Management’s Discussion and Analysis
For the year ended December 31, 2022

LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

Our performance in the fourth quarter was a fitting wrap-up to an excellent year for Kneat. While the world weathered major economic and geopolitical changes in 2022, our team at Kneat continued to pursue our vision of helping life sciences to develop, manufacture and deliver therapies to their patients to the highest safety standard. Fourth-quarter revenue grew 16% to $7.3 million, where SaaS license revenue grew 87% year over year, to $5.7 million. As a result, we closed out 2022 with full-year revenue of $23.7 million, 53% higher than the year before, and over the same period, we doubled recurring revenue from SaaS licenses, to $17.3 million.

While our 2022 revenue was six times what it was three years ago it feels like we are just getting started. Our passion is just as strong now as it was when we started, because now we see how life sciences teams thrive with our software. And as our list of large global customers gets longer, and their quality assurance and other teams experience the real benefits of our purpose-built platform, our opportunity set gets larger. Word spread internally throughout the enterprise, and our selling proposition gets stronger with each new customer we add. We put these sales assets to good use in 2022, expanding our network of partners, doubling our sales team, and bringing on an experienced sales executive to lead future growth. Our sales momentum was supported by further investments in marketing, where our team has leveraged new tech tools and expanded our presence through many trade conferences in 2022 and our own hugely successful user conference, "Validate", this past fall in Boston.

We also invested strongly in our product this past year. Having expanded the platform's capabilities across key areas such as user experience, integrations, data visualisation, file and drawing management, more customers were able to take advantage of these new features faster than ever before, and this progress has also facilitated transitioning on premise customers to SaaS. With the number of on-premise customers now in the low single digits, we are optimistic the transition to a 100% SaaS-hosted customer base will be completed in 2023. This is an excellent set up for customers to reap the benefits from continued product development going forward.

This combination of a strong devotion to our craft, our adherence to excellence that our industry requires, and the purpose we serve in the world, draws high performers to Kneat. The culture that has flourished has helped make Kneat one of the fastest-growing tech companies in Ireland for the second year in a row.

As we look ahead and think about all the changes 2023 is likely to bring with it, we at Kneat will continue to focus on our vison. We plan to continue to add and deploy new SaaS customers, expand to new work processes and new sites within our existing customer base, leverage our partner relationships to help expand our global reach, further develop the Kneat Gx platform, and continue to build a solid foundation for our company structure to support the continued rapid growth of Kneat for the next several years. And we are confident we can capture greater efficiencies in our business in 2023, given our greater size, scale and SaaS capabilities.

(s) "Eddie Ryan"
Eddie Ryan, CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of the performance of kneat.com, inc. ("kneat.com" or the "Company" or "Kneat") and should be read in conjunction with the audited consolidated financial statements of kneat.com (the "Financial Statements") for the year ended December 31, 2022, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The information presented in this MD&A is as of February 22, 2023. The reporting currency for kneat.com is the Canadian dollar. All of the financial information presented herein is expressed in Canadian dollars, unless otherwise stated. United States dollars are indicated by the symbol "US$". Euro is indicated by the symbol "€". This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. The reader is cautioned not to place undue reliance on forward-looking statements.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

This MD&A contains "forward-looking information", as such term is defined in applicable Canadian securities legislation. Forward-looking information is necessarily based on a number of estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies. All statements other than statements which are reporting results, as well as statements of historical fact set forth or incorporated herein by reference, are forward looking information that may involve a number of known and unknown risks, uncertainties and other factors, many of which are beyond kneat.com's ability to control or predict. Forward-looking information can be identified by the use of words such as "may", "should", "expects", "plans", "anticipates", "believes", "estimates", "predicts", "intends", "continues", or the negative of such terms, or other comparable terminology.

This forward-looking information includes, but is not limited to, statements and comments regarding:

- the development plans for the Kneat Gx platform ("Kneat Gx");
- the Company's business strategy;
- the ability of Kneat Gx to demonstrate compliance with life sciences regulations under regulatory audit and inspection;
- the Company's strategy for protecting its intellectual property;
- the Company's ability to obtain necessary funding on favorable terms or at all, to fund future expenditures, including product development and capital requirements;
- the Company's plan and ability to secure additional customers and additional revenues;
- the ability to scale Kneat Gx within the customers' sites and processes;
- the risk of competitors entering the market;
- the Company's ability to hire and retain skilled staff;
- the estimate of the market size and market potential for Kneat Gx;
- the use of Kneat Gx within the customers' sites and processes; and
- the impact of the adoption of new accounting standards.

