.30 (approximately US$3.82). The issued CDIs are equivalent to common shares on a 1:1 basis.

Refer to the Consolidated Balance Sheets and the accompanying notes to the Consolidated Financial Statements in the Annual Report for further information.

Cashflow Activity

Sezzle incurred net losses from operating activities for the years ended December 31, 2020 and 2019. For the years ended December 31, 2020 and 2019 Sezzle incurred a net loss of US$32.4 million and US$13.1 million, respectively. As of December 31, 2020, Sezzle had cash and cash equivalents of US$84.3 million and working capital of US$104.6 million.

Operating Activities

Net cash used for operating activities was US$24.8 million and US$19.9 million for the years ended December 31, 2020 and 2019, respectively. The increase in cash used for operating activities during the year ended December 31, 2020 was driven by increased consumer notes receivable, offset with an increased participation in the Company's Merchant Interest Program. Net cash used for operating activities for the year ended December 31, 2019 was primarily driven by increases in notes receivable due from consumers.

Investing Activities

Net cash used for investing activities during the year ended December 31, 2020 increased slightly to US$0.7 million, compared to US$0.5 million during the year ended December 31, 2019. Cash outflows for investing activities were primarily used for purchasing computer equipment, as well as payments of salaries to employees who create capitalized internal-use software.

Financing Activities

Net cash provided by financing activities during the year ended December 31, 2020 was US$77.6 million, compared to US$50.0 million during the year ended December 31, 2019. The increase was related to the Company's capital raise, as well as additional funds drawn on the Company's line of credit facility.

Off Balance Sheet Arrangements

Sezle does not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, that would have been established for the purpose of facilitating off balance sheet arrangements (as that term is defined in Item 303(a)(4)(ii) of Regulation S-K) or other contractually narrow or limited purposes. As such, Sezzle is not exposed to any financing, liquidity, market or credit risk that could arise if the Company had engaged in those types of relationships. Sezzle enters into guarantees in the ordinary course of business related to the guarantee of its performance and the performance of its subsidiaries.

Key Risks and Business Challenges

In the course of conducting our business operations, we are exposed to a variety of risks, some of which are inherent in our industry and others of which are more specific to our businesses.

This discussion addresses the most significant factors, of which we are currently aware, that could affect our businesses, results of operations, and financial condition. However, other factors not discussed below or elsewhere in this Annual Report could also adversely affect our businesses, results of operations, and financial condition. Therefore, the risk factors below should not be considered a complete list of potential risks that we may face.

EARLY STAGE COMPANY RISK

The Company is an early stage financial technology company with limited trading history. Since launching the Sezzle Platform in August 2017, Sezzle's activities have principally involved raising money to develop its software, products and services (including the Sezzle Platform). Like many early stage companies, the Company has incurred losses since its inception. The reported cumulative losses up to December 31, 2020 are approximately US$51.8 million. Given the Company's limited trading history, it is difficult to make an evaluation of Company's business or its prospects and there is a significant risk that the Company is not able to continue its growth at current rate, if at all, or successfully execute on its business plan and strategies.

TRANSACTION VOLUME AND PRODUCT OFFERINGS

The Company is currently in the early stages of establishing its presence in the US, Canadian, European and Indian markets, and its ability to profitably scale its business is reliant on increase in transaction volumes and its customer and merchant base to increase income and profits. Data from increasing transaction volumes will also better optimize the Company's systems and ability to make real-time consumers repayment capability decisions. Optimizing repayment capacity decisions of our consumers may reduce our expenses and increase Sezzle Income.

The Company considers that establishing, expanding and maintaining the Company's brand is important to growing its merchant and consumer bases. Failure to expand in this way may materially and adversely impact the Company's ability to achieve economies of scale and to optimize its systems and may therefore adversely impact the Company's ability to improve its future profitability.

The Company's growth strategy may also include the introduction of new services or technologies. There is a risk that expansion initiatives may result in additional costs and risks or may not deliver the outcomes intended. The Company's growth strategy depends on increasingly expanding its consumer and merchant bases, which may not occur as intended for a variety of reasons.

NET TRANSACTION MARGIN

The Company's Net Transaction Margin, or the amount of money that the Company earns for each transaction divided by the total transaction amount, is currently a positive percentage. The Company's strategy to maintain the Net Transaction Margin as a positive percentage, and to grow that percentage, depends upon the Company effectively managing transaction processing costs, Loan Origination Costs and uncollectible accounts expenses, while efficiently utilizing external debt funding. There is a risk that this strategy may not eventuate as intended, which may adversely impact the Company's ability to improve its future profitability.

LOSS OF KEY PARTNER AND MERCHANT RELATIONSHIPS

The Company depends on continued relationships with its current significant merchants and partners that assist in obtaining and maintaining our relationships with merchants. There can be no guarantee that these relationships will continue or, if they do continue, that these relationships will continue to be successful. The Company's contracts with merchants can be terminated for convenience on relatively short notice by either party, and so the Company does not have long-term contracted income.

There is a risk that the Company may lose merchants for a variety of reasons, including a failure to meet key contractual or commercial requirements, or merchants shifting to in-house solutions (including providing a service competitive to us) or competitor service providers. The Company also faces the risk that its key partners could become competitors of our business if they are able to determine how we have implemented our model to provide our services.

Although the Company does not currently depend on any single merchant for more than approximately 2% of Sezzle Income, the Company's business is still at a relatively early stage, and merchant income is not as diversified as it might be for a more mature business. The loss of even a small number of the Company's key merchants may materially and adversely impact the Company's income and profitability and increase marketing expenses to sign up new merchants to replace those lost. Depending on the reason for the loss of a key merchant, it may also negatively impact the Company's reputation with other merchants and with consumers.

There is also a risk that new agreements formed with merchants in the future may be less favorable to the Company, including pricing and other key terms, due to unanticipated changes in the market in which the Company operates.

EXPOSURE TO CONSUMER BAD DEBTS

The Company's profitability depends on its ability to put in place and optimize its systems and processes to make predominantly accurate, real-time decisions in connection with the consumer transaction approval process. Consumer non-payment is a significant component of the Company's expenses at present, and the Company is currently exposed to consumer bad debts as a normal part of its operations. However, excessive exposure to bad debts through consumers failing to meet their repayments to the Company will materially and adversely impact the Company's profitability.

The Company also has an exposure, although much more limited, to the potential insolvency of merchants to which the Company has advanced funds. Exposure occurs in the period between the advance of funds to a merchant for a consumer's purchase of goods, and the merchant shipping the goods to the consumer (at which point the Company is entitled to payment from the consumer). However, this period of risk is typically only a few days.

ADDITIONAL REQUIREMENTS FOR CAPITAL

As the Company's current business grows and new lines of business are developed, the Company will require additional funding to support the provision of installments plans to consumers and working capital. Although the Directors believe that the Company has sufficient working capital and capacity to carry out its business objectives through December 31, 2022, there can be no assurance that such goals can be met without further financing or, if new funding is necessary, that financing can be obtained on favorable terms or at all. Further, if additional funds are raised by issuing equity securities, this may result in dilution for some or all of our stockholders.

The Company intends to rely on a combination of fund options including equity and its current credit facility to finance its operations. An inability to raise capital (through the issue of common stock and CDIs), secure funding, drawdown on finance facilities, subsequently refinance the credit facility, or any increase in the cost of such funding, may adversely impact the performance and financial position of the Company. Failure by the Company or its subsidiary, Sezzle Funding, to meet financial covenants under its credit agreement, or the occurrence of other specified events, may lead to an event of default or review event under the finance facilities. If an event of default or a review event applicable to any given facility occurs, there may be a requirement to make repayments in advance of the relevant maturity dates and/or termination of the credit facility. This may impact the financial performance and position of the Company and its ability to operate in the ordinary course of business.

The Loan Agreement requires Sezzle to draw down a minimum of US$20 million between November 29, 2019 and November 29, 2020, and US$40 million between November 29, 2020 and May 29, 2022. To the extent that Sezzle fails to achieve consumer lending levels that exceeds these minimum drawdown requirements, Sezzle could incur additional losses through significantly increased interest expenses that exceed Sezzle Income, which may adversely impact the performance and financial position of the Company.

COMPETITORS AND NEW MARKET ENTRANTS

The Company considers it has a competitive advantage in being one of the first to provide an interest-free 'buy now, pay later' service to the US and Canadian online retail market. However, there is always a risk of new entrants in the market, which may disrupt the Company's business and market share. Existing competitors, as well as new competitors entering the industry, may engage in aggressive consumer acquisition campaigns, develop superior technology offerings, or consolidate with other entities to deliver enhanced scale benefits. These competitors may also be better capitalized than us. Such competitive pressures may materially erode the Company's market share and income and may materially and adversely impact the Company's income and profitability. A general increase in competition may also require the Company to increase marketing expenditure or offer lower fees to merchants, which would decrease profitability even if the Company's market share does not decrease.

FAILURES OR DISRUPTIONS OF TECHNOLOGY SYSTEMS

The Company depends on the constant real-time performance, reliability, and availability of its technology system and third-party technology and communication networks (including the systems of third-party e-commerce networks). There is a risk that these systems may fail to perform as expected or be adversely impacted by several factors, some of which may be outside the control of the Company, including damage, equipment faults, power failure, fire, natural disasters, computer viruses and external malicious interventions such as hacking, cyber-attacks or denial-of-service attacks.

Events of that nature may cause part or all of the Company's technology system and/or the communication networks used by the Company to become unavailable. The Company's operational processes and contingency plans may not adequately address every potential event. This may disrupt transaction flow and adversely impact the Company's financial performance and reputation.

There is a risk that repeated failures to keep the Company's technology available may result in a decline in consumer and merchant numbers or merchants terminating their contracts with the Company. This may materially and adversely impact the Company's financial performance, including a reduction in income from completed transactions and an increase in the costs associated with servicing consumers through the disruption, as well as negatively impacting the Company's reputation.

RELIANCE ON THE ACCURACY OF THIRD-PARTY DATA PROVIDED TO THE COMPANY

The Company purchases data from third parties that is critical to the Company's assessment of the creditworthiness of consumers before they are either approved or denied funding for their purchase from a merchant. The Company is reliant on these third parties to ensure that the data they provide is accurate. Inaccurate data could cause the Company to not approve transactions that otherwise would have been approved, or vice versa, meaning the Company either loses income, or earns income that may lead to a higher incidence of bad debts.

EMPLOYEE RECRUITMENT RISK AND RETENTION

The Company's ability to effectively execute its growth strategy depends upon the performance and expertise of its staff. The Company relies on experienced managerial and highly qualified technical staff to develop and operate its technology and to direct operational staff to manage the operational, sales, compliance, and other functions of its business.

There is a risk that the Company may not be able to attract and retain key staff or be able to find effective replacements in a timely manner. The loss of staff, or any delay in their replacement, could impact the Company's ability to operate its business and achieve its growth strategies, including through the development of new systems and technology. There is a risk that the Company may not be able to recruit suitably qualified and talented staff in a time frame that meets the growth objectives of the Company. This may result in delays in the integration of new systems, development of technology, and general business expansion, which may adversely impact the Company's income and profitability.

There is also a risk that the Company will be unable to retain existing staff, or recruit new staff, on terms of retention that are as attractive to the Company as past agreements. This would adversely impact employment costs and profitability.

GROWTH MANAGEMENT

Sezzle has experienced a period of considerable growth of income, employee numbers and customers. A continuation of this growth in the future could place additional pressure on current management, operational and finance resources, and on the infrastructure supporting the Sezzle Platform. Failure to appropriately manage this growth could result in failure to retain existing consumers and attract new consumers, which could adversely affect Sezzle's operating and financial performance.

COMPLIANCE WITH LAWS, REGULATIONS, AND INDUSTRY COMPLIANCE STANDARDS

The Company is subject to a range of legal and industry compliance requirements that are continually changing. Such requirements include consumer protection, consumer disclosure, licensing and data security and privacy laws. There has recently been an increased focus and scrutiny by regulators in various jurisdictions concerning 'buy now, pay later' arrangements. There is potential that the Company may become subject to additional legal or regulatory requirements if its business, operations, strategy, or geographic reach expand in the future, or if the regulations change with respect to the jurisdictions in which it operates. These changes may potentially include increased consumer protections, consumer disclosures and additional licensing requirements. There is a risk that additional or changed legal, or regulatory requirements may make it uneconomic for the Company to continue to operate, or to expand in accordance with its strategy. This may materially and adversely impact the Company's income and profitability, including by preventing its business from reaching sufficient scale.

If the Company fails to comply with these laws, and regulations we may incur significantly increased compliance costs, be required to cease certain business activities, be unable to conduct business, or be subject to litigation or regulatory inquiry or investigation and significant reputational damage.

