

Unaudited Condensed Interim Consolidated Financial Statements of

KNEAT.COM, INC.

June 30, 2023

(Expressed in Canadian Dollars)

kneat.com, inc.**Unaudited Condensed Interim Consolidated Statements of Financial Position***Expressed in Canadian dollars*

	June 30, 2023	December 31, 2022
	\$	\$
Assets		
Current assets		
Cash	13,524,050	12,282,478
Amounts receivable (note 3)	6,992,401	8,914,980
Prepayments	938,626	931,856
	<u>21,455,077</u>	<u>22,129,314</u>
Non-current assets		
Amounts receivable (note 3)	2,390,962	1,104,624
Property and equipment (note 4)	7,350,443	7,807,042
Intangible asset (note 5)	23,047,816	19,364,904
	<u>54,244,298</u>	<u>50,405,884</u>
Total assets		
	<u>54,244,298</u>	<u>50,405,884</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	6,195,804	5,768,054
Contract liabilities (note 7)	14,682,427	10,617,142
Lease liabilities (note 9)	517,641	588,472
	<u>21,395,872</u>	<u>16,973,668</u>
Non-current liabilities		
Contract liabilities (note 7)	252,773	949,224
Lease liabilities (note 9)	6,128,451	6,503,041
Loan payable and accrued interest (note 8)	6,717,637	-
	<u>34,494,733</u>	<u>24,425,933</u>
Total liabilities		
	<u>34,494,733</u>	<u>24,425,933</u>
Equity		
Shareholders' equity	19,749,565	25,979,951
	<u>54,244,298</u>	<u>50,405,884</u>
Total liabilities and equity		
	<u>54,244,298</u>	<u>50,405,884</u>

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

Approved on behalf of the Board of Directors on August 8, 2023.

/s/ "Ian Ainsworth"
Director

/s/ "Carol Leaman"
Director

kneat.com, inc.**Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss***Expressed in Canadian dollars*

	Three-month period ended June 30, 2023	Three-month period ended June 30, 2022	Six-month period ended June 30, 2023	Six-month period ended June 30, 2022
	\$	\$	\$	\$
Revenue (note 11)	8,039,239	5,548,002	16,004,147	10,747,604
Cost of revenue (note 12)	(2,711,323)	(2,264,887)	(5,302,933)	(4,193,703)
Gross profit	5,327,916	3,283,115	10,701,214	6,553,901
Expenses				
Research and development (note 12)	(4,224,316)	(2,666,487)	(8,088,001)	(5,175,769)
Sales and marketing (note 12)	(3,338,280)	(1,703,420)	(6,293,020)	(3,003,290)
General and administrative (note 12)	(1,709,361)	(1,208,161)	(3,615,243)	(2,341,395)
Operating loss	(3,944,041)	(2,294,953)	(7,295,050)	(3,966,553)
Interest expense	(53,594)	(57,005)	(108,540)	(121,356)
Interest income	2,185	276	4,119	1,026
Foreign exchange loss	(1,403,261)	(1,282,206)	(465,047)	(2,973,265)
Loss before income taxes	(5,398,711)	(3,633,888)	(7,864,518)	(7,060,148)
Income tax expense (note 13)	-	-	(8,550)	-
Net loss for the period	(5,398,711)	(3,633,888)	(7,873,068)	(7,060,148)
Other comprehensive (loss)/ income				
Foreign currency translation adjustment to presentation currency	910,009	629,590	344,603	1,364,024
Comprehensive loss for the period	(4,488,702)	(3,004,298)	(7,528,465)	(5,696,124)
Loss per share – basic and diluted (note 17)	(0.07)	(0.05)	(0.10)	(0.09)
Weighted-average number of common shares outstanding - Basic and diluted	77,720,905	77,380,273	77,704,046	77,228,662

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

kneat.com, inc.**Unaudited Condensed Interim Consolidated Statements of Changes in Equity***Expressed in Canadian dollars*

	Number of Common Shares	Common Shares	Warrants	Contributed Surplus	Translation Reserve	(Deficit)	Total
	#	\$	\$	\$	\$	\$	\$
Balance – December 31, 2021	76,978,076	77,066,809	200,977	2,846,636	1,250,700	(47,178,277)	34,186,845
Net loss for the period	-	-	-	-	-	(7,060,148)	(7,060,148)
Other comprehensive income for the period	-	-	-	-	1,364,024	-	1,364,024
Shares issued pursuant to option exercises	70,875	117,208	-	(47,400)	-	-	69,808
Shares issued pursuant to warrant exercises	219,566	646,272	(185,182)	-	-	-	461,090
Warrants expired	-	15,795	(15,795)	-	-	-	-
Shares issued pursuant to DSU redemption	152,506	248,447	-	(248,447)	-	-	-
Share-based compensation expense	-	-	-	558,318	-	-	558,318
Balance – June 30, 2022	77,421,023	78,094,531	-	3,109,109	2,614,724	(54,238,425)	29,579,937
Balance – December 31, 2022	77,662,911	78,426,153	-	3,446,941	433,322	(56,326,465)	25,979,951
Net loss for the period	-	-	-	-	-	(7,873,068)	(7,873,068)
Other comprehensive income for the period	-	-	-	-	344,603	-	344,603
Shares issued pursuant to option exercises (note 10 (a))	88,230	81,789	-	(57,789)	-	-	24,000
Share-based compensation expense (note 10)	-	-	-	1,274,079	-	-	1,274,079
Balance, June 30, 2023	77,751,141	78,507,942	-	4,663,231	777,925	(64,199,533)	19,749,565