Although the Company believes that the plans, intentions and expectations reflected in this forward-looking information are reasonable, actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking information contained in this MD&A. Factors that could cause or contribute to such differences include, but are not limited to, unexpected changes in business and economic conditions, including the global financial and capital markets, rising inflation, and rising interest rates; unexpected impacts from the recent COVID-19 pandemic; the Company's inability to continually develop technologically advanced products; the inability of the Company's products and services to gain market acceptance; the Company's failure to protect its intellectual property; unauthorized disclosures and breaches of security data; changes in interest and currency exchange rates; changes in operating revenues and costs; political or economic instability, either globally or in the countries in which the Company operates, including impacts from Russia's invasion of Ukraine; competitive factors; availability of external financing at reasonable rates or at all; and the other factors discussed in this MD&A under the heading *Risk Factors*. Many of these factors are beyond kneat.com's ability to control or predict. These factors are not intended to represent a complete list of the general or specific factors that may affect kneat.com. kneat.com may note additional factors elsewhere in this MD&A. All forward-looking statements and information speak only as of the date made. All subsequent written and oral forward-looking statements attributable to kneat.com, or persons acting on kneat.com's behalf, are expressly qualified in their entirety by these cautionary statements. Readers are cautioned not to put undue reliance on forward-looking information due to the inherent uncertainty therein. kneat.com disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, except as required by securities legislation.

COMPANY OVERVIEW

kneat.com, inc., (the "Company" or "kneat.com" or "Kneat has its head office 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.

Operational overview

Kneat designs, develops and supplies software for data and document management within regulated environments. The Company's current product is Kneat Gx, a configurable, off-the-shelf application focused on validation lifecycle management and testing primarily within the life sciences industry (i.e. biotechnology, pharmaceutical and medical device manufacturing). Complete and comprehensively documented validation of processes, products, equipment and software is a significant and costly regulatory requirement in this industry. Kneat Gx provides a compliant digital solution that enables companies in the life sciences industry to become efficient and compliant with an automated process that has traditionally been manual, inefficient and paper-based.

Every manufacturing process, piece of equipment and computer system involved in the manufacturing of pharmaceutical, biotechnology and medical device products must be validated in accordance with current Good Manufacturing Practice ("cGMP") regulations. Validation necessitates extensive signed and time-stamped documentary evidence that all aspects of these systems are designed and tested, to ensure that they will repeatedly produce products to the approved specifications. This documentation is subject to audit by global regulatory authorities such as the U.S. Food and Drug Administration and the European Medicines Agency.

Traditionally, validation testing has been a manual, paper-intensive activity whereby test documents have to be developed, printed, approved, executed, post approved, filed and ready for regulatory audit in the future. In many companies in the life sciences industry much of this is still done on paper using wet ink to record test results, apply proof of signature and date stamp. This process can leave life sciences companies susceptible to production delays, high costs associated with data and document management, and at risk of non-compliance. Non-compliance can lead to regulatory recalls, threats to patient safety and delays to market. In addition, non-compliance may result in significant penalties, remediation costs, lost revenues and loss of trust in a Company's brand.

The solution that Kneat Gx provides has taken a dedicated professional team of industry specialists years of research and development. Kneat's customers cite Kneat Gx's innovation, ease of use, its central and dynamic data management, its configurability (without coding knowledge), and its electronic records and signatures capabilities as the key differentiators that set it apart in the market. In addition, we believe that kneat.com's services and support teams are considered best in class by its customers.

Kneat possesses a top tier quality management system ("QMS") and is certified to ISO 9001:2015. Kneat also possesses an information security management system ("ISMS") and is accredited to ISO 27001:2017. In addition, it adheres to all applicable life sciences regulations such as all current cGMPs, GAMP5, EU Annex 11, FDA CFR Title 21 Part 11 governing Electronic Records and Electronic Signatures. Adhering to these regulations and guidelines is a mandatory requirement in order to supply to this highly regulated industry. Potential customers often perform extensive audits to verify compliance prior to purchasing the Company's software and services.
The Company's focus is to service the facilities, equipment and computer systems ("CSV") validation market initially within the global life sciences industry. Kneat initially targeted large tier one companies in the life sciences industry primarily in the United States and Europe and is now also targeting medium and smaller companies in the life sciences industry. The Company believes this market has significant potential for a digital solution due to a number of factors, including increased compliance standards required by regulators globally and the ongoing campaign by manufacturers to reduce costs and increase control while maintaining data integrity to a high standard. Additionally, competing in today's era of rapid innovation that digitization has enabled, requires companies to modernize the processes that enable them to bring these innovations to market at scale, with speed, and in a trusted way. Using Kneat's current customer penetration rates, the estimated number of manufacturing sites globally, current list prices and other assumptions, Kneat estimates that the potential market size for Kneat Gx for Validation process-digitalisation within the life science industry is in excess of US $600 million in annual recurring revenues. As the Company continues to enhance the Kneat Gx platform through added functionality, management expects the potential market for the platform to increase significantly.

kneat.com's contracts with customers are typically three years in length plus renewal terms and include license subscriptions (Software as a Service ("SaaS")) or legacy on-premise upfront licenses plus maintenance fees and professional service fees. Kneat.com only sells SaaS licenses to new customers but it still retains a few legacy on-premise customers. It expects these remaining few on-premise customers to switch to SaaS in the coming 12 months. Once a new contract is signed, the deployment phase commences and typically takes four to six months for the new customer to go-live on the platform. However, the length of the deployment project will be specific to each customer's requirements. Some fees related to deployment and licenses may be collected up front, however Kneat's revenue recognition criteria is such that revenue is only recognized on completion of the deployment phase when control of these licenses and services are transferred to the customer. This results in a typical time lag of four to six months from the date of a new customer announcement to the date of initial revenue recognition. Kneat.com provides professional services to assist customers with the deployment of Kneat Gx, scaling the system to new processes and locations, and training users. The Company also has a strategy to work with partner companies with a view to enabling those partners to provide these professional services to Kneat customers. The Kneat Partner Program is a network of professional service providers, consultants, agencies, associations, companies, and technology firms that provide their clients with additional value by leveraging Kneat Gx. The program creates mutually beneficial partnerships that increase the availability and quality of Kneat related services and products. Currently, Kneat has relationships with 74 partner and service providers.