Sezzle's business is subject to investigation by regulators, enforcement agencies, and offices of state attorneys general, which could lead to enforcement actions, fines and penalties, and qualifications to conduct business, or the assertion of private claims and lawsuits against Sezzle. The U.S. Federal Trade Commission, the Department of Justice, and the Department of Commerce have the authority to investigate consumer complaints against Sezzle, to conduct inquiries at their insistence, and to recommend enforcement actions and seek monetary penalties.

Sezzle has satisfied the requirements to become a reporting company under the U.S. Securities Act and will accordingly become subject to the periodic reporting requirements of the U.S. Exchange Act. The Company did not file the necessary registration under Section 12(g) of the Exchange Act by the required filing date in the second quarter of 2020. Among other things, this will require Sezzle to register the CDIs with the US Securities and Exchange Commission (SEC) under the US Exchange Act. Registration under the US Exchange Act will involve Sezzle filing annual, quarterly, and current reports on Forms 10-K, 10-Q and 8-K. In the absence of a waiver from the ASX Listing Rules, these SEC periodic reports will be in addition to Sezzle's periodic filings required by the ASX Listing Rules. At the time Sezzle becomes subject to the reporting requirements of the U.S. Exchange Act, Sezzle will also become subject to the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which will impose additional governance and reporting obligations. The Company expects to incur ongoing routine legal, accounting and administrative costs as it pertains to the additional periodic filings. This situation could potentially result in claims or actions against the Company, including fines or penalties, litigation, injunctions or damage awards. The Board, in consultation with its external counsel, does not believe that any potential penalties or actions relating to this matter have the potential to significantly impact business operations or outlook.

COMPLIANCE WITH INTERNATIONAL LAWS, REGULATIONS, AND INDUSTRY COMPLIANCE STANDARDS

We are offering our services in India, and exploring expansion into other foreign markets, including Europe, as part of our growth strategy. Our ability to grow in international markets and our future results could be adversely affected by a number of factors, including:

- restrictions on money transfers to, from and between certain countries;
- currency controls, new currency adoptions and repatriation issues;
- changes in regulatory requirements and foreign policy, including the adoption of domestic or foreign laws, regulations and interpretations detrimental to our business;
- possible increased costs and additional regulatory burdens imposed on our business;
- changes in political and economic conditions and potential instability in certain regions, including in particular the recent civil unrest, terrorism, political turmoil and economic uncertainty in Africa, the Middle East and other regions;
- burdens of complying with a wide variety of laws and regulations;
- possible fraud or theft losses, and lack of compliance by international representatives in foreign legal jurisdictions where collection and legal enforcement may be difficult or costly;
- reduced protection of our intellectual property rights;
- unfavorable tax rules or trade barriers; and
- inability to secure, train or monitor international agents.

In particular, as we expand, changes in the regulatory environment and violations of the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws may negatively impact our business. We are subject to regulations relating to our corporate conduct and the conduct of our business, including securities laws, consumer protection laws, trade regulations, advertising regulations, privacy and cybersecurity laws, wage and hour regulations, anti-money laundering and anti-corruption legislation. Certain jurisdictions have taken aggressive stances with respect to such matters and have implemented new initiatives and reforms, including more stringent regulations, disclosure and compliance requirements.

The U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments for the purpose of obtaining or retaining business. Recent years have seen a substantial increase in anti-bribery law enforcement activity with more frequent and aggressive investigations and enforcement proceedings by both the Department of Justice and the SEC, increased enforcement activity by non-U.S. regulators and increases in criminal and civil proceedings brought against companies and individuals. Our policies mandate compliance with all anti-bribery laws. However, we operate in certain countries that are recognized as having governmental and commercial corruption. Our internal control policies and procedures may not always protect us from reckless or criminal acts committed by our employees or third-party intermediaries. Violations of these anti-bribery laws may result in criminal or civil sanctions, which could have a material adverse effect on our business and results of operations.

Anti-Money Laundering (AML) laws and related Know-Your-Customer (KYC) laws in other jurisdictions generally require companies to conduct necessary due diligence to prevent and protect against money laundering. AML enforcement activity could result in criminal and civil proceedings brought against companies and individuals. Our policies mandate compliance with all AML applicable laws. However, we operate in certain countries that may be at higher risk of money laundering activities. Our internal control policies and procedures may not always protect us from reckless or criminal acts committed by our employees or third-party intermediaries. Violations of AML laws may result in criminal or civil sanctions, which could have a material adverse effect on our business and results of operations.

Various regulatory agencies demand licensing or other controls in order to operate in each market; such requirements vary country by country and are fact dependent. Our innovative approach to the market makes interpretations in regulatory requirements speculative. Local authorities may determine that the nature of our offerings may require different licenses or requirements than the licenses that we have obtained or secured. Any delays in securing the necessary licenses or obtaining the necessary approvals could delay our expansion into foreign markets, which would adversely affect our anticipated growth. Further, any violations of the regulations around licensing may result in criminal or civil sanctions, which could have material adverse effects in our operations

DATA SECURITY BREACHES

Through the ordinary course of business, the Company collects a wide range of confidential and personal information. Cyber-attacks may compromise or breach the technology platform used by the Company to protect sensitive data. The Company's business could be materially impacted by security breaches of the data and information of merchants and consumers data and information, either by unauthorized access, theft, destruction, loss of information, or misappropriation or release of confidential data.

There is also a risk that the measures the Company takes may not be sufficient to detect or prevent unauthorized access to, or disclosure of, such confidential, personal or proprietary information, and any of these events may cause significant disruption to the business and operations. This risk may also expose the Company to reputational damage, legal claims, termination of the Company's contracts with merchants, and regulatory scrutiny and fines, any of which could materially adversely impact the financial performance and prospects of the Company. In addition, any security or data issues experienced by other software companies globally could adversely impact consumers' trust in providing access to their data generally, which could adversely affect the Company's ability to provide its services.

ACTIVITIES OF FRAUDULENT PARTIES

The Company is exposed to risks imposed by fraudulent conduct, including the risks associated with consumers attempting to circumvent the Company's system and repayment capability assessments. There is a risk that the Company may be unsuccessful in defeating fraud attempts, resulting in a higher than budgeted cost of fraud and consumer non-payment.

The Company guarantees payment to merchants and accepts the responsibility associated with minimizing fraudulent activity and bears all costs associated with such fraudulent activity. Fraudulent activity may result in the Company suffering losses due to fraud, causing a materially adverse impact to the Company's reputation and having to bear certain costs to rectify and safeguard business operations and the Company's systems against fraudulent activity.

PROTECTION OF INTELLECTUAL PROPERTY

The Company's business depends on its ability to commercially exploit its technology and intellectual property rights, including its technological systems and data processing algorithms. The Company relies on laws relating to trade secrets, copyright and trademarks to assist in protecting its proprietary rights. However, there is a risk that unauthorized use or copying of the Company's software, data, specialized technology or platforms will occur. In addition, there is a risk that the validity, ownership or authorized use of intellectual property rights relevant to the Company's business may be successfully challenged by third parties. This could involve significant expense and potentially the inability to use the intellectual property rights in question, and if an alternative cost-effective solution was not available, it may materially adversely impact the Company's financial position and performance. Such disputes may also temporarily adversely impact the Company's ability to integrate new systems, which may adversely impact the Company's income and profitability.

There is also a risk that the Company will be unable to register or otherwise protect new intellectual property rights it develops in the future, or which is developed on its behalf by contractors. In addition, competitors may be able to work around any of the intellectual property rights used by the Company, or independently develop technologies, or competing payment products or services that are not protected by the Company's intellectual property rights. The Company's competitors may then be able to offer identical or very similar services or services that are otherwise competitive against those provided by the Company, which could adversely affect the Company's business.

INTEGRATION WITH MERCHANTS

The Company uses and relies on integration with third-party systems and platforms, particularly websites and other systems of its merchants. The success of the Company's services, and its ability to attract additional consumers and merchants, depends on the ability of its technology and systems to integrate into, and operate with, these various third-party systems and platforms. In addition, as these systems and platforms are regularly updated, it is possible that when such updates occur it could cause the Company's services to not operate as efficiently as previously. This will require the Company to change the way its system operates, which may take time and expense to remedy.

TECHNOLOGICAL CHANGES

The Company participates in a competitive technological environment. Technology systems are continuing to develop and are subject to rapid change, while business practices continue to evolve. The Company's success will, in part, depend on its ability to offer services and systems that remain current with the continuing changes in technology, evolving industry standards, and changing consumer preferences. There is a risk that the Company will not be successful in addressing these developments in a timely manner, or that expenses will be higher than expected. In addition, there is a risk that new products or technologies (or alternative systems) developed by third parties will supersede the Company's technology. This may materially and adversely impact the Company's income and profitability.

THIRD-PARTY INTELLECTUAL PROPERTY

There is a risk that third parties may allege that the Company's solutions use intellectual property derived by them or from their products without their consent or permission. The Company may be subject of claims that could result in disputes or litigation, and this could require us to incur significant expenses even if the Company is able to successfully defend or settle such claims. If the Company is found to have infringed the third-party's intellectual property rights, the Company may be required to pay monetary compensation to the third party or take other actions that may cause disruption to its service delivery model and increase its costs. This in turn could have an adverse impact on the Company's operations, reputation and financial performance.

OPEN SOURCE SOFTWARE RISK

Some of the Company's systems incorporate and are dependent on the use and development of "open source" software. Open source software is generally licensed under open source licenses, which may include a requirement that the Company make available, or grant licenses to, any modifications or derivatives works created using the open source software. If an author or other third party that uses or distributes such open software were to allege that the Company had not complied with the legal terms and conditions of one or more of these licenses, the Company could incur significant legal expenses defending against such allegations and could be subject to significant damages.

UNANTICIPATED TRANSACTION VOLUMES

Continued increases in transaction volumes may require the Company to expand and adapt its network infrastructure to avoid interruptions to the Company's systems and technology. Any unanticipated transaction volumes may cause interruptions to the Company's systems and technology, reduce the number of completed transactions, increase expenses, and reduce the level of customer service, and these factors may potentially adversely impact the Company's financial performance.

INTERNET RISK

The Company depends on the ability of its merchants and consumers to access the internet. Should access to the internet be disrupted or restricted, usage of the Company's services may be adversely impacted.

PAYMENT GATEWAYS RISK

The Company relies on online payment gateways, banking and financial institutions for the validation of bank cards, settlement and collection of payments. Any failures or disruptions to such platforms and technology may impact the financial performance of the Company.

REPUTATION RISK

Maintaining the strength of the Company's reputation is important to retaining and increasing its consumer and merchant base, maintaining its relationships with partner companies and other service providers, and successfully implementing the Company's business strategy. There is a risk that unforeseen issues or events may adversely impact the Company's reputation, and this may negatively impact the future growth and profitability of the Company.

The Company's reputation is also closely linked to the timely and accurate provision of services to consumers. There is a risk that the Company's actions and the actions of the Company's suppliers and merchants may adversely impact the Company's reputation. Any factors that diminish the Company's reputation could result in consumers, merchants, or other parties ceasing to do business with the Company. Such reputation risk would impede the Company's ability to successfully provide its goods and services, negatively affect its future business strategy, and materially and adversely impact its financial position and performance.

EXPOSURE TO ADVERSE MACROECONOMIC CONDITIONS

The Company's business depends on consumers transacting with merchants, which in turn can be affected by changes in general economic conditions. For example, the retail sector is affected by such macroeconomic conditions as unemployment, interest rates, consumer confidence, economic recessions, downturns or extended periods of uncertainty or volatility, all of which may influence consumer spending and suppliers and retailers' focus and investment in outsourcing solutions. This may subsequently impact the Company's ability to generate income. Additionally, in weaker economic environments, consumers may have less disposable income to spend, and as a result, may be less likely to purchase products by utilizing the Company's services and bad debts might increase.

COVID-19 PANDEMIC

Our business could be adversely affected by the effects of a widespread outbreak of contagious disease, including the outbreak of the COVID-19 respiratory illness first identified in Wuhan, Hubei Province, China. At this time our financial results have not been adversely affected by the COVID-19 pandemic, but as the pandemic is ongoing, we believe that it could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could adversely affect consumer spending, demand for our merchants' goods, our ability to collect outstanding payments owed by the consumers and thereby our operating results, all of which may have a material adverse effect on our business.

LITIGATION RISK

The Company may be subject to litigation and other claims and disputes in the course of its business, including contractual disputes, employment disputes, indemnity claims, and occupational and personal claims. Litigation is expensive and diverts time and energy away from the Company's business. Even if the Company is ultimately successful, there is a risk that such litigation, claims and disputes could materially and adversely impact the Company's operating and financial performance due to the cost of settling such claims and a diversion of our employees' time, and affect the Company's reputation.