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

kneat.com, inc.**Unaudited Condensed Interim Consolidated Statement of Cash Flows***Expressed in Canadian dollars*

	Six-month period ended June 30, 2023	Six-month period ended June 30, 2022
	\$	\$
Operating activities		
Net loss for the period	(7,873,068)	(7,060,148)
Charges to loss not involving cash:		
Depreciation of property and equipment	403,253	433,112
Share-based compensation	1,274,079	558,318
Write off of property and equipment	26,648	362
Interest expense	108,540	121,356
Tax expense	8,550	-
Amortization of the intangible asset	3,242,884	2,206,889
Amortization of deferred contract acquisition costs	-	2,150
Impact of lease termination	(65,910)	-
Foreign exchange loss	391,308	2,973,265
(Decrease)/ increase in non-current contract liabilities	(689,913)	17,662
Net change in non-cash working capital related to operations (note 14)	6,633,799	3,796,757
Net cash provided by operating activities	3,460,170	3,049,723
Financing activities		
Payment of principal and interest on the loan payable	-	(110,237)
Proceeds from the exercise of stock options	24,000	69,808
Proceeds from the exercise of warrants	-	461,090
Repayment of lease liabilities	(381,334)	(418,729)
Proceeds received from loan financing (note 8)	7,187,700	-
Issuance costs associated with loan financing (note 8)	(470,063)	-
Net cash (used)/ provided by financing activities	6,360,303	1,932
Investing activities		
Additions to the intangible asset	(8,460,769)	(5,433,542)
Additions to property and equipment	(79,227)	(153,821)
Collection of research and development tax credits	-	912,191
Net cash used in investing activities	(8,539,996)	(4,675,172)
Effects of exchange rates on cash	(38,905)	(476,864)
Increase/(decrease) in cash during the period	1,241,572	(2,100,381)
Cash, beginning of period	12,282,478	21,562,968
Cash, end of period	13,524,050	19,462,587

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

kneat.com, inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

1. Nature of operations

kneat.com, inc. (the “Company” or “kneat.com” or “Kneat”), was incorporated on December 12, 2013 under the laws of the Canada Business Corporations Act. On June 27, 2016, the Company completed a transaction (“Transaction”) with Kneat Solutions Limited whereby kneat.com acquired 100% of the issued and outstanding ordinary shares of Kneat Solutions Limited by way of a scheme of arrangement in Ireland. The Company commenced trading on the TSX Venture Exchange as kneat.com on July 5, 2016 under the symbol KSI. The Company graduated to, and began trading on, the main Toronto Stock Exchange (TSX) on November 15, 2021. kneat.com’s head office is located at Hawthorn House, Plassey Business Campus, Castletroy, Limerick, Ireland. The registered office of kneat.com is located at Suite 2001, 1969 Upper Water Street, Halifax, Nova Scotia, Canada B3J 3R7.

Kneat is in the business of developing and marketing a software application for modelling regulated data-intensive processes for regulated industries, focusing on the life sciences industry.

2. Summary of significant accounting policies

a) Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”), as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain information normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the IASB, has been omitted or condensed. The unaudited condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2022.

These unaudited condensed interim consolidated financial statements have been prepared using the same policies and methods of computation as the audited consolidated financial statements of the Company for the year ended December 31, 2022. Refer to note 2, *Summary of Significant Accounting Policies*, of the kneat.com, inc. audited consolidated financial statements for the year ended December 31, 2022 for information on the other accounting policies, critical accounting judgements and estimates.

The Board of Directors approved these unaudited condensed interim consolidated financial statements for issue on August 8, 2023.

b) Use of judgement and estimates

The preparation of the Company’s unaudited condensed interim consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited condensed interim consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods.