Generally new customer contracts start with licenses for one process at one site with the ability to use the same contract to purchase additional licenses at the customer's request. Kneat's goal for each customer is to see them scale across various sites and processes through its "land and expand" strategy over a number of years. This is also the customer's intent when they first purchase Kneat Gx, as Kneat Gx is being purchased as a corporate wide solution. The potential expansion within Kneat's existing customer base represents a revenue opportunity and continues to be a focus for the sales and support teams. The ease with which a customer can increase the number of users, sites and regulated processes once deployed has been a benefit that a number of customers have experienced within their global operations.

BUSINESS OBJECTIVES

Kneat plans to use its financial resources for the following key business objectives:

- accelerate new customer acquisition across all tiers
- accelerate license expansion (Annual Recurring Revenue, or ARR[1]) within our existing customer base
- add new features and functionality to Kneat Gx to enable shorter sales cycles, faster customer onboarding and expansion across their global facilities, further penetration of the life sciences supply chain sector and faster onboarding of strategic channel partners
- further advance the Kneat Gx SaaS platform toward the product vision of a total quality management platform for all sizes of customers
- continue to build out our structure including our senior management team to support acceleration and scaling

FINANCIAL HIGHLIGHTS

2022 Fourth Quarter Financial Highlights

- Annual recurring revenue[1] increased 85% to $24.2 million as of December 31, 2022 compared to $13.1 million as of December 31, 2021.
- SaaS annual recurring revenue[1] increased 95% to $23.7 million in Q4 2022 compared to $12.2 million in Q4 2021.
- Total revenues increased 16% to $7.3 million in Q4 2022, compared to $6.3 million in Q4 2021.
- Gross Profit increased 3% to $4.6 million (Gross Margin %: 63%), compared to $4.4 million (Gross Margin %: 71%) in Q4 2021.

2022 Twelve Months Financial Highlights

- Total revenues increased 53% to $23.7 million in the year ended December 31, 2022, compared to $15.5 million in the year ended December 31, 2021.
- SaaS revenues increased 100% to $17.3 million in the year ended December 31, 2022 compared to $8.7 million in the year ended December 31, 2021.
- Gross Profit increased 57% to $14.7 million (Gross Margin %: 62%) in the year ended December 31, 2022, compared to $9.3 million (Gross Margin %: 60%) in the year ended December 31, 2021.
- As of December 31, 2022, the Company's total cash position was $12.3 million.

[1] Annual Recurring Revenue ("ARR") is a supplementary financial measure. See 'Supplementary Financial Measures' section of our MD&A for additional information.

2022 CORPORATE HIGHLIGHTS

On December 20, 2022 the Company announced the appointment of Katie Keita to lead its investor relations program.

On October 27, 2022, the Company announced that it signed a three-year Master Services Agreement with one of the world's largest healthcare companies.

On October 27, 2022, Kneat also closed a significant expansion and transition to SaaS with one of its top ten global pharmaceutical customers. This is a new three-year SaaS Master Services Agreement. The customer will scale to 2,000 users initially with a plan to expand to 6,000 over the contract term.

On June 14, 2022, the Company added Jacob Hahn Michelsen, an accomplished global sales leader, as Senior Vice President of Global Sales.

On March 31, 2022, the Company commenced trading on the OTCQX® under the symbol "FBAYF". In August 2022, the Company's symbol on the OTCQX® changed from "FBAYF" to "KSIOF". The Company's shares also continue to trade on the TSX under the symbol "KSI". The Company's shares are now also eligible for electronic clearing and settlement in the United States through the Depository Trust Company "DTC".

On March 18, 2022, the Company announced that it signed a Master Services Agreement with a European national health service.

On March 17, 2022, the Company signed a three-year Master Service Agreement with another one of the world's top ten life sciences companies.

On March 10, 2022, the Company announced that it signed a three-year Master Service Agreement with a Canadian-headquartered generics pharmaceutical manufacturing company.

On March 4, 2022, the Company announced the creation of up to 100 new jobs during the opening of its new 13,000 sq. ft. green sustainable LEED GOLD standard office at Hawthorn House, Plassey Business Campus, Castletroy, Limerick, Ireland. The new positions will be focused on Sales & Marketing, Research & Development, and Customer Success, bringing the Company's total number of staff to over 300.

On January 20, 2022, the Company announced that it had signed a four-year Master Services Agreement with the U.S. subsidiary of one of the world's top fifteen Consumer-Packaged-Goods (CPG) companies.

During the year, Paul Breen and Rory Cameron stepped down as Directors of the Company and Carol Leaman, CEO of Axonify, was appointed to the Board of Directors.