INSURANCE RISK

The Company plans to maintain insurance as it considers appropriate for its needs. However, the Company will not be insured against all risks, either because appropriate coverage is not available or because the Directors consider the applicable premiums to be excessive in relation to the perceived benefits that would accrue. Accordingly, the Company may not be fully insured against all losses and liabilities that could unintentionally arise from its operations. If the Company incurs uninsured losses or liabilities, the value of the Company's assets may be at risk.

ACHIEVEMENT OF PUBLIC BENEFIT PURPOSE

As a PBC, we are required to produce a public benefit or benefits and to operate in a responsible and sustainable manner, balancing our stockholders' pecuniary interests, the best interests of those materially affected by our conduct, and the public benefit or benefits identified by our Amended Charter. There is no assurance that we will achieve our public benefit purpose or that the expected positive impact from being a PBC will be realized, which could have a material adverse effect on our reputation, which in turn may have a material adverse effect on our business, results of operations and financial condition.

As a PBC, we are required to publicly disclose a report at least biennially on our overall public benefit performance and on our assessment of our success in achieving our specific public benefit purpose. If such reports are not viewed favorably by parties doing business with us, regulators, or others reviewing our credentials, our reputation and status as a public benefit corporation may be harmed.

IMPACT OF PUBLIC BENEFIT PURPOSE ON FINANCIAL PERFORMANCE

Unlike traditional corporations, which have a fiduciary duty to focus exclusively on maximizing shareholder value, our directors have a fiduciary duty to consider not only the shareholders' interests, but also the company's specific public benefit and the interests of other stakeholders affected by our actions. Therefore, we may take actions that we believe will be in the best interests of those stakeholders materially affected by our specific benefit purpose, even if those actions do not maximize our financial results. While we intend for this public benefit designation and obligation to provide an overall net benefit to us and our customers, it could instead cause us to make decisions and take actions without seeking to maximize the income generated from our business, and hence available for distribution to our shareholders. Our pursuit of longer-term or non-pecuniary benefits may not materialize within the timeframe we expect, or at all, yet may have an immediate negative effect on any amounts available for distribution to our shareholders. Accordingly, being a PBC and complying with our related obligations could have a material adverse effect on our business, results of operations and financial condition, which in turn could cause our stock price to decline.

As a PBC, we may be less attractive as a takeover target than a traditional company because our directors have a fiduciary duty to consider not only the stockholders' financial interests, but also the Company's specific public benefit and the interests of other stakeholders affected by our actions and, therefore, our stockholders' ability to realize a return on their investments through an acquisition may be limited. Under Delaware law, a PBC cannot merge or consolidate with another entity if, as a result of such merger or consolidation, the surviving entity's charter "does not contain the identical provisions identifying the public benefit or public benefits," unless the transaction receives approval from two-thirds of the target public benefit corporation's outstanding voting shares. Additionally, PBCs may also not be attractive targets for activists or hedge fund investors because new directors would still have to consider and give appropriate weight to the public benefit along with shareholder value, and shareholders committed to the public benefit can enforce this through derivative suits. Further, by requiring that board of directors of PBCs consider additional constituencies other than maximizing shareholder value, Delaware public benefit corporation law could potentially make it easier for a board to reject a hostile bid, even where the takeover would provide the greatest short-term financial yield to investors.

CONFLICT OF INTEREST BETWEEN PUBLIC BENEFIT AND STOCKHOLDERS

While directors of traditional corporations are required to make decisions they believe to be in the best interests of their stockholders, directors of a PBC have a fiduciary duty to consider not only the stockholders' interests, but also the company's specific public benefit and the interests of other stakeholders affected by the company's actions. Under Delaware law, directors are shielded from liability for breach of these obligations if they make informed and disinterested decisions that serve a rational purpose. Thus, unlike traditional corporations which must focus exclusively on stockholder value, our directors are not merely permitted, but obligated, to consider our specific public benefit and the interests of other stakeholders. In the event of a conflict between the interests of our stockholders and the interests of our specific public benefit or our other stakeholders, our directors must only make informed and disinterested decisions that serve a rational purpose; thus, there is no guarantee such a conflict would be resolved in favor of our stockholders, which could have a material adverse effect on our business, results of operations and financial condition, which in turn could cause our stock price to decline.

LITIGATION DUE TO CONFLICT OF INTEREST BETWEEN PUBLIC BENEFIT AND STOCKHOLDERS

Stockholders of a Delaware PBC (if they, individually or collectively, own at least two percent of the company's outstanding shares) are entitled to file a derivative lawsuit claiming the directors failed to balance stockholder and public benefit interests. This potential liability does not exist for traditional corporations. Therefore, we may be subject to the possibility of increased derivative litigation, which would require the attention our management, and, as a result, may adversely impact our management's ability to effectively execute our strategy. Additionally, any such derivative litigation may be costly, which may have an adverse impact on our financial condition and results of operations.

THE EXISTING MAJOR SHAREHOLDERS OF THE COMPANY OWN A LARGE PERCENTAGE OF THE STOCK OF THE COMPANY AND CAN EXERT SIGNIFICANT INFLUENCE OVER THE COMPANY.

The existing major shareholders of the Company, particularly Charlie Youakim and to a lesser extent, Paul Paradis, together hold approximately 50.1% of the total CDIs outstanding as of March 18, 2021, and can exert significant influence over the Company, including in relation to the election of directors, the appointment of new management and the potential outcome of matters submitted to the vote of shareholders. As a result, other shareholders will have minimal control and influence over any matters submitted to our shareholders. There is a risk that the interests of these existing major shareholders may be different from those of other shareholders.

A LARGE NUMBER OF SHARES ARE HELD IN ESCROW, AND THE RETENTION OF SUCH SHARES, AND ACTUAL OR PERCEIVED LARGE SALES UPON THEIR RELEASE, MAY ADVERSELY AFFECT THE LIQUIDITY OF THE MARKET FOR THE COMPANY'S SHARES OR THE MARKET VALUE OF THE COMPANY'S SHARES.

As of March 18, 2021, a total of 93,975,244 shares/CDIs, representing 47.9% of the currently outstanding CDIs remain subject to escrow restrictions under restriction agreements required by the Australian Securities Exchange (ASX) in connection with the Company's initial public offering in July 2019. These shares include a significant number of shares held by the major shareholders of the Company. All of such shares/CDIs will be released from such restrictions on July 30, 2021. Until expiration of the escrow period, the holders of the escrowed shares/CDIs cannot transfer their respective shares/CDIs without the approval of the ASX. The retention of such escrow shares/CDIs through the end of the escrow period may cause or contribute to limited liquidity in the market for the Company's shares, which could affect the market price at which other shareholders are able to sell. There is also a risk that a significant sale of CDIs or shares by existing shareholders after the end of the escrow period, or the perception that such a sale might occur, could adversely affect the market price of the stock.

SEZZLE INC. & SUBSIDIARIES

Consolidated Financial Statements

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

Report of Independent Registered Public Accounting Firm

bakertilly

Report of Independent Registered Public Accounting Firm

To the shareholders and the board of directors of Sezzle, Inc. and Subsidiaries:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Sezzle Inc. and Subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for the years ended December 31, 2020 and 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years ended December 31, 2020 and 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Baker Tilly US, LLP

We have served as the Company's auditor since 2019.

Minneapolis, Minnesota

March 31, 2021

Baker Tilly US, LLP, trading as Baker Tilly, is a member of the global network of Baker Tilly International Ltd., the members of which are separate and independent legal entities.

Consolidated Balance Sheets

US$	As of December 31, 2020		December 31, 2019	
Assets				
Current Assets				
Cash and cash equivalents	$	84,285,383	$	34,965,069
Restricted cash, current		4,798,520		1,639,549
Notes receivable, net		80,807,300		25,189,135
Other receivables, net		1,403,306		315,502
Prepaid expenses and other current assets		1,705,919		882,939
Total current assets		173,000,428		62,992,194
Non-Current Assets				
Internally developed intangible assets, net		537,046		480,098
Property and equipment, net		375,186		134,400
Right-of-use assets		145,576		867,272
Restricted cash		20,000		20,000
Other assets		32,537		49,171
Total Assets	$	**174,110,773**	$	**64,543,135**
Liabilities and Stockholders' Equity				
Current Liabilities				
Merchant accounts payable	$	60,933,272	$	13,284,544
Lease liabilities		142,743		389,257
Accrued liabilities		6,680,870		1,677,780
Other payables		615,839		267,934
Total current liabilities		68,372,724		15,619,515
Long Term Liabilities				
Long term debt		1,470,332		250,000
Lease liabilities		—		500,131
Line of credit, net of unamortized debt issuance costs of $173,773 and $590,827, respectively		39,826,227		20,859,173
Other non-current liabilities		4,483,073		—
Total Liabilities		**114,152,356**		**37,228,819**
Stockholders' Equity				
Common stock, $0.00001 par value; 300,000,000 shares authorized; 197,078,709 and 178,931,312 shares issued, respectively; 196,926,674 and 178,931,312 shares outstanding, respectively		1,970		1,789
Additional paid-in capital		112,640,974		47,154,147
Stock subscriptions; 64,000 and no shares subscribed, respectively		(69,440)		—
Treasury stock, at cost; 152,035 and no shares, respectively		(875,232)		—
Accumulated other comprehensive income		494,505		—
Accumulated deficit		(52,234,360)		(19,841,620)
Total Stockholders' Equity		**59,958,417**		**27,314,316**
Total Liabilities and Stockholders' Equity	$	**174,110,773**	$	**64,543,135**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Operations and Comprehensive Loss

	For the years ended	
US$	December 31, 2020	December 31, 2019
Income		
Sezzle income	$ 49,659,042	$ 13,319,218
Account reactivation fee income	9,129,231	2,481,893
Total income	58,788,273	15,801,111
Cost of Income	22,489,626	7,660,276
Gross Profit	36,298,647	8,140,835
Operating Expenses		
Selling, general, and administrative expenses	44,643,039	13,156,891
Provision for uncollectible accounts	19,587,918	6,235,820
Total operating expenses	64,230,957	19,392,711
Operating Loss	(27,932,310)	(11,251,876)
Other Income (Expense)		
Net interest expense	(4,303,175)	(1,307,143)
Interest expense on beneficial conversion feature	—	(470,268)
Other income and expense, net	(126,291)	(20,085)
Loss before taxes	(32,361,776)	(13,049,372)
Income tax expense	30,964	11,981
Net Loss	(32,392,740)	(13,061,353)
Other Comprehensive Income		
Foreign currency translation adjustment	494,505	—
Total Comprehensive Loss	$ (31,898,235)	$ (13,061,353)
Net losses per share:		
Basic and diluted net loss per common share	$ (0.17)	$ (0.12)
Basic and diluted weighted average shares outstanding	186,842,646	111,576,824

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Stockholders' Equity (Deficit)

US$	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Stock Subscriptions	Treasury Stock, At Cost	Accumulated Other Comprehensive Income	Accumulated Deficit	Total
Balance at January 1, 2019	59,416,666	$ 594	$ 143,713	$ —	$ —	$ —	$ (6,016,328)	$ (5,872,021)
Equity based compensation	—	—	1,034,578	—	—	—	—	1,034,578
Stock option exercises	882,914	8	37,099	—	—	—	—	37,107
Restricted stock issuances and vesting of awards	407,000	4	132,683	—	—	—	—	132,687
Preferred stock dividend	—	—	—	—	—	—	(763,939)	(763,939)
Conversion of preferred stock to common stock	70,446,291	705	11,925,866	—	—	—	—	11,926,571
Conversion of notes to common stock	12,064,155	121	6,370,877	—	—	—	—	6,370,998
Proceeds of initial public offering, net of issuance costs	35,714,286	357	27,509,331	—	—	—	—	27,509,688
Net loss	—	—	—	—	—	—	(13,061,353)	(13,061,353)
Balance at December 31, 2019	178,931,312	1,789	47,154,147	—	—	—	(19,841,620)	27,314,316
Equity based compensation	—	—	6,528,356	—	—	—	—	6,528,356
Stock option exercises	1,672,476	16	436,190	—	—	—	—	436,206
Restricted stock issuances and vesting of awards	464,736	5	482,483	—	—	—	—	482,488
Stock subscriptions receivable related to stock option exercises	64,000	1	69,439	(69,440)	—	—	—	—
Repurchase of common stock	(152,035)	—	—	—	(875,232)	—	—	(875,232)
Retirement of common stock	(343,750)	(3)	(2,231)	—	—	—	—	(2,234)
Proceeds from issuance of common stock, net of issuance costs	16,289,935	162	57,972,590	—	—	—	—	57,972,752
Foreign currency translation adjustment	—	—	—	—	—	494,505	—	494,505
Net loss	—	—	—	—	—	—	(32,392,740)	(32,392,740)
Balance at December 31, 2020	196,926,674	$ 1,970	$ 112,640,974	$ (69,440)	$ (875,232)	$ 494,505	$ (52,234,360)	$ 59,958,417