Information about critical judgements in applying accounting policies and assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the unaudited condensed interim consolidated financial statements are disclosed in Note 2 of the audited consolidated financial statements as at December 31, 2022.

kneat.com, inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**

3. Amounts Receivable

	June 30, 2023	December 31, 2022
	\$	\$
Current		
Trade debtors	3,001,219	4,938,869
Research and development tax credits receivable	3,534,489	3,564,875
Contract assets	88,220	44,866
Other debtors	45,665	7,786
Sales tax recoverable	322,808	358,584
	<hr/> 6,992,401	<hr/> 8,914,980
Non-current		
Research and development tax credits receivable	2,390,962	1,104,624
	<hr/> 9,383,363	<hr/> 10,019,604

kneat.com, inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****4. Property and equipment**

Cost	Computers and servers \$	Furniture and fixtures \$	Right-of-use assets \$	Leasehold improvements \$	Total \$
As at January 1, 2022	984,065	303,582	8,344,327	694,624	10,326,598
Additions	375,217	10,096	-	-	385,313
Disposals	(114,360)	-	(380,500)	(253,496)	(748,356)
Effect of movements in exchange rates	6,655	1,858	51,071	4,251	63,835
As at December 31, 2022	1,251,577	315,536	8,014,898	445,379	10,027,390
Additions	78,090	-	-	-	78,090
Disposals	(139,209)	(106,986)	(212,871)	(229,745)	(688,811)
Effect of movements in exchange rates	(11,413)	(2,690)	(68,325)	(3,797)	(86,225)
As at June 30, 2023	1,179,045	205,860	7,733,702	211,837	9,330,444
Accumulated depreciation	Computers and servers \$	Furniture and fixtures \$	Right-of-use assets \$	Leasehold improvements \$	Total \$
As at January 1, 2022	492,839	76,305	956,235	321,262	1,846,641
Depreciation charge	277,415	37,120	475,639	110,121	900,295
Disposals	(113,981)	-	(335,234)	(138,937)	(588,152)
Effect of movements in exchange rates	18,623	2,587	33,624	6,730	61,564
As at December 31, 2022	674,896	116,012	1,130,264	299,176	2,220,348
Depreciation charge	160,826	15,736	212,802	13,889	403,253
Disposals	(138,454)	(81,475)	(170,292)	(228,429)	(618,650)
Effect of movements in exchange rates	(8,264)	(1,218)	(12,718)	(2,750)	(24,950)
As at June 30, 2023	689,004	49,055	1,160,056	81,886	1,980,001
Carrying amount	Computers and servers \$	Furniture and fixtures \$	Right-of-use assets \$	Leasehold improvements \$	Total \$
Balance - December 31, 2022	576,681	199,524	6,884,634	146,203	7,807,042
Balance - June 30, 2023	490,041	156,805	6,573,646	129,951	7,350,443

Depreciation of property and equipment is included in the unaudited condensed interim consolidated statements of loss and comprehensive loss for \$403,253 (six-month period ended June 30, 2022 – \$433,112).

On November 21, 2022, the Company terminated a lease agreement relating to office property situated at Units 5 and 6, Castletroy Business Park, Castletroy, Limerick, Ireland. On June 1, 2023, the Company terminated a lease agreement relating to office property situated at Unit 7, Castletroy Business Park, Castletroy, Limerick, Ireland.

kneat.com, inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****5. Intangible asset**

Cost	\$
As at January 1, 2022	24,933,015
Additions, net of research and development tax credits of \$2,285,304	10,897,877
Effect of movements in exchange rates	152,600
As at December 31, 2022	<u>35,983,492</u>
Additions, net of research and development tax credits of \$1,295,755	7,043,971
Effect of movements in exchange rates	(306,750)
As at June 30, 2023	<u>42,720,713</u>
Accumulated amortization	\$
As at January 1, 2022	11,490,437
Amortization charge	4,795,508
Effect of movements in exchange rates	332,643
As at December 31, 2022	<u>16,618,588</u>
Amortization charge	3,242,884
Effect of movements in exchange rates	(188,575)
As at June 30, 2023	<u>19,672,897</u>
Carrying amount	\$
Balance - December 31, 2022	<u>19,364,904</u>
Balance - June 30, 2023	<u>23,047,816</u>

Amortization of the intangible asset of \$3,242,884 (six-month period ended June 30, 2022 - \$2,206,889) is included in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

6. Accounts payable and accrued liabilities

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
	\$	\$
Trade payables	1,310,986	1,000,425
Accruals	3,793,006	3,740,185
Employee remittances	910,220	885,996
Sales tax payable	29,916	15,627
Income tax payable	11,649	15,525
Other payables	140,027	110,296
	<u>6,195,804</u>	<u>5,768,054</u>

kneat.com, inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

7. Contract liabilities

	June 30, 2023	December 31, 2022
	\$	\$
Balance - Beginning of period	11,566,366	5,851,030
Deferral of revenue	19,485,970	28,234,225
Recognition of deferred revenue	(15,510,198)	(22,803,479)
Effect of movements in exchange rates	(606,938)	284,590
Balance - End of period	14,935,200	11,566,366
Less: current portion of contract liabilities	(14,682,427)	(10,617,142)
Non-current portion of contract liabilities	252,773	949,224