SELECTED QUARTERLY INFORMATION

Expressed in thousands of Canadian dollars, except for per common share amounts, and prepared in accordance with IFRS:

	Q4 2022	Q3 2022	Q2 2022	Q1 2022	Q4 2021	Q3 2021	Q2 2021	Q1 2021
	$000's	$000's	$000's	$000's	$000's	$000's	$000's	$000's
Total revenue*	7,250	5,752	5,548	5,200	6,263	3,734	3,149	2,355
Total operating loss*	(3,281)	(2,527)	(2,295)	(1,672)	(384)	(2,430)	(1,519)	(2,020)
Total net gain/(loss)*	459	(2,547)	(3,634)	(3,426)	(1,549)	(2,510)	(1,727)	(4,072)
Total net gain/(loss) per common share *	0.01	(0.03)	(0.05)	(0.04)	(0.02)	(0.03)	(0.02)	(0.06)

* *Cumulative totals vary nominally as a result of foreign exchange differences between quarters.*

Total revenues fluctuate quarter over quarter as revenue growth is driven by the addition of new SaaS licenses associated with the new customers going live and the scaling of existing customers. Other revenue fluctuations are due mainly to the timing of delivery of professional services and the sale of one-time legacy on-premise licenses. As the Company is in the process of moving away from on-premise licenses, this element of variability is diminishing and will disappear altogether as the few remaining on-premise customers transition over to the SaaS product. The scaling of existing customers can be significant and large scaling events are somewhat unpredictable in their timing which given the early growth stage of the Company, can result in period-to-period variability in ARR growth rates. In the future, we expect revenues will become more stable as the revenue base continues to migrate towards the recurring subscription revenue model. In addition to the impact of revenue changes referred to above, fluctuations in operating losses are driven primarily by fluctuations in cost of labour in the period based on the hiring plan and the amount of qualifying labour capitalized to the intangible asset. Net loss is also affected by fluctuations in foreign exchange gains and losses recognized as a result of movements in foreign exchange rates between the Canadian dollar and the Euro and United States dollar, as the majority of the Company's costs and intercompany loans are denominated in Euro and United States dollar. Generally, there are limited quarterly or seasonal trends associated with the Company's business, though there has been a tendency towards a higher level of professional services revenue in the fourth quarter as customers focus on completing projects before the end of the year.

kneat.com expects to record losses as it continues to invest in the development of its product, Kneat Gx, and in its go to market strategy. The timing of the achievement of profitability is uncertain and will be impacted by the level of this investment and the rate of revenue growth. Refer to the *Risk Factors* section of this MD&A and note 17(e) *Liquidity Risk*, of the audited consolidated financial statements for the year ended December 31, 2022 for further details.

NON-GAAP FINANCIAL MEASURES

The Company uses a non-IFRS measure, working capital, in this MD&A. Management uses this non-GAAP financial measure together with measures determined in accordance with IFRS, to provide investors with a supplemental measure to evaluate the Company's financial condition. The Company calculates working capital as its current assets less its current liabilities. This measure has no meaning under IFRS and, therefore, amounts presented may not be comparable to similar data presented by other companies operating in a similar industry as the Company. The Company believes that securities analysts, investors and other interested parties frequently use non-GAAP financial measures in the evaluation of issuers. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance or financial condition prepared in accordance with IFRS. For further information, please refer to the 'Liquidity and Capital Resources' section of this MD&A.

SUPPLEMENTARY FINANCIAL MEASURES

The Company uses certain supplementary financial measures as key performance indicators in its MD&A and other communications that is described in the following section. Management uses both IFRS measures and supplementary financial measures as key performance indicators when planning, monitoring and evaluating the Company's performance. As supplementary financial measures, they should be considered as a supplement to, and not as a substitute for, or superior to, measures calculated in accordance with GAAP. All supplementary financial measures below do not have a standardized meaning under IFRS and therefore may not be comparable to similar measures presented by other companies.

Annual Recurring Revenue ("ARR")
Kneat management use ARR to evaluate and assess the Company's performance, identify trends affecting its business, formulate financial projections and make financial decisions. The Company believes that ARR is a useful metric for investors as it provides a measure of the value of the recurring revenue at a point in time (end date of the relevant quarter) and indicates the level of recurring revenue that the Company would anticipate reporting in a 12-month period based on the agreed full SaaS and maintenance fees for existing customers. ARR is used by Kneat to assess the expected recurring revenues from the customers that are live on the Kneat Gx platform at the end of the period. ARR is calculated as the licenses delivered to customers at the period end, multiplied by the expected customer retention rate of 100% and multiplied by the full agreed SaaS license or maintenance fee. Since many of the customer contracts are in currencies other than the Canadian dollar, the Canadian dollar equivalent is calculated using the related period end exchange rate multiplied by the contracted currency amount.

Annual recurring revenue ("ARR") at December 31, 2022 increased by 85% to $24.2 million from $13.1 million at December 31, 2021. Specifically, ARR from SaaS license fees increased by 95% and ARR from maintenance fees decreased by 46% from December 31, 2021. The increase in SaaS ARR reflects the increase in the number of customers purchasing the SaaS version of Kneat Gx, customers expanding their use of Kneat Gx, and an overall positive impact in exchange rate movements between the transactional currencies and the Canadian dollar reporting currency. The decrease in Maintenance fee ARR is a result of existing customers transitioning to SaaS during the period.