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

US$	For the years ended December 31, 2020	December 31, 2019
Operating Activities:		
Net loss	$ (32,392,740)	$ (13,061,353)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation and amortization	428,374	245,496
Provision for uncollectible notes receivable	19,587,918	6,235,820
Provision for uncollectible other receivables	2,723,853	1,188,201
Equity based compensation and restricted stock vested	7,010,844	1,167,265
Amortization of debt issuance costs	417,054	72,379
Impairment losses on long-lived assets	7,850	15,623
Loss and accrued interest on conversion of convertible notes	—	579,216
Changes in operating assets and liabilities:		
Notes receivable	(74,983,119)	(26,494,339)
Other receivables	(3,810,392)	(1,470,923)
Prepaid expenses and other assets	(795,884)	(788,428)
Merchant accounts payable	47,467,731	11,007,664
Other payables	84,962	171,682
Accrued liabilities	9,469,738	1,190,018
Operating leases	(25,050)	22,116
Net Cash Used for Operating Activities	**(24,808,861)**	**(19,919,563)**
Investing Activities:		
Purchase of property and equipment	(410,896)	(125,885)
Internally developed intangible asset additions	(322,015)	(406,333)
Net Cash Used for Investing Activities	**(732,911)**	**(532,218)**
Financing Activities:		
Proceeds from issuance of long term debt	1,220,332	5,812,500
Costs incurred for convertible note issuance	—	(25,000)
Proceeds from line of credit	85,650,000	24,200,000
Payments to line of credit	(67,100,000)	(6,950,000)
Proceeds from stock option exercises	436,206	37,107
Payments of debt issuance costs	—	(592,750)
Proceeds from initial public offering	—	30,286,785
Costs incurred for initial public offering	—	(2,777,097)
Retirement of common stock	(2,234)	—
Proceeds from issuance of common stock	60,457,256	—
Costs incurred from issuance of common stock	(2,484,504)	—
Repurchase of common stock	(611,215)	—
Net Cash Provided from Financing Activities	**77,565,841**	**49,991,545**
Effect of exchange rate changes on cash	455,216	—
Net increase in cash, cash equivalents, and restricted cash	52,024,069	29,539,764
Cash, cash equivalents, and restricted cash, beginning of year	36,624,618	7,084,854
Cash, cash equivalents, and restricted cash, end of year	**$ 89,103,903**	**$ 36,624,618**
Noncash investing and financing activities:		
Withholding of restricted stock units to cover employee tax withholding	$ 264,017	$ —
Conversion of notes to common stock	—	6,370,998
Conversion of preferred stock to common stock	—	11,926,571
Issuance of preferred stock dividend	—	763,939
Noncash lease liabilities arising from obtaining right-of-use assets	—	872,210
Supplementary disclosures:		
Interest paid	3,770,838	1,153,730
Income taxes paid	8,326	—

The accompanying notes are an integral part of these consolidated financial statements.

Notes

TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 1 – PRINCIPAL BUSINESS ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Principal Business Activity

Sezzle Inc. (the "Company" or "Sezzle") is a technology-enabled payments company based in the United States with operations in the United States, Canada, and startup operations in India and Europe. The Company is a Delaware Public Benefit Corporation formed on January 4, 2016. The Company offers its payment solution at online stores and a select number of brick-and-mortar retail locations, connecting consumers with merchants via a proprietary payments solution that instantly extends credit at point-of-sale, allowing consumers to purchase and receive the items that they need now while paying over time in interest-free installments.

Merchants turn to Sezzle to increase sales by tapping into Sezzle's existing user base, increase conversion rates, increase spend per transaction, increase purchase frequency, and reduce return rates, all without bearing any credit risk. Sezzle is a high-growth, networked platform that benefits from a symbiotic and mutually beneficial relationship between merchants and consumers.

The Company's core product allows consumers to make online purchases and split the payment for the purchase over four equal, interest-free payments over six weeks. The consumer makes the first payment at the time of checkout and makes the subsequent payments every two weeks thereafter. The purchase price, less processing fees, is paid to merchants by Sezzle in advance of the collection of the purchase price installments by Sezzle from the consumer.

The Company is headquartered in Minneapolis, Minnesota.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements are prepared and presented under accounting principles generally accepted in the United States of America (U.S. GAAP). All amounts are reported in U.S. dollars, unless otherwise noted. It is the Company's policy to consolidate the accounts of subsidiaries for which it has a controlling financial interest. The accompanying consolidated financial statements include all the accounts and activity of Sezzle Inc. and Sezzle's wholly-owned subsidiaries: Sezzle Canada Corp; Sezzle Funding SPE, LLC; Sezzle Holdings I, Inc.; Sezzle Holdings II, Inc.; Sezzle Holdings III B.V.; Sezzle Payments Private Limited; Sezzle FinTech Private Limited; Sezzle Germany GmbH; and Sezzle Lithuania UAB. All significant intercompany balances and transactions have been eliminated in consolidation.

Concentrations of Credit Risk

Cash and Cash Equivalents

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents. The Company maintains its cash in depository accounts that, at times, may exceed limits established by the Federal Deposit Insurance Corporation (FDIC) and equivalent foreign institutions. As of the date of this report, the Company has experienced no losses on such accounts.

Foreign Currency Risk

The Company holds funds and settles payments that are denominated in currencies other than US dollars. Changes in foreign currency exchange rates expose the Company to fluctuations on its consolidated balance sheets and statements of operations and comprehensive loss. Currency risk is managed through limits set on total foreign deposits on hand that the Company routinely monitors.

Notes Receivable

The Company is exposed to the risk of credit losses as a result of extending credit to consumers. Changes in economic conditions may result in higher credit losses. The Company has a policy for establishing credit lines for individual consumers that helps mitigate credit risk. The allowance for uncollectible accounts is adequate for covering any potential losses on outstanding notes receivable.

Cash and Cash Equivalents

The Company had cash and cash equivalents of US$84,285,383 and US$34,965,069 as of December 31, 2020 and 2019, respectively. The Company considers all money market funds and other highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Company accepts debit and credit cards from consumers as a method to settle its receivables, and these transactions are generally transmitted through third parties. The payments due from the third parties for debit and credit card transactions are generally settled within three days. The Company considers all bank, debit, and credit card transactions initiated before the end of the period to be cash and cash equivalents.

Restricted Cash

The Company is required to maintain cash balances in a bank account in accordance with the lending agreement executed on November 29, 2019 between Sezzle Funding SPE, LLC, Sezzle Inc, and their third party line of credit providers Bastion Consumer Funding II, LLC, Atalaya Asset Income Fund IV LP, and Hudson Cove Credit Opportunity Master Fund, LP ("the Syndicate"). The bank account is the property of Sezzle Funding SPE, LLC, but access to consumer payments is controlled by the Syndicate. On a regular basis, cash received from consumers is deposited to the bank account and subsequently made available to Sezzle through daily settlement reporting with the Syndicate. Cash deposits to the bank account represent cash received from consumers not yet made available to Sezzle, as well as a minimum balance consisting of the sum of US$20,000, accrued interest on the drawn credit facility, and accrued management fees charged by the Syndicate. The Company is also required to maintain a minimum balance of US$25,000 in a deposit account with a third-party service provider to fund notes receivable. The Company has funds on deposit with foreign banking institutions as part of their respective local licensing processes that are restricted until the processes are completed. The amount on deposit within the current restricted bank accounts totaled US$4,798,520 and US$1,639,549 as of December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the Company was required to maintain a US$20,000 cash balance held in a reserve account to cover Automated Clearing House (ACH) transactions. The cash balance within this account is classified as non-current restricted cash on the consolidated balance sheets.

Receivables and Credit Policy

Notes receivable represent amounts from uncollateralized consumer receivables generated from the purchase of merchandise. The original terms of the notes for the Company's core product are to be paid back in equal installments every two weeks over a six-week period. The Company does not charge interest on the notes to consumers. Sezzle defers direct note origination costs over the average life of the notes receivable using the effective interest rate method. These net deferred costs are recorded within notes receivable, net on the consolidated balance sheets. Notes receivable are recorded at net realizable value and are recorded as current assets. The Company evaluates the collectability of the balances based on historical performance, current economic conditions, and specific circumstances of individual notes, with an allowance for uncollectible accounts being provided as necessary.

Other receivables represents the net realizable value of consumer account reactivation fees receivable, merchant accounts receivable, and merchant processing fees receivable. Consumer account reactivation fees receivable, less an allowance for uncollectible accounts, represents the amount of account reactivation fees the Company reasonably expects to receive from consumers. Receivables from merchants represent amounts merchants owe Sezzle relating to transactions placed by consumers on their sites.

All notes receivable from consumers, as well as related fees, outstanding greater than 90 days past due are charged off as uncollectible. It is the Company's practice to continue collection efforts after the charge-off date. Refer to Note 4 and Note 5 for further information about receivable balances, allowances, and charge-off amounts.

Sezzle Income

Sezzle receives its income primarily from fees paid by merchants in exchange for Sezzle's payment processing services. These fees are applied to the underlying sales to consumers passing through the Company's platform and are predominantly based on a percentage of the consumer order value plus a fixed fee per transaction. Consumer installment payment plans typically consist of four installments, with the first payment made at the time of purchase and subsequent payments coming due every two weeks thereafter. Additionally, consumers may reschedule their initial installment plan by delaying payment for up to two weeks, for which Sezzle generally earns a rescheduled payment fee. The total of merchant fees and rescheduled payment fees, less note origination costs, are collectively referred to as Sezzle income within the consolidated statements of operations and comprehensive loss.

Sezzle income is initially recorded as a reduction to notes receivable, net within the consolidated balance sheets. Sezzle income is then recognized over the average duration of the note using the effective interest rate method. Total Sezzle income to be recognized over the duration of existing notes receivable outstanding was US$3,458,222 and US$1,049,626 as of December 31, 2020 and 2019, respectively. Total Sezzle income recognized was US$49,659,042 and US$13,319,218 for the years ended December 31, 2020 and 2019, respectively.

Account Reactivation Fee Income

Sezzle also earns income from consumers in the form of account reactivation fees. These fees are generally assessed to consumers who fail to make a timely payment. Sezzle allows a 48-hour waiver period where fees are dismissed if the installment is paid by the consumer. Account reactivation fees are recognized at the time the fee is charged to the consumer, less an allowance for uncollectible amounts. Account reactivation fee income recognized totaled US$9,129,231 and US$2,481,893 for the years ended December 31, 2020 and 2019, respectively.

Debt Issuance Costs

Costs incurred in connection with originating debt have been capitalized and are classified in the consolidated balance sheets as a reduction of the notes payable or line of credit balance to which those costs relate. Debt issuance costs are amortized over the life of the underlying debt obligation utilizing the straight-line method, which approximates the effective interest method. Amortization of debt issuance costs is included within interest expense in the consolidated statements of operations and comprehensive loss.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation. Depreciation is provided using either the straight-line or double-declining balance method, based on the useful lives of the assets:

	Years	Method
Computers and computer equipment	3	Double-declining balance
Office equipment	5	Double-declining balance
Furniture and fixtures	7	Straight-line

Maintenance and repairs are expensed as incurred. See Note 2 for further information.

Internally Developed Intangible Assets

The Company capitalizes costs incurred for web development and software developed for internal use. The costs capitalized primarily relate to direct labor costs for employees and contractors working directly on software development and implementation. Projects are eligible for capitalization once it is determined that the project is being designed or modified to meet internal business needs; the project is ready for its intended use; the total estimated costs to be capitalized exceed US$1,000; and there are no plans to market, sell, or lease the project.

Amortization is provided using the straight-line method, based on the useful lives of the intangible assets as follows:

	Years	Method
Internal use software	3	Straight-line
Website development costs	3	Straight-line

See Note 3 for further information.

Research and Development Costs

Research expenditures that relate to the development of new processes, including internally developed software, are expensed as incurred. Such costs were approximately US$490,000 and US$517,000 for the years ended December 31, 2020 and 2019, respectively. Research expenditures are recorded within selling, general, and administrative expenses within the consolidated statements of operations and comprehensive loss.

Impairment of Long-Lived Assets

The Company reviews the carrying value of long-lived assets, which includes property, equipment, and internally developed intangible assets, for impairment whenever events and circumstances indicate that the assets' carrying value may not be recoverable from the future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends, and prospects; the manner in which the asset is used; and the effects of obsolescence, demand, competition, and other economic factors. Impairment losses for the years ended December 31, 2020 and 2019 totaled US$7,850 and US$15,623, respectively.