8. Loan payable and accrued interest

	June 30, 2023	December 31, 2022
	\$	\$
Balance - Beginning of period	-	113,242
IPF Facility	7,187,700	-
Capitalized loan issuance costs	(470,063)	-
Interest accrual	-	851
Principal and interest payment	-	(110,237)
Effect of movements in exchange rates	-	(3,856)
Balance - End of period	6,717,637	-
Less: Current portion	-	-
Non-current portion	6,717,637	-

On June 26, 2023 the Company secured up to €15 million (\$21.6 million) in secured debt financing from IPF Partners (the “IPF Facility”). This new IPF facility consists of three term commitments or tranches of €5 million each to be availed of by Kneat Solutions Limited. Each tranche matures 18 quarters from its initial drawdown date. On June 30, 2023 the Company drew down the first tranche of €5 million. Each of the facilities carries an annual cash interest of three-month EURIBOR + 7.0%, payable quarterly; and capitalized interest of 2.0%, accrued and capitalized quarterly, in addition to customary structuring and exit fees. The total cash cost of the arrangement is dependent on the final amount of the three facilities availed of and whether the debt is repaid on each maturity date or earlier. The IPF Facility is guaranteed by the Company and its U.S. wholly owned subsidiary, and is secured by a perfected, sole first-priority security interest in all existing and after acquired tangible and intangible assets of Kneat Solutions Limited, the Company and its U.S. wholly owned subsidiary. The IPF Facility is also subject to a financial covenant in the form of a minimum cash balance held in favour of the lender in an amount sufficient to cover the higher of the last six months and next six months cash runway subject to a cap of €2 million, €4 million and €6 million on tranche one, two and three, respectively. The first period for which compliance with the financial covenant is required is 30 September, 2023.

The Company had a loan payable in prior years that was discharged in full by March 31, 2022. The interest rate on the loan was 3.0% at March 31, 2022.

kneat.com, inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

9. Lease liabilities

	June 30, 2023	December 31, 2022
	\$	\$
Balance - Beginning of period	7,091,513	7,744,832
Repayments of lease obligations	(381,335)	(889,525)
Accreted interest	106,981	222,968
Termination of lease (Note 4)	(110,442)	(61,360)
Effect of movements in exchange rates	(60,625)	74,598
Balance - End of period	6,646,092	7,091,513
Less: Current portion	(517,641)	(588,472)
Non-current portion	6,128,451	6,503,041

10. Share Capital

a) Common shares

Authorized share capital of the Company consists of an unlimited number of fully paid common shares without par value.

	Number of shares	Amount
	#	\$
Outstanding - January 1, 2022	76,978,076	77,066,809
Shares issued pursuant to the stock option exercise	206,305	288,465
Shares issued pursuant to warrant exercises	219,566	646,272
Broker warrants expired	-	15,795
Shares issued pursuant to DSU redemptions	258,964	408,812
Outstanding - December 31, 2022	77,662,911	78,426,153
Shares issued pursuant to stock option exercise	88,230	81,789
Outstanding - June 30, 2023	77,751,141	78,507,942

Six-month period ended June 30, 2023

During the six-month period ended June 30, 2023, employees exercised 88,230 options with a weighted average exercise price of \$0.97 per share for cash proceeds of \$24,000 plus an ascribed value of \$57,789.

Year ended December 31, 2022

During the year ended December 31, 2022, employees exercised 206,305 options with a weighted average exercise price of \$0.91 per shares for cash proceeds of \$154,758 plus an ascribed value of \$133,707.

During the year ended December 31, 2022, 219,566 broker warrants were exercised with a weighted-average exercise price of \$2.10 per share for cash proceeds of \$461,090, plus an ascribed value of \$185,182.

During the year ended December 31, 2022, 258,964 DSUs were settled at an ascribed value of \$408,812.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

10 Share Capital (continued)

b) Warrants

No warrants were granted during the six-month period ended June 30, 2023 or the year ended December 31, 2022.

The following table reconciles the warrant activity during the six-month period ended June 30, 2023 and the year ended December 31, 2022:

	Number of warrants	Weighted-average exercise price
	#	\$
Outstanding - January 1, 2022	235,495	2.10
Granted	-	-
Exercised	(219,566)	2.10
Forfeited	(15,929)	-
Outstanding – December 31, 2022 and June 30, 2023	-	-

c) Share-based compensation – stock options

The Company has adopted an Omnibus Equity Incentive Plan, providing the Board of Directors with the discretion to grant and issue an equivalent number of stock options of up to 6% of the issued and outstanding share capital of the Company.

Stock options are granted with an exercise price of not less than the closing share price of the date preceding the date of grant. As at June 30, 2023, 2,075,759 stock options remain available for grant under the terms of the Omnibus Equity Incentive Plan.