The following table which presents ARR information over the past eight quarters is expressed in millions of Canadian dollars:

	Q4 2022	**Q3 2022**	**Q2 2022**	**Q1 2022**	**Q4 2021**	**Q3 2021**	**Q2 2021**	**Q1 2021**
	($ MM)	($ MM)	($ MM)	($ MM)	($ MM)	($ MM)	($ MM)	($ MM)
SaaS ARR	23.7	18.0	15.2	12.4	12.2	11.3	7.3	4.9
Maintenance ARR	0.5	1.1	1.1	1.0	0.9	0.7	0.7	0.8
Total ARR	**24.2**	**19.1**	**16.3**	**13.4**	**13.1**	**12.0**	**8.0**	**5.7**

Net Revenue Retention Rate ("NRR")
The Company uses NRR as a key measure to provide insight into the long-term value of its customers and its ability to retain and expand revenue from our customer base over time. NRR is calculated over a trailing twelve-month period by considering the cohort of customers on our platform as of the beginning of the period and dividing the ARR attributable to this group of customers at the end of the period by the ARR at the beginning of the period. By implication, this ratio excludes any ARR from new customers acquired during the period but includes revenue changes for this cohort base of customers during the period being measured. This measure provides insight into customer expansions, downgrades, and churn, and illustrates the level of scaling by those customers. NRR was 158% for the trailing 12-month period ended December 31, 2022 (245% December 31, 2021), which includes a small positive impact in exchange rate movements between the transactional currencies and the Canadian dollar reporting currency.

Gross Retention Rate ("GRR")
GRR has been used by the Company as a measure to provide insight into the Company's success retaining ARR from existing customers. GRR measures the ARR lost from the customer base, not including any benefits from revenue expansion (including cross-sales, upsells, or price increases) or any impacts of changes in exchange rates. GRR is calculated by identifying if there has been any loss of ARR from any customers within the cohort of customers on our platform at the beginning of the period, over the twelve months to the end of the period (which would be reflective of downgrades, price decreases and churn during the period). GRR, which has a maximum possible value of 100%, was 96% for the trailing 12-month period ended December 31, 2022 (100% December 31, 2021). This primarily reflects consolidation of licenses by one large customer upon completion of a project which resulted in a reduction in the number of licenses in the short term. This customer has plans to continue expansion in the years ahead. Customer retention remained at 100% for the year ended December 31, 2022.

SELECTED ANNUAL INFORMATION

Expressed in thousands of Canadian dollars, except for per common share amounts, and prepared in accordance with IFRS:

	2022	**2021**	**2020**
	$000's	**$000's**	**$000's**
Total revenue	23,749	15,501	7,422
Total net loss	(9,148)	(9,858)	(5,691)
Total net loss per common share	(0.12)	(0.13)	(0.09)
Total assets	50,406	51,281	33,801
Total non-current financial liabilities	–	–	(120)

RESULTS OF OPERATIONS

Three-month period ended December 31, 2022

Revenues for the three-month period ended December 31,

	2022	**2021**	**$ change in 2022**	**% change in 2022**
SaaS license fees	$5,663,775	$3,035,105	$2,628,670	87%
On-premise license fees	$102,673	$1,227,903	($1,125,230)	(92%)
Maintenance fees	$156,959	$216,304	($59,345)	(27%)
Professional services	$1,326,632	$1,783,727	($457,095)	(26%)
Total revenues	**$7,250,039**	**$6,263,039**	**$987,000**	**16%**

SaaS license fees entitle a specified number of users to utilize the Kneat Gx platform hosted on a secure cloud server. SaaS license fee revenue is recognized over time, on a recurring monthly basis, as the services are performed. For the three-month period ended December 31, 2022 SaaS license fees were $5,663,775 as compared to $3,035,105 for the three-month period ended December 31, 2021. The increase of $2,628,270 in SaaS license fees was a result of the scaling of the number of licenses purchased by existing customers, onboarding new SaaS customers quarter over quarter, and an overall positive impact in exchange rate movements between the transactional currencies and the Canadian dollar reporting currency. At the end of 2022 the Company had 71 contracted customers, who had chosen Kneat as their global enterprise e-validation platform. Some of these customers are still in the initial deployment phase and will start contributing to revenue when they go-live post deployment. In recent quarters, these customer scalings have contributed strongly to ARR growth. While our growth trajectory continues upwards, large scaling events are somewhat unpredictable in their timing and given the early growth stage of the Company, they can result in period-to-period variability in ARR growth rates. The Company estimates that this existing customer base can contribute in excess of $50 million in Annual Recurring Revenue when all customers are fully scaled to all validation processes across all their sites. The Company estimates that a single top tier customer would typically take 3-6 years to achieve full scaling for the majority of its validation processes.