As of December 31, 2020 and 2019, the Company had not renewed or extended the initial determined life for any of its recognized internally developed intangible assets.

Income Taxes

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of receivables, property and equipment, and accrued liabilities for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. A full valuation allowance is recorded against the Company's deferred tax assets as of December 31, 2020 and 2019.

The Company evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of December 31, 2020 and 2019, the unrecognized tax benefits accrual was zero. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred. Refer to Note 8 for more information.

Advertising Costs

Advertising costs are expensed as incurred and consist of traditional marketing, digital marketing, sponsorships, and promotional product expenses. Such costs were US$3,883,936 and US$368,235 for the years ended December 31, 2020 and 2019, respectively.

Equity Based Compensation

The Company maintains stock compensation plans that offer incentives in the form of non-statutory stock options and restricted stock to employees, directors, and advisors of the Company. Equity based compensation expense reflects the fair value of awards measured at the grant date and recognized over the relevant vesting period. The Company estimates the fair value of stock options without a market condition on the measurement date using the Black-Scholes option valuation model. The fair value of stock options with a market condition is estimated, at the date of grant, using the Monte Carlo Simulation model. The Black-Scholes and Monte Carlo Simulation models incorporate assumptions about stock price volatility, the expected life of the options, risk-free interest rate, and dividend yield. For valuing the Company's stock option grants, significant judgment is required for determining the expected volatility of the Company's common stock and is based on the historical volatility of both its common stock and its defined peer group. The fair value of restricted stock awards and restricted stock units is based on the fair market value of the Company's common stock on the date of grant. The expense associated with equity based compensation is recognized over the requisite service period using the straight-line method. The Company issues new shares upon the exercise of stock options and vesting of restricted stock units. Refer to Note 14 and Note 16 for further information around the Company's equity based compensation plans.

Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. The Company's estimates and judgments are based on historical experience and various other assumptions that it believes are reasonable under the circumstances. The amount of assets and liabilities reported on the Company's consolidated balance sheets and the amounts of income and expenses reported for each of the periods presented are affected by estimates and assumptions, which are used for, but not limited to, determining the allowance for uncollectible accounts recorded against outstanding receivables, the useful life of property and equipment and internally developed intangible assets, determining impairment of property and equipment and internally developed intangible assets, valuation of equity based compensation, leases, and income taxes.

Fair Value

Fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The accounting guidance includes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are as follows:

- Level 1 — Unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2 — Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability; and

- Level 3 — Unobservable inputs for the asset or liability, which include management's own assumption about the assumptions market participants would use in pricing the asset or liability, including assumptions about risk.

The Company measures the value of its money market securities on a regular basis. The fair value of its money market securities was US$9,996,155 and US$7,282,946 as of December 31, 2020 and 2019, respectively, and are Level 1 on the fair value hierarchy. The cost of these securities equate to their fair values.

Cost of Income and Selling, General, and Administrative Expenses

The primary costs classified in each major expense category are:

Cost of Income:

- Payment processing costs
- Consumer communication expenses
- Merchant affiliate program fees
- International payment processing costs
- Partner revenue share fees

Selling, general, and administrative expenses:

- All compensation related costs for employees and contractors
- Third-party service provider costs
- Depreciation and amortization
- Advertising costs
- Rent expense
- Legal and regulatory compliance costs

Segments

The Company's operations consist primarily of lending to consumers located in the United States who purchase goods from its affiliated merchants. During the year ended December 31, 2019, the Company began operations in Canada. Additionally, during the year ended December 31, 2020, Sezzle began operations in India. While distinct geographic locations, the operations in both countries are still in an early growth stage. As of December 31, 2020, management has not found any significant difference in the economic performance of each operating segment; therefore, management has concluded that the Company has one reportable segment on a consolidated basis.

Foreign Currency Exchange Gains (Losses)

Sezzle works with international merchants, creating exposure to gains and losses from foreign currency exchanges. Sezzle's income and cash can be affected by movements in the Canadian Dollar, Euro, and Indian Rupee. Sezzle has transactional currency exposures arising from merchant fees and payouts to Canadian and Indian merchant partners. Gains (losses) from foreign exchange rate fluctuations that affect Sezzle's net gain (loss) totaled (US$125,292) and US$20,729 for the years ended December 31, 2020 and 2019, respectively. Foreign currency exchange gains and losses are recorded within other income and expenses on the consolidated statements of operations and comprehensive loss.

The financial statements of the Company's non-U.S. subsidiaries are translated into U.S. dollars in accordance with ASC 830, "Foreign Currency Matters". Under ASC 830, if the assets and liabilities of the Company are recorded in certain non-U.S. functional currencies other than the U.S. dollar, they are translated at current rates of exchange. Revenue and expense items are translated at the average monthly exchange rates. The resulting translation adjustments are recorded directly into accumulated other comprehensive income.

Reclassifications

Certain amounts in the 2019 consolidated financial statements have been reclassified to conform with the 2020 presentation format. These classifications had no effect on operating loss or net loss.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2016-13, "Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments" which requires reporting entities estimate credit losses expected to occur over the life of the asset. Expected losses will be recorded in current period earnings and recorded through an allowance for credit losses on the consolidated balance sheet. During November 2018, April 2019, May 2019, October 2019 and November 2019, the FASB also issued ASU No. 2018-19, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses"; ASU No. 2019-04, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses"; ASU No. 2019-05 "Targeted Transition Relief"; ASU No. 2019-10 "Financial Instruments—Credit Losses (Topic 326): Effective Dates"; and ASU No. 2019-11, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses." ASU No. 2018-19 clarifies the effective date for nonpublic entities and that receivables arising from operating leases are not within the scope of Subtopic 326-20, ASUs Nos. 2019-04 and 2019-05 amend the transition guidance provided in ASU No. 2016-13, ASU No.2019-10 delayed the effective date for applying this standard and ASU No. 2019-11 amends ASU No. 2016-13 to clarify, correct errors in, or improve the guidance. ASU No. 2016-13 (as amended) is effective for annual periods and interim periods within those annual periods beginning after December 15, 2022. Early adoption is permitted for annual and interim periods beginning after December 15, 2018. Sezzle plans to adopt this standard beginning January 1, 2023 and is currently evaluating the impact of the standard on its consolidated financial statements.

During August 2018, the FASB issued ASU No. 2018-13, "Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement." ASU No. 2018-13 modifies the disclosure requirements for fair value measurements in Topic 820, Fair Value Measurement. The amendments are based on the concepts in the FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements, which the Board finalized on August 28, 2018. Sezzle adopted this standard beginning January 1, 2020 with no material impact to the consolidated financial statements for the year ended December 31, 2020.

In August 2018, the FASB issued ASU No. 2018-15, "Intangibles—Goodwill and Other— Internal-Use Software (Subtopic 350-40)" which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software and hosting arrangements that include an internal use software license. Sezzle adopted this standard beginning January 1, 2020 with no impact to the consolidated financial statements for the year ended December 31, 2020.

In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" which requires franchise taxes calculated based on income are included in income tax expense. To the extent that the franchise taxes not based on income exceed the franchise taxes based on income, the excess is recorded outside of income tax expense. ASU No. 2019-12 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020 for public entities. Sezzle plans to adopt this standard beginning January 1, 2021 and does not expect adoption to have a material impact on its consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" which provides optional expedients and exceptions if certain criteria are met when accounting for contracts or other transactions that reference LIBOR. Application of the guidance is optional until December 31, 2022 and varies based on the practical expedients elected. The Company has not elected any expedients to date and is currently evaluating any potential future impacts on the Company's consolidated financial statements.

In August 2020, the FASB issued ASU No. 2020-06, "Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity" which simplifies the accounting for convertible debt by eliminating the beneficial conversion feature and cash conversion feature models from the guidance and instead requires entities to record convertible debt at amortized cost. Application of the guidance is optional starting in fiscal years beginning after December 15, 2020 and required for public entities after December 15, 2021. The Company is not expecting this standard to have any potential future impacts on the Company's consolidated financial statements.

NOTE 2 – PROPERTY AND EQUIPMENT

As of December 31, property and equipment, net, consists of the following:

US$		2020		2019
Computer and office equipment	$	636,950	$	225,186
Furniture and fixtures		28,393		28,394
Property and equipment, gross		665,343		253,580
Less accumulated depreciation		(290,157)		(119,180)
Property and equipment, net	**$**	**375,186**	**$**	**134,400**

Depreciation expense relating to property and equipment was US$170,949 and US$74,151 for the years ended December 31, 2020 and 2019, respectively, and is recorded within selling, general, and administrative expenses on the consolidated statements of operations and comprehensive loss.

NOTE 3 – INTERNALLY DEVELOPED INTANGIBLE ASSETS

As of December 31, internally developed intangible assets, net, consists of the following:

US$		2020		2019
Internal use software and website development costs	$	825,018	$	682,848
Works in process		109,155		13,672
Internally developed intangible assets, gross		934,173		696,520
Less accumulated amortization		(397,127)		(216,422)
Internally developed intangible assets, net	**$**	**537,046**	**$**	**480,098**

Amortization expense relating to internally developed intangible assets was US$257,425 and US$171,345 for the years ended December 31, 2020 and 2019, respectively, and is recorded within selling, general, and administrative expenses on the consolidated statements of operations and comprehensive loss.

NOTE 4 – NOTES RECEIVABLE

As of December 31, Sezzle's notes receivable, related allowance for uncollectible accounts, and deferred net origination fees are recorded within the consolidated balance sheets as follows:

US$		2020		2019
Notes receivable, gross	$	95,398,668	$	29,700,598
Less allowance for uncollectible accounts:				
Balance at start of period		(3,461,837)		(645,332)
Provision		(19,587,918)		(6,235,820)
Charge-offs, net of recoveries		11,916,609		3,419,315
Total allowance for uncollectible accounts		(11,133,146)		(3,461,837)
Notes receivable, net of allowance		84,265,522		26,238,761
Deferred origination fees, net of costs		(3,458,222)		(1,049,626)
Notes receivable, net	$	80,807,300	$	25,189,135

Sezzle maintains an allowance for uncollectible accounts at a level necessary to absorb estimated probable losses on principal and reschedule fee receivables from consumers. Any amounts delinquent after 90 days are charged-off with an offsetting reversal of the allowance for doubtful accounts through the provision for uncollectible accounts. Additionally, amounts identified as no longer collectible—such as when a consumer becomes deceased or bankrupt—are charged off immediately. Included in charge-offs, net of recoveries, are recoveries of US$648,799 and US$170,231 for the years ended December 31, 2020 and 2019, respectively.

Sezzle uses its judgment to evaluate the allowance for uncollectible accounts based on current economic conditions and historical performance of consumer payments. The historical vintages are grouped into monthly populations for purposes of the allowance assessment.The balances of historical cumulative charge-offs by vintage support the calculation for estimating the allowance for uncollectible accounts for vintages outstanding less than 90 days.

Deferred origination fees, net of costs are comprised of unrecognized merchant fees and consumer reschedule fees net of direct note origination costs, which are recognized over the duration of the note with the consumer and are recorded as an offset to Sezzle income on the consolidated statements of operations and comprehensive loss.

Sezzle estimates the allowance for uncollectible accounts by segmenting consumer accounts receivable by the number of days balances are delinquent. Balances that are at least one day past the initial due date are considered delinquent. Balances that are not delinquent are considered current. Consumer notes receivable are charged-off following the passage of 90 days without receiving a qualifying payment, upon notice of bankruptcy, or death. Consumers are allowed to reschedule a payment one time without incurring a reschedule fee and the principal of a rescheduled payment is not considered to be delinquent. If consumers reschedule a payment more than once in the same order cycle they are subject to a reschedule fee. Alternatively, account reactivation fees are applied to any missed payments for which an consumer did not reschedule within 48 hours of the original payment date. Any account reactivation fees associated with a delinquent payment are considered to be the same number of days delinquent as the principal payment.

The following table summarizes Sezzle's gross notes receivable and related allowance for uncollectible accounts as of December 31, 2020 and 2019:

	2020			2019		
	Gross Receivables US$	Less Allowance US$	Net Receivables US$	Gross Receivables US$	Less Allowance US$	Net Receivables US$
Current	$ 79,673,073	$ (2,692,254)	$ 76,980,819	$ 25,695,723	$ (1,014,888)	$ 24,680,835
Days past due:						
1–28	9,574,902	(3,616,327)	5,958,575	2,251,591	(923,396)	1,328,195
29–56	3,576,255	(2,646,627)	929,628	919,177	(719,910)	199,267
57–90	2,574,438	(2,177,938)	396,500	834,107	(803,643)	30,464
Total	**$ 95,398,668**	**$ (11,133,146)**	**$ 84,265,522**	**$ 29,700,598**	**$ (3,461,837)**	**$ 26,238,761**

Principal payments recovered after the 90 day charge-off period are recognized as a reduction to the allowance for uncollectible accounts in the period the receivable is recovered.