The following table reconciles the stock option activity during the six-month period ended June 30, 2023 or the year ended December 31, 2022:

	Number of options	Weighted-average exercise price
	#	\$
Outstanding - January 1, 2022	2,817,137	2.31
Granted	443,500	3.38
Exercised	(206,305)	0.91
Forfeited	(164,192)	2.64
Outstanding - December 31, 2022	2,890,140	2.57
Granted	-	-
Exercised	(88,230)	0.97
Forfeited	(212,601)	2.67
Outstanding – June 30, 2023	2,589,309	2.61

For the six-month period ended June 30, 2023, the estimated value of options earned and recorded in the unaudited condensed interim consolidated statements of loss and comprehensive loss was \$379,977 (six-month period ended June 30, 2022 – \$400,753).

10 Share Capital (continued)

There were no share options granted during the six-month period ended June 30, 2023. The following are the weighted-average assumptions used in calculating the value of the stock options granted during the year ended December 31, 2022:

	<u>December 31, 2022</u>
Risk-free interest rate	1.87%
Expected life	4.5 years
Expected volatility	65.26%
Expected dividend per share	0.0%
Weighted-average share price	\$3.38
Weighted-average fair value	\$1.80

The following table summarizes information relating to outstanding and exercisable stock options as at June 30, 2023:

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price
November 1, 2023	0.3	50,000	50,000	\$ 1.02
January 3, 2024	0.5	235,670	235,670	\$ 1.00
March 7, 2024	0.7	225,000	225,000	\$ 1.06
April 4, 2024	0.8	10,000	10,000	\$ 1.22
September 23, 2024	1.2	200,000	200,000	\$ 1.52
January 1, 2025	1.5	70,000	70,000	\$ 2.84
February 6, 2025	1.6	40,000	40,000	\$ 2.84
April 22, 2025	1.8	20,000	20,000	\$ 1.94
August 26, 2025	2.2	248,295	166,889	\$ 2.50
October 1, 2025	2.3	3,500	2,188	\$ 2.55
November 26, 2025	2.4	200,000	100,000	\$ 2.20
May 27, 2026	2.9	20,000	10,000	\$ 2.98
August 12, 2026	3.1	749,844	324,075	\$ 3.45
September 23, 2026	3.2	85,000	37,188	\$ 4.10
January 07, 2027	3.5	280,000	87,500	\$ 3.60
February 24, 2027	3.7	42,000	13,125	\$ 2.93
August 12, 2027	4.1	105,000	-	\$ 3.05
November 11, 2027	4.4	5,000	-	\$ 2.77
		<u>2,589,309</u>	<u>1,591,635</u>	

d) Share-based compensation - Deferred Share Units (DSUs) & Restricted Share Units (RSUs)

The maximum number of common shares which are available to be issued by the Company from treasury in connection with the redemption of DSUs and RSUs granted under the Company's Omnibus Equity Incentive Plan plan is 9% of the issued and outstanding share capital of the Company. As at June 30, 2023, 3,943,272 RSUs and/or DSUs remain available for grant under the terms of the Omnibus Equity Incentive plan.

kneat.com, inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**

10 Share Capital (continued)

DSU activity for the six-month period ended June 30, 2023 and year ended December 31, 2022 is as follows:

	June 30, 2023	December 31, 2022
	#	#
Outstanding - Beginning of period	512,551	693,560
Granted	44,860	108,182
Redeemed	-	(258,964)
Forfeited	-	(30,227)
Outstanding - End of period	<u>557,411</u>	<u>512,551</u>

For the six months ended June 30, 2023, the estimated value of DSUs earned and recorded in the unaudited interim condensed consolidated statement of loss and comprehensive loss was \$134,566 (six-month period ended June 30, 2022 – \$157,565).

RSU activity for the six-month period ended June 30, 2023 and year ended December 31, 2022 is as follows:

	June 30, 2023	December 31, 2022
	#	#
Outstanding - Beginning of period	926,863	-
Granted	1,643,571	926,863
Forfeited	(73,514)	-
Outstanding - End of period	<u>2,496,920</u>	<u>926,863</u>

For the six months ended June 30, 2023, the estimated value of RSUs earned and recorded in the unaudited condensed interim consolidated statement of loss and comprehensive loss was \$759,536 (six-month period ended June 30, 2022 – nil). RSUs typically vest over a three year period and will be settled through the issuance of common shares. RSUs are measured at their fair values as of the date of grant with no subsequent revaluation. The fair value is recognized over the vesting period on a graded vesting basis.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

11. Revenue

Revenue consists of the following:

	Three-month period ended June 30, 2023	Three-month period ended June 30, 2022	Six-month period ended June 30, 2023	Six-month period ended June 30, 2022
	\$	\$	\$	\$
SaaS license fees	7,017,938	3,889,834	13,405,573	7,188,190
On-premise licenses fees	-	77,715	436,126	766,133
Maintenance fees	55,063	220,733	206,157	434,226
Professional services and other	966,238	1,359,720	1,956,291	2,359,055
	<u>8,039,239</u>	<u>5,548,002</u>	<u>16,004,147</u>	<u>10,747,604</u>

The following table presents total external revenues by geographic location, based on the location of the Company's customers:

	Three-month period ended June 30, 2023	Three-month period ended June 30, 2022	Six-month period ended June 30, 2023	Six-month period ended June 30, 2022
	\$	\$	\$	\$
North America	5,322,540	3,946,983	10,596,374	7,585,863
Europe	2,644,890	1,485,409	5,305,469	2,983,386
Asia Pacific Japan	71,809	115,610	102,304	178,355
	<u>8,039,239</u>	<u>5,548,002</u>	<u>16,004,147</u>	<u>10,747,604</u>

In the three-month period ended June 30, 2023, revenue from 1 customer amounts to 10% or more of the Company's total revenue (June 30, 2022 – 1). In the six-month period ended June 30, 2023, revenue from 1 customer amounts to 10% or more of the Company's total revenue (June 30, 2022 – 1).

For the three-month period ended June 30, 2023, the Company's top 10 customers made up 56% of the Company's revenues (June 30, 2022 – 65%). For the six-month period ended June 30, 2023, the Company's top 10 customers made up 55% of the Company's revenues (June 30, 2022 – 64 %).

12. Expenses by nature

The following table lists certain expenses by nature included in the unaudited condensed interim consolidated statement of loss and comprehensive loss:

	Three-month period ended June 30, 2023	Three-month period ended June 30, 2022	Six-month period ended June 30, 2023	Six-month period ended June 30, 2022
	\$	\$	\$	\$
Amortization of the intangible asset	1,678,581	1,145,799	3,242,884	2,206,889
Depreciation of plant and equipment	199,637	212,524	403,253	433,112
Salaries, wages and benefits	6,175,189	3,417,836	12,180,851	6,238,970
Share-based compensation	784,680	232,714	1,274,079	558,318

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

13. Income taxes

The provision for income taxes reported differs from the income tax computed by applying the applicable income tax rates to the net loss before income taxes, due to the following adjustments:

	Six-month period ended June 30, 2023	Six -month period ended June 30, 2022
	\$	\$
Loss before income taxes	(7,864,518)	(7,060,148)
Statutory rate	29%	29%
Tax recovery at statutory rate	(2,280,710)	(2,047,443)
Recovery for losses and deductible temporary differences not recognized in current and prior years	884,325	1,092,088
Permanent differences and other	294,480	467,268
Foreign tax rate variance	1,110,455	488,087
Income tax expense (current)	8,550	-

14. Supplemental cash flow information

Net changes in non-cash operating working capital items are as follows:

	Six-month period ended June 30, 2023	Six-month period ended June 30, 2022
	\$	\$
Decrease/(increase) in amounts receivable and other	1,835,444	(1,323,483)
Increase in accounts payable and accrued liabilities	481,964	412,567
Increase in contract liabilities	4,316,391	4,707,673
	6,633,799	3,796,757

15. Related party transactions

During the six months ended June 30, 2023, the Company issued 44,860 DSUs to members of the Board of Directors who are not employees or officers of the Company (note 10) (six months ended June 30, 2022 – 72,404).

During the six months ended June 30, 2023, the Company granted 153,229 RSUs to members of the Board of Directors (note 10) (June 30, 2022 – nil) and 317,317 RSUs to Key Management (June 30, 2022 – nil).

During the six months ended June 30, 2022, a director of the Company resigned from the Board and redeemed a total of 152,506 DSUs.

16. Fair value of financial instruments and risk management

a) Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of debt and equity balances.

The capital of the Company consists of items included in equity and debt, net of cash, as follows:

	June 30, 2023	December 31, 2022
	\$	\$
Equity	19,749,565	25,979,951
Debt	6,717,637	-
Less: cash	(13,524,050)	(12,282,478)
	<u>12,943,152</u>	<u>13,697,473</u>

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may issue equity, return capital to shareholders or raise debt funding. In the period ended June 30, 2023, the Company signed the IPF Facility allowing for debt funding of up to €15 million (\$21.6 million) and drew down the first tranche of this facility on June 30, 2023. No other changes were made to the objectives, policies or processes for managing capital during the six-month period ended June 30, 2023 or the year ended December 31, 2022.

b) Fair values of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The carrying amounts reported in the unaudited condensed interim consolidated statements of financial position for cash, amounts receivable, accounts payable and accrued liabilities, approximate their fair values based on the immediate or short-term maturities of these financial instruments. In addition, non-current amounts receivable and the loan payable, although not due in the current year, do not have fair values that differ significantly from their carrying values.