On-premise license fees entitle a customer to use the Kneat Gx platform for a set number of users, hosted on the customer's servers. These license fees are one-time-per license and paid upfront. In order to increase the number of licenses, the customer must pay additional license fees in advance of the license being granted. On-premise license fee revenue for the three-month period ended December 31, 2022 was $102,673 as compared to $1,227,903 for the three-month period ended December 31, 2021. The decrease of $1,125,230 in on-premise license fees was due to the transition of a number of customers from on-premise to the SaaS platform, and Q4 2021 scalings of on-premise licenses with existing legacy on-premise customers leading to recognition of the associated one-time upfront on-premise license fees in Q4 2021. Kneat does not offer on premise licenses to new customers and are working with existing customers on transitioning to SaaS.

Maintenance fees are established annually for on-premise licenses. Maintenance fees, which entitle the customer to front line support and software upgrades, are paid up front and are generally recurring annually. Maintenance fee revenue for the three-month period ended December 31, 2022 was $156,959 as compared to $216,304 for the three-month period ended December 31, 2021. The decrease of $59,345 in maintenance fees in the current quarter was due to existing customers transitioning to SaaS during 2022 leading to a reduction in the associated maintenance fee revenue recognized during the quarter ended December 31, 2022.

Professional services revenue vary by customer depending on the customer specific needs. Service fees may include training; development of custom reports; upgrades; pilots for potential customers; process mapping and deployment services. Professional services revenues for the three-month period ended December 31, 2022 were $1,326,632 as compared to $1,783,727 for the three-month period ended December 31, 2021. This decrease of $457,095 was primarily due to the timing of projects and service milestones being met relating to software deployments.

Cost of revenue for the three-month period ended December 31,

	2022	**2021**	**$ change in 2022**	**% change in 2022**
Cost of revenue	$2,672,903	$1,813,202	$859,701	47%

Cost of revenue consists primarily of employees' salaries and benefits, and allocated other overhead costs related to the professional service team supporting customer deployment, training and other services, and the customer support team, as well as costs associated with third-party hosting services related to the Company's SaaS platform. Cost of revenue for the three-month period ended December 31, 2022 was $2,672,903 compared to $1,813,202 for the three-month period ended December 31, 2021. The increase of $859,701 was due mainly to an increase in payroll, cloud hosting cost and consultants' fees and is partially offset by an overall positive impact in exchange rate movements between the transactional currencies and the Canadian dollar reporting currency.

Gross profit for the three-month period ended December 31,

	2022	**2021**	**$ change in 2022**	**% change in 2022**
Gross profit	$4,577,136	$4,449,837	$127,299	3%

Gross profit for the three-month period ended December 31, 2022 was $4,577,136 (Gross Margin %: 63%) compared to $4,449,837 (Gross Margin %: 71%) for the three-month period ended December 31, 2021. The increase of $127,299 in gross profit was primarily driven by the net increase in revenues. The reduction of 8% in gross margin is primarily due to lower on-premise revenue (which carries a higher gross margin) in Q4 2022 compared to Q4 2021.

Research and development expenses for the three-month period ended December 31,

	2022	2021	$ change in 2022	% change in 2022
Research and development	$3,048,724	$2,383,106	$665,618	28%

Research and development expenses consist of employee salaries and benefits for members of the research and development team that do not meet the criteria for capitalization to the intangible asset, amortization of the intangible asset, hosting costs associated with development servers and other allocated overhead costs associated with the team responsible for the research and development of Kneat Gx. Research and development expenses for the three-month period ended December 31, 2022 were $3,048,724 compared to $2,383,106 for the three-month period ended December 31, 2021. The increase of $665,618 is due primarily to an increase in salaries and benefits and related allocated overhead costs associated with increased headcount on the research and development team. In addition, there were increased cloud hosting costs relating to development servers, and the amortization of the intangible asset increased during the quarter ended December 31, 2022 due to additions to the intangible asset made throughout the past year, plus the impact of a full years amortizations on additions during 2021. The additions to the intangible asset consist mainly of the salaries and benefits of the development team, which increased the carrying value of the intangible asset and thus the amortization expense. There was also an overall positive impact in exchange rate movements between the transactional currencies and the Canadian dollar reporting currency during the quarter.

Sales and marketing expenses for the three-month period ended December 31,

	2022	2021	$ change in 2022	% change in 2022
Sales and marketing	$3,417,343	$1,122,431	$2,294,912	204%

Sales and marketing expenses consist of employee salaries and benefits for members of the sales and marketing team, amortization of contract acquisition costs, advertising, trade shows, consultancy fees and other allocated overhead costs associated with the team responsible for sales and marketing globally. Sales and marketing expenses for the quarter ended December 31, 2022 were $3,417,343 compared to $1,122,431 for the quarter ended December 31, 2021. The increase of $2,294,912 was due primarily to an increase in salaries and benefits and related allocated overhead costs associated with increased headcount on the sales and marketing team, recruitment costs and an increase in contract acquisition costs in the quarter ended December 31, 2022. The Company has also incurred increased costs relating to advertising, other marketing-related materials, and the Company organised “Validate” conference held during the year. There also was an overall positive impact in exchange rate movements between the transactional currencies and the Canadian dollar reporting currency.