NOTE 5 - OTHER RECEIVABLES

As of December 31, the balance of other receivables, net, on the consolidated balance sheets is comprised of the following:

US$	2020	2019
Account reactivation fees receivable, net	$ 804,060	$ 307,334
Receivables from merchants	599,246	8,168
Other receivables, net	**$ 1,403,306**	**$ 315,502**

As of December 31, Sezzle's account reactivation fees receivable and related allowance for uncollectible accounts are recorded within the consolidated balance sheets as follows:

US$		2020		2019
Account reactivation fees receivable, gross	$	1,875,648	$	790,852
Less allowance for uncollectible accounts:				
Balance at start of period		(483,518)		(62,430)
Provision		(2,347,733)		(945,320)
Charge-offs, net of recoveries		1,759,663		524,232
Total allowance for uncollectible accounts		(1,071,588)		(483,518)
Account reactivation fees receivable, net	**$**	**804,060**	**$**	**307,334**

Sezzle maintains the allowance at a level necessary to absorb estimated probable losses on consumer account reactivation fee receivables. Any amounts delinquent after 90 days are charged-off with an offsetting reversal of the allowance for doubtful accounts through the provision for uncollectible accounts. Additionally, amounts identified as no longer collectible—such as when a consumer becomes deceased or bankrupt—are charged off immediately. Included in charge-offs, net of recoveries, are recoveries of US$71,110 and US$14,965 for the years ended December 31, 2020 and 2019, respectively.

Receivables from merchants primarily represent merchant fees charged, not yet paid to the Company as of year end. Additionally, during the years ended December 31, 2020 and 2019, the Company recorded direct write-downs of US$376,120 and US$242,881 for uncollectible receivables from merchants against the provision for uncollectible other receivables.

NOTE 6 – LEASES

The Company holds operating leases for its corporate office spaces in the United States and Canada. Total lease expense incurred for the years ended December 31, 2020 and 2019 was US$513,248 and US$348,246, respectively. Lease expense is recognized within selling, general and administrative expenses on the consolidated statements of operations and comprehensive loss. Additionally, total cash paid for rent was US$558,631 and US$350,722 for the years ended December 31, 2020 and 2019, respectively.

Right-of-use assets and lease liabilities are recognized as of the commencement date based on the present value of the remaining lease payments over the lease term which include renewal periods that the Company is reasonably certain to exercise. Right-of-use assets and lease liabilities are recorded within current assets and current liabilities, respectively, on the consolidated balance sheets.

The expected maturity of the Company's operating leases as of December 31, 2020 is as follows:

		US$
2021	$	144,584
Less interest		(1,841)
Present value of lease liabilities	**$**	**142,743**

The weighted average remaining term of the Company's operating leases is 0.49 years. During the year ended December 31, 2020, the Company revised the estimated lease term for its corporate headquarters and terminated two other leases, resulting in a reduction in the Company's right-of-use asset and lease liability. The weighted average discount rate of all operating leases is 4.75%. As of December 31, 2020, Sezzle has not entered into any lease agreements that contain residual value guarantees or financial covenants.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

The Company has entered into several agreements with third-parties in which Sezzle will reimburse the third-parties for co-branded marketing and advertising costs. For the years ended December 31, 2020 and 2019, the Company entered into agreements that stipulate that Sezzle will commit to spend up to US$2,906,500 and US$1,085,000 in marketing and advertising spend. Absent a termination of the noted agreements, the Company is committed to spend up to an additional US$500,000 on an annual basis in future years. Sezzle had approximately US$211,000 and US$495,000 recorded as a prepaid expense in the consolidated balance sheets as of December 31, 2020 and 2019, respectively.

Expenses incurred relating to these agreements totaled US$3,220,959 and US$34,760 for the years ended December 31, 2020 and 2019, respectively. These expenses are included within selling, general, and administrative expenses in the consolidated statements of operations and comprehensive loss.

NOTE 8 – INCOME TAXES

The income tax expense components for the years ended December 31, 2020 and 2019 are as follows:

US$	2020	2019
Current tax expense		
Federal	—	—
Foreign	—	—
State	30,964	11,981
Deferred tax expense		
Federal	—	—
Foreign	—	—
State	—	—
Income tax expense	$ 30,964	$ 11,981

A reconciliation of the Company's provision for income taxes at the federal statutory rate to the reported income tax provision for the years ended December 31, 2020 and 2019 is as follows:

	2020	2019
Computed "expected" tax benefit	(21.0) %	(21.0) %
State income tax benefit, net of federal tax effect	(1.7) %	— %
Nondeductible equity-based compensation	0.1 %	1.6 %
Nondeductible interest expense on beneficial conversion feature	— %	0.8 %
Other permanent differences	— %	0.7 %
Change in valuation allowance	23.4 %	19.1 %
Foreign rate differentials and other	(0.7) %	(1.1) %
Income tax expense (benefit)	0.1 %	0.1 %

The components of the net deferred tax assets and liabilities as of December 31, 2020 and December 31, 2019 are as follows:

US$	2020	2019
Deferred tax assets:		
Net operating loss carryforwards	$ 5,849,989	$ 2,686,878
Allowance for uncollectible accounts	2,822,803	861,239
Equity based compensation	773,546	42,384
Depreciation and amortization	—	7,482
Lease liability	31,855	184,788
Startup costs	10,857	11,488
Accruals	1,722,143	45,421
Other	144,194	539
Total net deferred tax assets:	11,355,387	3,840,219
Valuation allowance	(11,277,262)	(3,660,295)
Deferred tax liabilities:		
Depreciation and amortization	(93,439)	—
Equity based compensation	(1,664)	—
Right-of-use asset	(33,022)	(179,924)
Total net deferred tax liabilities:	(128,125)	(179,924)
Net deferred tax asset/(liability):	$ —	$ —

As of December 31, 2020, the Company has federal, state and foreign net operating loss carryforwards of approximately US$23,303,218, US$5,790,498, and US$2,047,797 respectively. The federal net operating loss carryforwards that originated after 2017 have an indefinite life and may be used to offset 80% of a future year's taxable income. The federal net operating loss carryforwards that originated prior to 2018 have expiration dates between 2036 and 2037. The state net operating losses will carryforward for between 15-20 years and begin to expire in 2031.

The Company's ability to utilize a portion of its net operating loss carryforwards to offset future taxable income is subject to certain limitations under Section 382 of the Internal Revenue Code due to changes in the equity ownership of the Company. An ownership change under Section 382 has not been determined at this time.

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2020. Such objective evidence limits the ability to consider other subjective evidence, such as the Company's projections for future growth.

On the basis of this evaluation, as of December 31, 2020, a valuation allowance of US$11,227,262 has been recorded to recognize only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as our projections for growth. The change in valuation allowance was approximately US$7,567,000 and US$2,495,000 for the years ended December 31, 2020 and 2019, respectively.

The Tax Cuts and Jobs Act, signed into U.S. legislation on December 22, 2017, introduced a new Global Intangible Low-Taxed Income ("GILTI") provision. Under U.S. GAAP, the Company is allowed to make an accounting policy choice of either 1) treating taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period cost when incurred, or 2) factoring such amounts into the Company's measurement of its deferred taxes. GILTI depends not only on the Company's current structure and estimated future income, but also on intent and ability to modify the structure or business. The Company has chosen to treat GILTI as a current-period cost when incurred.

In November 2018, US Treasury issued proposed regulations for the new section 163(j), which generally limits business interest deductions to 30% of adjusted taxable income ("ATI"). Any disallowed business interest can be carried forward on an indefinite basis. The March 2020 Coronavirus Aid, Relief and Economic Security Act (CARES Act) increased the limitation to 50% of adjusted taxable income. For the year ended December 31, 2020, the Company was not subject to the business interest limitation.

Management's intention is to reinvest foreign earnings into the Company's foreign operations. To date, Sezzle's various foreign subsidiaries do not have any earnings.

NOTE 9 - STOCKHOLDERS' EQUITY

Preferred Stock Dividend

On June 23, 2019, the Board of Directors declared and issued a preferred stock dividend of 909,451 shares of Series A preferred shares to existing to preferred stockholders, valued at US$763,939. The preferred stock dividend was subject to the same rights as all other series of preferred stock. All preferred stock converted to common stock in July 2019 in conjunction with the Company's initial public offering on the Australian Securities Exchange (ASX).

Conversion of Preferred Stock to Common Stock

On July 24, 2019, the Company restructured its share capital in anticipation of listing on the ASX. Each share of Series A preferred stock was converted into common stock. The Company issued 70,446,291 common shares upon conversion of 70,446,291 Series A preferred stock, converted on a 1:1 basis in accordance with the terms of the preferred stock agreements.

Conversion of Convertible Notes to Common Stock

On April 14, 2020, the Company received loan proceeds in the amount of US$1,220,332 under the U.S. Small Business On July 24, 2019, the Company issued 12,064,155 common shares following the conversion of the US$5,812,500 of convertible notes outstanding, along with accrued interest, at a conversion price of US$0.49 per common share. Refer to Note 13 for further information on the convertible note issuance.

Initial Public Offering of Common Stock

On July 29, 2019, the Company listed on the ASX. The initial public offer of 35,714,286 CHESS Depository Interests (CDIs) over shares of common stock (one CDI equates to one common share) were offered at an issuance price of A$1.22 (approximately US$0.84) per CDI to raise approximately A$43.6 million (US$30,286,785) Total costs of the offer incurred during the year ended December 31, 2019 totaled US$2,777,097, resulting in overall net proceeds of US$27,509,688.

Repurchase and Retirement of Common Stock

On June 3, 2020, the Company repurchased 343,750 common shares from an existing stockholder. The purchase was made at the original cost basis, totaling US$2,234, and is recorded as a reduction in common stock and additional paid-in capital within the consolidated statements of stockholders' equity as of December 31, 2020. The repurchased shares were retired upon purchase by the Company.

Sezzle retains a portion of vested restricted stock units to cover withholding taxes for employees. For the year ended December 31, 2020, Sezzle withheld 152,035 shares at a value of US$875,232. Sezzle recognizes this amount as treasury stock, reported within the consolidated balance sheets at cost as a reduction to stockholders' equity.

Issuance of Common Stock

On July 15, 2020, Sezzle raised US$55,316,546 of proceeds via an institutional placement. On August 10, 2020, the Company raised an additional US$5,140,710 of proceeds via a Securities Purchase Plan offered to existing investors. In exchange for the capital raise, Sezzle issued 16,289,935 Chess Depository Interests (CDIs) at a price of A$5.30 (approximately US$3.82) per CDI. The issued CDIs are equivalent to common shares on a 1:1 basis. The total costs of the capital raise were US$2,484,504, resulting in overall net proceeds of US$57,972,752.

NOTE 10 – EMPLOYEE BENEFIT PLAN

The Company sponsors a defined contribution 401(k) plan for eligible U.S. employees. Plan assets are held separately from those of the Company in funds under the control of a third-party trustee. Participants in the plan may elect to defer a portion of their eligible compensation, on a pre- or post-tax basis, subject to annual statutory contribution limits. The Company does not offer matching contributions. There have been no Company contributions made to the plan through December 31, 2020.

NOTE 11 – REVOLVING LINE OF CREDIT

On November 14, 2018, Sezzle Funding SPE, LLC and Sezzle Inc. entered into an agreement with Bastion Consumer Funding II, LLC (Bastion) that provided for a credit facility of US$30,000,000. On November 29, 2019, Sezzle Funding SPE, LLC, Sezzle Inc. and Bastion amended and restated the original agreement and entered into a new Loan and Security Agreement (the Loan Agreement) with Bastion, Atalaya Asset Income Fund IV LP, and Hudson Cove Credit Opportunity Master Fund, LP (the "Syndicate") for a credit facility of US$100,000,000 with a maturity date of May 29, 2022.

The Company had an outstanding revolving line of credit balance of US$40,000,000 and US$21,450,000 as of December 31, 2020 and 2019, respectively, recorded within line of credit, net as a non-current liability on the consolidated balance sheets. The new line of credit agreement bears interest at a floating per annum rate equal to the 3-month LIBOR + 7.75% (minimum 9.50%) on the US$100,000,000 (9.50% as of December 31, 2020). Beginning May 27, 2020, any daily unused amounts incur a facility fee due to the Syndicate from Sezzle at a rate of .50% per annum.