The table below presents the classification of the Company's financial assets and liabilities as at June 30, 2023 and December 31, 2022:

	Financial assets and liabilities at amortized cost	Financial assets and liabilities at amortized cost
	June 30, 2023	December 31, 2022
	\$	\$
Financial assets:		
Cash	13,524,050	12,282,478
Trade & Other Debtors and Contract Assets	3,135,104	4,991,521
Financial liabilities:		
Accounts Payables and Accrued Liabilities	6,195,804	5,768,054
Loan Payable	6,717,637	-

c) Financial risk management objectives

The Company examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk and interest rate risk. Where material, these risks are reviewed and monitored.

16 Fair value of financial instruments and risk management (continued)**d) Credit risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date. At June 30, 2023 and December 31, 2022, the Company's financial assets exposed to credit risk amounted to the following:

	June 30, 2023	December 31, 2022
	\$	\$
Cash	13,524,050	12,282,478
Amounts receivable and other*	4,073,730	5,923,377

*includes trade debtors, contract assets, other debtors & prepayments

During the six-month period ended June 30, 2023 and the year ended December 31, 2022, the Company did not hold any financial assets that were impaired. Trade debtors of \$3,001,219 are included in amounts receivable as at June 30, 2023 (December 31, 2022 – \$4,938,869).

Trade debtors are monitored on a regular basis, with reference to the Expected Credit Loss (ECL) impairment model, in order to minimize material aging and to ensure adequate collection. Historically there have been no significant trade debtor collection issues and the Company does not believe it is subject to significant concentration of credit risk.

Cash is held with reputable banks in Ireland, the United States and Canada. The long-term credit rating, as determined by Standard and Poor's BBB, AA- and AA- respectively.

e) Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they become due. The Company has a planning and budgeting process to monitor operating cash requirements, including amounts projected for capital expenditures, which are adjusted as input variables change.

These variables include, but are not limited to, the ability of the Company to generate revenue from current and prospective customers, general and administrative requirements of the Company and the availability of capital markets. As these variables change, liquidity risks may necessitate the need for the Company to issue equity or obtain debt financing.

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities as at June 30, 2023:

	Within 1 year	2-3 years	4-5 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	6,195,804	-	-	-	6,195,804
Lease payments (undiscounted)	714,512	1,180,499	931,974	5,585,464	8,412,449
IPF Facility payable (undiscounted)	-	2,587,572	4,600,128	-	7,187,700
	7,676,280	3,768,071	5,532,102	5,585,464	21,795,953

16 Fair value of financial instruments and risk management (continued)

The Company's operations to date have been financed through the sale of shares, issuance of debt, revenue generated from customers and research and development tax credits. The Company has incurred significant operating losses and negative cash flows from operations since inception and has an accumulated deficit of \$64,199,533 as at June 30, 2023. For the six-month period ended June 30, 2023, the Company incurred a net loss of \$7,873,068 with positive cash flows from operations of \$3,460,135 and capitalized development cost spend of \$8,339,726 (June 30, 2022 - \$7,060,148, \$3,049,723 and \$5,303,618, respectively).

As the Company continues to incur losses from operations, the Company has relied on financing activities to meet its working capital and operating requirements, including funds needed to further develop its software and expand its sales and marketing functions.

On June 26, 2023 the Company announced that it had secured up to €15 million in secured debt financing. This new IPF facility consists of three term commitments or tranches of €5 million each to be availed of by Kneat Solutions Limited. Each tranche matures 18 quarters from its initial drawdown date. On June 30, 2023 the Company drew down the first tranche of €5 million, with the second and third tranches available to be drawn down before 31, December 2023 and 30 June, 2024, respectively, provided certain conditions are satisfied. Refer to note 8.

The Company also has a history of being able to raise funds on the capital markets to meet its ongoing requirements and on April 28, 2021, the Company closed a public equity financing for gross proceeds of \$20,125,575 and a concurrent non-brokered private placement for gross proceeds of \$2,000,000. However, there can be no assurance that, in the future, the Company will be able to raise funding on favorable terms, if at all.

During the first six months of 2023 and all of 2022, financial markets have been negatively impacted by economic instability due to factors including the impacts of Russia's invasion of Ukraine, unexpected impacts from the COVID-19 pandemic, rising inflation and interest rates. These factors may adversely impact our operations, credit risk, our ability to serve our customers and our ability to raise new funding. This has resulted in significant economic uncertainty, and even though the Company has to date experienced no significant impact to its operations, any potential impact on our future financial results is difficult to reliably measure. The Company is regularly assessing the situation and remains in contact with its partners, customers and suppliers to assess any impacts and risk.