General and administrative expenses for the three-month period ended December 31,

	2022	2021	$ change in 2022	% change in 2022
General and administrative	$1,391,846	$1,328,285	$63,561	5%

General and administrative expenses consist primarily of employee salaries and benefits for members of the management and administrative teams, legal and audit costs, regulatory fees and other allocated overhead costs associated with the management and administrative teams. General and administrative expenses for the quarter ended December 31, 2022 were $1,391,846 compared to $1,328,285 for the quarter ended December 31, 2021. The increase of $63,561 is due primarily to an increase in salaries and benefits associated with increased headcount on the management and administrative teams and related recruitment fees, partially offset by lower regulatory fees in Q4 2022 compared with Q4 2021 which included costs associated with the Company’s transition from the TSX-V to the main TSX. There was also an overall positive impact in exchange rate movements between the transactional currencies and the Canadian dollar reporting currency.

Other expenses for the three-month period ended December 31,

	2022	2021	$ change in 2022	% change in 2022
Interest expense	$53,857	$65,388	($11,531)	(18%)
Interest income	($1,057)	($1,954)	($897)	(46%)
Income tax expense	$16,611	$20,911	($4,300)	(21%)
Foreign exchange (gain)/ loss	($3,809,107)	$1,081,406	$4,890,513	452%

Interest expense decreased by $11,531 in the quarter ended December 31, 2022, primarily due to a reducing lease liability and the clearing of the loan balance in March 2022.

Income tax expense of $16,611 relates to a provision for U.S. State income tax liability for 2022.

The foreign currency gain of $3,809,107 arose in the current period due primarily to the impact of changes in exchange rates on financial assets and financial liabilities denominated in currencies other than the functional currency of the entity in which they are held. The key driver relates to the unrealized foreign exchange gains on Euro-denominated intercompany receivables.

Year ended December 31, 2022

Revenues for the year ended December 31,

	2022	2021	$ change in 2022	% change in 2022
SaaS license fees	$17,340,601	$8,675,145	$8,665,456	100%
On-premise license fees	$868,797	$1,800,443	($931,646)	(52%)
Maintenance fees	$804,043	$843,357	($39,314)	(5%)
Professional services	$4,735,760	$4,182,405	$553,355	13%
Total revenues	**$23,749,201**	**$15,501,350**	**$8,247,851**	**53%**

For the year ended December 31, 2022 SaaS license fees were $17,340,601 as compared to $8,675,145 for the year ended December 31, 2021. The increase of $8,665,456 in SaaS license fees, a 100% increase, was the result of onboarding new SaaS customers, as well as the scaling of the number of licences purchased by existing customers. There was also an overall positive impact in exchange rate movements between the transactional currencies and the Canadian dollar reporting currency.

On-premise license fee revenue for the year ended December 31, 2022 was $868,797 as compared to $1,800,443 for the year ended December 31, 2021. The decrease of $931,646 in the year ended December 31, 2022 is due to a reduction in the sales of on-premise licenses, as some of the remaining on-premise customers transition to the SaaS platform. Kneat does not offer on premise licenses to new customers and are working with the last few remaining on-premise customers on transitioning them to SaaS.

Maintenance fee revenue for the year ended December 31, 2022 was $804,043 as compared to $843,357 for the year ended December 31, 2021. This decrease of $39,314 was due to existing customers transitioning to SaaS during 2022 leading to a reduction in the associated maintenance fee revenue recognized during the year ended 31 December 2022.

Professional services revenues for the year ended December 31, 2022 were $4,735,760 as compared to $4,182,405 for the year ended December 31, 2021. This increase of $553,355 is primarily due to an increased level of professional services, including deployments to a growing number of new customers and other professional services to existing customers. It is also impacted by the timing of service milestones being met relating to software deployments and other professional services projects. There was also an overall positive impact in exchange rate movements between the transactional currencies and the Canadian dollar reporting currency.

Cost of revenue for the year ended December 31,

	2022	2021	$ change in 2022	% change in 2022
Cost of revenue	$9,094,688	$6,180,272	$2,914,416	47%

Cost of revenue for the year ended December 31, 2022 was $9,094,688 compared to $6,180,272 for the year ended December 31, 2021. The increase of $2,914,416 was due mainly to an increase in salaries, benefits and related costs associated with increased headcount relating to product delivery, support, and professional services. There was also an increase in consultant costs associated with projects, cloud hosting fees and other allocated overhead costs, and an overall positive impact in exchange rate movements between the transactional currencies and the Canadian dollar reporting currency.

Gross profit for the year ended December 31,

	2022	2021	$ change in 2022	% change in 2022
Gross profit	$14,654,513	$9,321,078	$5,333,435	57%

Gross profit for the year ended December 31, 2022 was $14,654,513 (Gross Margin %: 62%) compared to $9,321,078 (Gross Margin %: 60%) for the year ended December 31, 2021. The increase of $5,333,435 in gross profit and 2% in gross margin % was due to the increase in revenues over the year with a smaller corresponding increase in cost of revenue compared to 2021.