Under the Loan Agreement, interest on borrowings is due monthly and all borrowings are due at maturity. Borrowings subsequent to May 1, 2019 are based on 90% of eligible notes receivable from both the United States and Canada, defined as past due balances outstanding less than 30 days originating from the United States. For the years ended December 31, 2020 and 2019, interest expense relating to the utilization of the line of credit was US$2,238,740 and US$908,309, respectively. As of December 31, 2020 and 2019, Sezzle had pledged US$70,989,536 and US$23,757,188, respectively, of its notes receivable to Sezzle Funding SPE, LLC.

The Company's obligations under the Loan Agreement are secured by its consumer notes receivable. The collateral does not include the Company's intellectual property, but the Company has agreed not to encumber its intellectual property without the consent of the Syndicate.

The Company must maintain a drawdown from the credit facility of at least US$20,000,000 beginning November 29, 2019 and of at least US$40,000,000 beginning November 29, 2020. Sezzle will pay a termination fee and make-whole fee to the Syndicate in the event of early termination. Fees differ based on termination timing differences.

For the years ended December 31, 2020 and 2019, amortization expense recorded for debt issuance costs on the line of credit totaled US$417,054 and US$68,098, respectively. Total cumulative cash payments to date for debt issuance costs were US$663,649 as of December 31, 2020 and 2019.

NOTE 12 – LONG TERM DEBT

Minnesota Department of Employment and Economic Development Loan

On July 26, 2018, the Minnesota Department of Employment and Economic Development (DEED) funded a US$250,000 seven-year interest-free loan due in June 2025 to Sezzle under the State Small Business Credit Initiative Act of 2010 (the Act). The Act was created for additional funds to be allocated and dispersed by states that have created programs to increase the amount of capital made available by private lenders to small businesses. The loan proceeds are used for business purposes, primarily start-up costs and working capital needs. The loan may be prepaid in whole or in part at any time without penalty. If more than fifty percent of the ownership interest in Sezzle is transferred during the term of the loan, the loan will be required to be paid in full, along with a penalty in the amount of thirty percent of the original loan amount.

Paycheck Protection Program Loan

On April 14, 2020, the Company received loan proceeds in the amount of US$1,220,332 under the U.S. Small Business Administration's Paycheck Protection Program (PPP). The PPP, established as part of the CARES Act, provides loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. PPP loans are uncollateralized and guaranteed by the SBA, and are forgivable after a "covered period" (eight or twenty-four weeks) as long as the borrower maintains its payroll levels and uses the loan proceeds for eligible expenses, including payroll, benefits, rent, and utilities. The forgiveness amount will be reduced if the borrower terminates employees or reduces salaries and wages more than 25% during the covered period. Any unforgiven portion of the PPP loan is payable over two years at an interest rate of 1% with payments deferred until the SBA remits the borrower's loan forgiveness amount to the lender, or, if the borrower does not apply for forgiveness, ten months after the end of the covered period. PPP loan terms provide for customary events of default including payment defaults, breaches of representations and warranties, and insolvency events and may be accelerated upon the occurrence of one or more of these events of default. Additionally, the PPP loan terms do not include prepayment penalties.

The Company met the PPP's loan forgiveness requirements, and therefore, applied for forgiveness as of December 31, 2020. When legal release is received, the Company will record the amount forgiven as forgiveness income within the other income (expense) section of its consolidated statements of operations and comprehensive loss. If any portion of the Company's PPP loan is not forgiven, the Company will be required to repay that portion, plus unpaid interest, on April 14, 2022. Additionally, the Company will be required to make semiannual payments of all accrued, unpaid interest, with the repayment term beginning at the time that the SBA remits the amount forgiven to the Company's lender. The Company has not received legal release from the SBA to date. As of December 31, 2020, the Company has accrued US$8,526 of interest expense for this note.

The SBA reserves the right to audit any PPP loan, regardless of size. These audits may occur after forgiveness has been granted. In accordance with the CARES Act, all borrowers are required to maintain their PPP loan documentation for six years after the PPP loan was forgiven or repaid in full and to provide that documentation to the SBA upon request.

NOTE 13 – CONVERTIBLE NOTES

On March 29, 2019, the Company issued US$5,662,500 of convertible notes to a group of investors. The promissory notes had a stated maturity date of March 29, 2021 and paid an annual interest rate of 4% on the unpaid principal balance through June 30, 2019. Subsequent to June 30, 2019, the notes paid an annual interest rate of 8% on the unpaid principal balance. The notes were issued at a US$25,000 discount, comprising of debt issuance costs, which is amortized over the life of the convertible notes. Any unamortized discount is expensed upon the conversion of the notes. Amortization of the discount totaled US$25,000 for the year ended December 31, 2019 and is recorded within interest expense within the consolidated statements of operations and comprehensive loss.

Additionally, the notes carried a conversion feature whereby they would automatically convert upon either (a) a change in control of the Company; (b) a reorganization, merger, or consolidation of the Company; (c) the sale of the Company's assets; or (d) an initial public offering of the Company's common stock. The notes also would have converted in the event the Company consummated an equity financing arrangement with an aggregate sales price of no less than US$10,000,000. Upon the occurrence of one of the aforementioned events, the notes would have converted into 80% of the price per share value of common stock applicable at the time of the event. The notes also carried an optional conversion feature whereby the notes may convert into common stock.

On June 6, 2019, the Company issued two separate convertible notes totaling US$150,000. The promissory notes had a stated maturity date of June 6, 2021 with the option of individual 1-year renewable periods for up to 5 years should no conversion event occur. The notes paid an annual interest rate of 10% on the unpaid principal balance through June 6, 2021.

The first convertible note of US$75,000 carried a conversion feature where it would automatically convert upon either (a) a change in control of the Company; (b) a reorganization, merger, or consolidation of the Company; (c) the sale of the Company's assets; or (d) an initial public offering of the Company's common stock (or a security representing common stock). The note also would have converted in the event the Company consummated an equity financing arrangement with an aggregate sales price of no less than US$500,000. Upon the occurrence of one of the aforementioned events, the note would convert into 80% of the price per share value of common stock applicable at the time of the event. The note also carried an optional conversion feature whereby the note may convert into common stock.

The second convertible note of US$75,000 carried a conversion feature where it would automatically convert upon either (a) a change in control of the Company; (b) a reorganization, merger, or consolidation of the Company; (c) the sale of the Company's assets; or (d) an initial public offering of the Company's common stock (or a security representing common stock). The note also would have converted in the event the Company consummated an equity financing arrangement with an aggregate sales price of no less than US$500,000. Upon the occurrence of one of the aforementioned events, the note would convert into 80% of the price per share value of common stock applicable at the time of the event. The note also carried an optional conversion feature whereby the note may convert into common stock.

The contingent conversion features of the notes issued on March 29, 2019 and June 6, 2019 were triggered on July 24, 2019 as a result of the Company's initial public offering of common stock on the ASX. The total non-cash impact of the beneficial conversion feature was US$579,216, comprised of US$470,268 of expense incurred on the date of conversion, and accumulated interest incurred on the convertible notes of US$88,229. The impacts of the conversion are recorded within interest expense on beneficial conversion feature and interest expense, respectively, in the consolidated statements of operations and comprehensive loss for the year ended December 31, 2019.

NOTE 14 – EQUITY BASED COMPENSATION

The Company issues incentive and non-qualified stock options, restricted stock units, and restricted stock awards to employees and non-employees with vesting requirements varying from six months to four years (the typical vesting is a one-year cliff vesting and monthly vesting after the first year of service). The Company utilizes the Black-Scholes model for valuing stock option issuances and the grant date fair value for valuing the restricted stock issuances.

Equity based compensation expense, including vesting of restricted stock units, totaled US$7,010,844 and US$1,167,265 for the years ended December 31, 2020 and 2019, respectively. Equity based compensation expense is recorded within selling, general, and administrative expenses within the consolidated statements of operations and comprehensive loss.

2016 Employee Stock Option Plan

The Company adopted the 2016 Employee Stock-Option Plan on January 16, 2016. The number of options authorized for issuance under the plan is 10,000,000. The Company had 6,844,170 and 8,336,253 options issued and outstanding under the plan as of December 31, 2020 and 2019, respectively. Additionally, the Company had 155,556 and 350,000 of restricted stock awards issued and outstanding as of December 31, 2020 and 2019. During the years ended December 31, 2020 and 2019, 1,344,145 and 882,914 options were exercised into 1,344,145 and 882,914 shares of common stock, respectively.

2019 Equity Incentive Plan

The Company adopted the 2019 Equity Incentive Plan on June 25, 2019. The number of options authorized for issuance under the plan is 26,000,000. The Company had 17,671,374 and 8,716,250 options issued and outstanding as of December 31, 2020 and 2019, respectively; and 2,680,259 and 557,000 restricted stock units issued and outstanding as of December 31, 2020 and 2019, respectively. During the year ended December 31, 2020, 392,331 options were exercised into 392,331 shares of common stock.

The following tables summarize the options issued, outstanding, and exercisable as of December 31, 2020 and 2019:

	For the year ended December 31, 2020					
	Number of Options		Weighted Average Exercise Price		Intrinsic Value	Weighted Average Remaining Life
Outstanding, beginning of period	17,052,503	$	0.624	$	14,895,996	—
Granted	10,105,163		0.826		—	—
Exercised	(1,736,476)		0.305		5,917,834	—
Canceled	(905,646)		0.096		—	—
Outstanding, end of period	24,515,544		1.343		84,731,639	8.65
Exercisable, end of period	7,064,077		0.522		29,883,424	8.04
Expected to vest, end of period	17,451,467	$	1.675	$	54,848,215	8.90

	For the year ended December 31, 2019					
	Number of Options		Weighted Average Exercise Price		Intrinsic Value	Weighted Average Remaining Life
Outstanding, beginning of period	7,430,000	$	0.044	$	1,307,849	—
Granted	11,971,250		0.891		—	—
Exercised	(882,914)		0.042		1,108,483	—
Canceled	(1,465,833)		0.215		—	—
Outstanding, end of period	17,052,503		0.624		14,895,996	9.18
Exercisable, end of period	3,396,325		0.071		4,731,629	8.40
Expected to vest, end of period	13,656,178	$	0.762	$	10,164,367	9.37

The following table represents the assumptions used for estimating the fair values of stock options granted to employees, contractors, and non-employees of the Company under the Black-Scholes method. The risk-free interest rate is based on the U.S. Treasury yield curve in effect on the grant date:

		2020		2019
Risk-free interest rate		0.37% - 0.56%		1.59% – 2.61%
Expected volatility		91.30% – 93.83%		65.00% – 82.88%
Expected life (in years)		6.00		6.00
Weighted average estimated fair value of options granted	$	2.23	$	0.66

The following table represents the assumptions used for estimating the fair values of stock options granted to executives under the Long Term Incentive Plan (LTIP) of the Company under the Monte Carlo Simulation valuation model. Refer to Note 16 for further information around the Company's LTIP plan. The risk-free interest rate is based on the U.S. Treasury yield curve in effect on the grant date:

	2020	2019
Risk-free interest rate	0.68%	— %
Expected volatility	93.0%	— %
Expected life (in years)	6.1	—
Weighted average estimated fair value of options granted	$ 0.64	$ —

Restricted stock award and restricted stock unit transactions during the years ended December 31, 2020 and 2019, respectively, are summarized as follows:

	Number of Shares	Weighted Average Grant Date Fair Value US$
Unvested shares, January 1, 2020	772,222	$ 1.12
Granted	2,659,094	3.48
Vested	(581,402)	1.02
Forfeited or surrendered	(16,171)	1.35
Unvested shares, December 31, 2020	**2,833,743**	**$ 3.37**

	Number of Shares	Weighted Average Grant Date Fair Value US$
Unvested shares, January 1, 2019	—	$ —
Granted	907,000	1.15
Vested	(134,778)	0.95
Forfeited or surrendered	—	—
Unvested shares, December 31, 2019	**772,222**	**$ 1.13**

During the year ended December 31, 2020, employees and non-employees received restricted stock units totaling 2,659,094. Vesting of restricted stock units and restricted stock awards totaled 464,736 and 116,666, respectively. The shares underlying the restricted stock units granted in 2020 were assigned a weighted average fair value of US$3.48 per share, for a total value of US$9,250,511. The restricted stock issuances are scheduled to vest over a range of one to four years.

For the year ended December 31, 2019, employees and non-employees received restricted stock grants totaling 907,000 shares, inclusive of 557,000 restricted stock units and 350,000 restricted stock awards. Vesting of restricted stock units and restricted stock awards are totaled 57,000 and 77,778, respectively. The shares underlying the awards were assigned a weighted average fair value of US$1.15 per share, for a total value of US$1,043,050. The restricted stock issuances are scheduled to vest over a range of three to four years.