The Directors believe that the Company's cash resources, when combined with the proceeds from customer receipts and available debt facilities, will be sufficient to fund operations for at least twelve months from the reporting date of the unaudited condensed interim consolidated financial statements. However, judgement is required to forecast cash flows over future periods. Management has the ability to reduce or delay certain cash outflows were it to be necessary.

f) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Currency risk exposure arises from the Company entering into transactions which are denominated in currencies other than its functional currency.

The Company is exposed to currency risk on its cash balances, amounts receivable, intercompany balances and accounts payable and accrued liabilities that are held in currencies that are not in the transacting entity's functional currencies.

As at June 30, 2023, the impact on monetary assets and liabilities of a 5% decrease in the exchange rate between the functional currencies and foreign currencies (weakening of the Euro/USD versus CAD) would increase the net loss by approximately \$3.8 million; a 5% increase would decrease the net loss by approximately \$3.8 million (strengthening of the Euro/USD versus CAD). The Company currently does not hedge its currency risk.

16 Fair value of financial instruments and risk management (continued)

The majority of the Company’s revenues and expenses are denominated in Euro and the United States dollar. As a result, revenues and expenses are affected by a change in the value of the Euro and the United States dollar relative to the Canadian dollar. The following table summarizes the effects on revenues, expenses and the net loss as a result of a 5% strengthening of the Euro and the United States dollar when compared to the Canadian dollar: ⁽¹⁾

	Six-month period ended June 30, 2023			Six-month period ended June 30, 2022		
	As reported	Exchange rate effect	5% Stronger	As reported	Exchange rate effect	5% Stronger
	\$	\$	\$	\$	\$	\$
Revenues	16,004,147	800,207	16,804,354	10,747,604	537,380	11,284,984
Expenses	(23,877,215)	(1,069,654)	(24,946,869)	(17,807,752)	(690,778)	(18,498,530)
Net loss	(7,873,068)	(269,447)	(8,142,515)	(7,060,148)	(153,398)	(7,213,546)

(1) A 5% weakening of the Euro and the United States dollar when compared to the Canadian dollar would have an equal and opposite impact on the Company’s revenues, expenses and net loss as presented in the table.

g) Interest risk

Interest risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. An immaterial amount of interest rate exposure exists in respect of cash balances on the unaudited condensed interim consolidated statements of financial position. Interest rate exposure does exist in respect of the IPF Facility on the unaudited condensed interim consolidated statements of financial position due to the variable interest rate (EURIBOR + 7.0%) that will apply to this loan. However, as the IPF Facility was drawn down on June 30, 2023, no interest expense relating to this loan was recorded in the period and the expenses as recorded in the unaudited condensed interim consolidated statement of loss would be unaffected by any change in the variable interest rate.

h) Fair value hierarchy

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

At June 30, 2023 and December 31, 2022 the Company had no financial instruments that were measured and recognized on the unaudited condensed interim consolidated statement of financial position at fair value. In addition, there were no transfers between levels during the period.

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17. Loss per share

Basic and diluted net loss per share was calculated as follows:

	Three-month Period ended June 30, 2023	Three-month period ended June 30, 2022	Six-month period ended June 30, 2023	Six-month period ended June 30, 2022
<i>Numerator:</i>				
Net loss for the year attributable to ordinary shareholders	(5,398,711)	(3,633,888)	(7,873,068)	(7,060,148)
<i>Denominator:</i>				
Weighted average number of ordinary shares in issue	77,720,905	77,380,273	77,704,046	77,228,662
Loss per share (basic and diluted)	(0.07)	(0.05)	(0.10)	(0.09)

The Company's potential ordinary shares, which include stock options to purchase shares of common stock, DSUs and RSUs, have been excluded from the computation of diluted net loss per share as the effect would be to reduce the net loss per share. Therefore, the calculation of basic and diluted net loss per share is the same. The Company excluded the following potential ordinary shares, presented based on amounts outstanding at each period end, from the computation of diluted net loss per share because including them would have had an anti-dilutive effect.

	June 30, 2023	June 30, 2022
Options to purchase common shares	2,589,309	2,959,888
Restricted stock units (RSUs)	2,496,920	-
Deferred share units (DSUs)	557,411	613,458

18. Commitments and contingencies

The Company is from time to time involved in various claims, legal proceedings and complaints arising in the ordinary course of business. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial conditions or future results of operations of the Company.

The Company has committed to purchase certain services which will result in the Company paying \$1,869,676 within one year and \$609,371 in two to three years.

The Company has employment arrangements with the Chief Executive Officer, Chief Information Officer, Chief Product Officer and Chief Financial Officer which provide that, should a change in control event occur, as defined in the employment arrangements, these individuals will receive lump sum payments equal to 24 months of their then current base salary.

19. Subsequent events

The Company performed a review of events subsequent to the unaudited condensed interim consolidated statements of financial position date through to the date the unaudited condensed interim consolidated financial statements were issued and determined that there were no such events requiring recognition or disclosure in the financial statements.