As of December 31, 2020, the total compensation cost related to non-vested awards not yet recognized is US$23,912,268 and is expected to be recognized over the weighted average remaining recognition period of approximately 3.1 years.

As of December 31, 2019, the total compensation cost related to non-vested awards not yet recognized is US$8,160,309 and is expected to be recognized over the weighted average remaining recognition period of approximately 3.6 years.

NOTE 15 – MERCHANT INTEREST PROGRAM

Sezzle offers its merchants an interest bearing program whereby merchants may defer payment from the Company in exchange for interest. Merchant accounts payable in total were US$60,933,272 and US$13,284,544 as of December 31, 2020 and 2019, respectively, as disclosed on the consolidated balance sheets. Of these amounts, US$53,528,501 and US$10,053,570 were recorded within the merchant interest program balance as of December 31, 2020 and 2019, respectively.

Deferred payments retained in the program bear interest at the LIBOR daily (3 month) rate plus three percent (3.0%) on an annual basis, compounding daily. The weighted average annual percentage yield for the year ended December 31, 2020 was 5.43%. Interest expense associated with the program totaled US$1,475,554 and US$293,461 for the years ended December 31, 2020 and 2019, respectively.

Deferred payments are due on demand (up to US$250,000 during any seven day period) at the request of the merchant; however, Sezzle reserves the right to impose additional limits on the program and make changes to the program without notice or limits. These limits and changes to the program can include but are not limited to: maximum balances, withdrawal amount limits, and withdrawal frequency.

NOTE 16 – SHORT AND LONG TERM INCENTIVE PLANS

In May 2020, the Company adopted a short term incentive compensation program for its employees and executives. The program is based on achievements where individuals will be compensated for Company-wide and individual and/or team performance for the fiscal year. Measurement of compensable amounts is determined at the end of the year and payouts to individuals will be made in the form of restricted stock units in the following year. As of December 31, 2020, the Company has accrued a total of US$2,133,806 for this program, which is recorded in accrued liabilities on the consolidated balance sheets and offset by an expense recognized in selling, general, and administrative expenses within the consolidated statements of operations and comprehensive loss.

The Company also adopted the LTIP plan for its executive team in May 2020. The LTIP comprises grants of market priced stock options under the 2019 Equity Incentive Plan, with vesting subject to required levels of Comparative Total Shareholder Return (TSR) tested over three years, and subject to continued employment for a three-year period ending January 1, 2023. Both the market and service vesting conditions must be met in order for the grantee to vest at the end of the three year measurement period.

Each of the executive and designated senior officers of the Company was awarded a long term incentive stock option grant to purchase shares on May 22, 2020. The stock options have an exercise price of A$2.10 per share, based on the closing sale price of CDIs on the ASX on May 21, 2020, the trading day prior to the date of grant. The amount of each award is equal to 300% of the individual's salary in effect as of May 22, 2020 (100% for each of the three years in the performance period and pro-rated for start date).

The Company's stock price performance will be measured based on its volume weighted average price relative to other companies included within the S&P/ASX All Technology Index. The number of long term incentive stock option grants were calculated based on a fair value of US$0.64 per option, determined under the Monte Carlo Simulation valuation method.

Total expense recognized related to compensation under the LTIP program was US$5,939,644 for the year ended December 31, 2020. The compensable amounts under the LTIP to executive board members are subject to shareholder approval. Due to the pending approval, as of December 31, 2020, the Company has remeasured the fair value of the awards issued to executive board members utilizing the Monte Carlo Simulation valuation method and accrued US$4,483,073 within other non-current liabilities in the consolidated balance sheets, and offset by an expense recognized in selling, general, and administrative expenses within the consolidated statements of operations and comprehensive loss. The increase in value is primarily driven by the positive performance of the Company's share price during the year. Awards to non-board member executives are included within the stock compensation amounts detailed within Note 14.

NOTE 17 – LOSSES PER SHARE

The computation for basic loss per share is established by dividing net losses for the period by the weighted average shares outstanding during the reporting period, including repurchases carried as treasury stock. Diluted loss per share is computed in a similar manner, with weighted average shares increasing from the assumed exercise of employee stock options (including options classified as liabilities) and assumed vesting of restricted stock units (if dilutive). Given the Company is in a loss position, the impact of including assumed exercises of stock options and vesting of restricted stock units would have an anti-dilutive impact on the calculation of diluted loss per share and, accordingly, diluted and basic loss per share were equal for the years ended December 31, 2020 and 2019.

NOTE 18 – SUBSEQUENT EVENTS

Receivable Funding Facility

On February 10, 2021, Sezzle entered into an agreement with Goldman Sachs Bank USA (the 'Class A' senior lender) and Bastion Funding IV LLC (the 'Class B' mezzanine lender) for a US$250,000,000 receivables funding facility. The funding facility has a maturity date of June 12, 2023 (a 28-month term from the agreement date). The agreement is secured by the Company's consumer notes receivable it chooses to pledge and is subject to covenants. Fifty percent of the total available funding facility (US$125,000,000) is committed while the remaining fifty percent is available to the Company for expanding its funding capacity. The funding facility carries an interest rate of LIBOR+3.375% and LIBOR+10.689% (the LIBOR floor rate is set at 0.25%) for funds borrowed from the Class A and Class B lender, respectively. In the event of a prepayment due to a broadly marketed and distributed securitization transaction with a party external to the agreement, an exit fee of 0.75% of such prepaid balance will be due to the lender upon such transaction. Additionally, the Company paid a US$1,000,000 termination fee to exit the previous Loan Agreement with the Syndicate.

Other Subsequent Events

The Company has evaluated subsequent events through the date of the audit report and determined that there have been no events, other than those disclosed above, that have occurred that would require adjustment to the disclosures in the consolidated financial statements.

Directors' Declaration

For the year ended December 31, 2020

The Directors declare that in the Directors' opinion:

(a) The attached financial statements and notes give a true and fair view of the consolidated entity's financial position as of December 31, 2020 and performance for the financial year ended on that date;

(b) There are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable;

(c) The attached financial statements and notes comply with accounting principles generally accepted in the United States of America (U.S. GAAP) as issued by the Financial Accounting Standards Board as described in the notes to the financial statements;

(d) The attached financial statements and notes also comply with mandatory professional reporting requirements, including the Corporations Act 2001, the Accounting Standards, and the Corporations Regulations 2001 to the extent that the Company is required to comply with such provisions; and

(e) The remuneration disclosures set out in the Directors' Report comply with Corporations Regulations 2001 and other mandatory professional reporting requirements to the extent that the Company is required to comply with such provisions.

The Directors have been given a declaration by the Chief Executive Officer and Chief Financial Officer equivalent to section 295(a) of the Corporations Act 2001.

On behalf of the Board,

Charlie Youakim,
Executive Chairman and CEO

31 March 2021

Additional ASX Information

During the course of the reporting period, the Company continued to use it cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives. Additional information required pursuant to ASX Listing Rule 4.10 and not disclosed elsewhere in this report is set out below. The information is effective as at 18 March, 2021

Corporate Governance:

The Company's Corporate Governance Statement for the year ended 31 December 2020 can be found at https://sezzle.com/investors

Substantial Shareholders:

As a company incorporated in Delaware and listed solely on the ASX, neither Chapter 6 of the *Corporations Act 2001 (Cth.)* **(Corporations Act)** or the corresponding provisions of the Securities Exchange Act of 1934 dealing with notification of substantial holding apply to shareholders in Sezzle. However, as disclosed to the ASX on 29 July 2019, the Company has agreed with ASX to release to the market certain information about a person (other than Sezzle itself) becoming a substantial holder in the Company within the meaning of section 671B of the Corporations Act, varying its substantial holding by 1% or more or ceasing to be a substantial holder.

Having regard to the qualifications and limitations as disclosed to the ASX, the table below sets out the information known to Sezzle as at 18 March 2021 concerning substantial holdings in Sezzle's CDIs.

Name of Substantial Holder within the meaning of section 671B of the Corporations Act	Record Holder (if different)	Number of CDIs in which the substantial holder holds a relevant interest	% of total CDI's on issue
Charlie Youakim	Charlie Youakim – 70,806,238 J P Morgan Nominees Australia Pty Limited – 9,553,571 Mr Charles G Youakim <C Youakim 2020 G/R/A #2 A/C> - 6,000,000 Mr Charles G Youakim <C Youakim 2020 G/R/A #1 A/C> - 2,000,000	88,359,809	45.00%
J P Morgan Nominees Australia Pty Limited	N/A	12,042,609	6.133%
Paul Paradis	N/A	10,000,000	5.09%

Number of Holders of Each Class of Equity Securities:

Category	Number of Holders
CHESS Depositary Interests (quoted on ASX)	16,612
Unlisted Options (not quoted on ASX)	233
Restricted Stock Units (not quoted on ASX)	140
Common Stock (not quoted on ASX)	24

Voting Rights:

Shareholder and CDI Holder voting rights are summarised within section 9 'Additional Information' (page 123) of the Company's Replacement Prospectus dated 8 July 2019 and section 9.4 (b) on page 125.

Distribution Schedule of CDI Holders:

Range	Total Holders	CDIs	% of CDIs
1 - 1,000	11,078	4,017,275	2.05
1,001 - 5,000	4,067	9,699,667	4.94
5,001 - 10,000	777	5,743,331	2.93
10,001 - 100,000	638	14,900,684	7.59
100,001 Over	52	161,964,638	82.50
Total	16,612	196,325,595	100.00

Unmarketable Parcels:

There were 765 holders of less than a marketable parcel of CDIs, comprising a total of 33,654 CDIs, being a parcel of less than 63 CDIs based on a closing price of AUD$7.94 per CDI on 17 March, 2021.

Top 20 CDI Holders:

Name	Number of CDIs Held	% of CDIs
CHARLES G YOUAKIM	70,806,238	36.07
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	12,042,609	6.13
PAUL PARADIS	10,000,000	5.09
CONTINENTAL INVESTMENT PARTNERS LLC	9,389,407	4.78
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	8,357,918	4.26
NATIONAL NOMINEES LIMITED	6,690,955	3.41
MR CHARLES G YOUAKIM <C YOUAKIM 2020 G/R/A #2 A/C>	6,000,000	3.06
CITICORP NOMINEES PTY LIMITED	5,085,528	2.59
KILLIAN BRACKEY	5,000,000	2.55
MR LEE BRADING	3,460,146	1.76
MR CHARLES G YOUAKIM <C YOUAKIM 2020 G/R/A #1 A/C>	2,000,000	1.02
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,990,344	1.01
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	1,953,448	1.00
BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>	1,747,920	0.89
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	1,654,310	0.84
MS CARMELA BERNAD	1,216,666	0.62
JACK ZIEGLER	1,156,250	0.59
MR BRYAN KRUG	1,072,751	0.55
MR CHRIS HARDING	1,023,085	0.52
JOSEPH M DONOVAN	993,265	0.51
Total Top 20	**151,640,840**	**77.24**
Total Balance of Holders	**44,684,755**	**22.76**
Total CDIs	**196,325,595**	**100.00**

Escrowed Securities:

Category	Number	ASX or Voluntary	End of Escrow Period
CDIs	93,975,244	ASX	30 July 2021
Options	2,208,334	ASX	30 July 2021
Restricted Stock Units	350,000	ASX	30 July 2021

Unquoted Securities:

Category	Number of Units	Number of Holders
Options	20,912,110	233
Restricted Stock Units	2,688,445	140
Common Stock	728,454	24

Other Information:

There is no current on-market buy back.
The Company is listed on the Australian Securities Exchange under the code 'SZL'.

There are no issues of securities approved for the purposes of item 7 of section 611 of the Corporations Act which have not yet been completed.

No securities were purchased on-market during the reporting period under or for the purposes of an employee incentive scheme or to satisfy the entitlements of the holders of options or other rights to acquire securities granted under an employee incentive scheme.

Corporate Directory

DIRECTORS

Charlie Youakim
Executive Chairman and Chief Executive Office – USA

Paul Paradis
Executive Director and President – USA

Paul Purcell
Independent Non-Executive Director – USA

Kathleen Pierce-Gilmore
Independent Non-Executive Director – USA

Paul Lahiff
Independent Non-Executive Director – Australia

Mike Cutter
Independent Non-Executive Director - Australia

COMPANY SECRETARY

Don McConnell
USA Corporate Company Secretary

Justin Clyne
Australia (Company Secretary – ASX Compliance)

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

UNITED STATES

REGISTERED OFFICE:

A Registered Agent Inc.
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Delaware 19901, USA

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AUSTRALIA

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SOLICITORS

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ASX CODE

SZL


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