Research and development expenses for the year ended December 31,

	2022	2021	$ change in 2022	% change in 2022
Research and development	$10,992,499	$8,325,647	$2,666,852	32%

Research and development expenses for the year ended December 31, 2022 were $10,992,499 compared to $8,325,647 for the year ended December 31, 2021.The increase of $2,666,852 is due primarily to an increase in salaries, benefits, recruitment costs and related allocated overhead costs associated with increased headcount in the research and development team, increased cloud hosting costs relating to development servers associated with research and development activities, and an overall positive impact in exchange rate movements between the transactional currencies and the Canadian dollar reporting currency. There was also an increase in the amortization of the intangible asset in the period ended December 31, 2022 due to additions to the intangible asset made throughout the past year plus the impact of a full years amortization on additions during 2021. The additions to the intangible asset, consisting mainly of the salaries and benefits of the development team, increased the carrying value of the intangible asset and thus the amortization expense.

Sales and marketing expenses for the year ended December 31,

	2022	2021	$ change in 2022	% change in 2022
Sales and marketing	$8,516,347	$3,775,826	$4,740,521	126%

Sales and marketing expenses for the year ended period ended December 31, 2022 were $8,516,347 compared to $3,775,826 for the year ended December 31, 2021. The increase in sales and marketing of $4,740,521 was due primarily to an increase in salaries and benefits and related overhead costs associated with increased headcount on the sales and marketing team, recruitment related costs, cloud hosting, travel costs, and the Company organised "Validate" conference held during the year. There was also an increase in contract acquisitions in the period ended December 31, 2022.

General and administrative expenses for the year ended December 31,

	2022	2021	$ change in 2022	% change in 2022
General and administrative	$4,920,103	$3,573,496	$1,346,607	38%

General and administrative expenses for the year ended December 31, 2022 were $4,920,103 compared to $3,573,496 for the year ended December 31, 2021. The increase of $1,346,607 is due primarily to an increase in salaries and benefits and costs associated with increased headcount on the administrative teams and increases in insurance and computer software costs. There was an overall positive impact in exchange rate movements between the transactional currencies and the Canadian dollar reporting currency.

Other expenses (recoveries) for the year ended December 31,

	2022	2021	$ change in 2022	% change in 2022
Interest expense	$228,586	$284,954	($56,368)	(20%)
Interest income	($2,752)	($6,446)	($3,694)	(57%)
Income tax expense	$16,611	$20,911	($4,300)	(21%)
Foreign exchange (gain) loss	($868,693)	$3,205,218	$4,073,911	127%

Interest expense decreased by $56,368 in the year ended December 31, 2022, primarily due to a reducing lease liability and the clearing of the loan balance in March 2022.

Income tax expense of $16,611 relates to a provision for U.S. State income tax liability for 2022.

The foreign currency gain of $868,693 arose in the current period due primarily to the impact of changes in exchange rates on financial assets and financial liabilities denominated in currencies other than the functional currency of the entity in which they are held. The key driver relates to unrealized foreign exchange losses on euro-denominated intercompany receivables.

LIQUIDITY AND CAPITAL RESOURCES

kneat.com's liquidity depends on existing cash reserves, revenue generated from customers supplemented as necessary by equity or debt financings. As of December 31, 2022, kneat.com had cash of $12,282,478 compared to $21,562,968 as at December 31, 2021.

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.

The Company cleared the loan payable to Enterprise Ireland during the year ended December 31, 2022.

The working capital balance was $5,155,646 (current assets $22,129,314 less current liabilities $16,973,668) at December 31, 2022 as compared to $17,950,741 at December 31, 2021 (current assets $28,143,124 less current liabilities $10,192,383). Changes during the year relate primarily to the cash flows described below, the cash collected from customers and the operating and investing costs incurred through the normal course of operations.

During the year ended December 31, 2022, kneat.com used net funds for financing activities of $383,914. Investing activities, focused mainly on development of Kneat Gx, resulted in net cash outflows from investing activities of $11,911,641 for the year ended December 31, 2022. In addition, kneat.com generated net cash of $2,994,088 to fund operating activities.

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.

Kneat's business to date has focused on the development of Kneat Gx which is generating growing revenues from its customers, which are primarily top-tier pharmaceutical companies. Kneat has historically relied primarily on funding through the issuance of common shares, debt and the receipt of research and development tax credits.

The Directors believe that the Company's cash resources, when combined with the proceeds from customer receipts, will be sufficient to fund operations for at least twelve months from the issuance date of the audited consolidated financial statements.

COMMITMENTS AND CONTINGENCIES

The Company may from time to time be 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 $1,731,741 within one year and $909,716 in two to three years thereafter.

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.

OFF-BALANCE SHEET ARRANGEMENTS

kneat.com has no off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to kneat.com.

OUTSTANDING SHARE INFORMATION

The Company has authorized an unlimited number of common shares without par value. As of February 22, 2023, the Company had 77,692,911 common shares outstanding (December 31, 2022 – 77,662,911).

As of February 22, 2023, the Company has 2,853,278 (December 31, 2022 – 2,890,140) stock options outstanding at an average exercise price of $2.58 per common share with varying expiry dates. In addition, as at February 22, 2023 the Company has 512,551 deferred share units outstanding (December 31, 2022 – 512,551).

As of February 22, 2023, there were a total of 926,863 restricted share units outstanding (December 31, 2022 – 926,863).

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2022, the Company granted 108,182 DSUs to members of the Board of Directors who are not employees or officers of the Company (December 31, 2021 – 110,559). Directors of the Company also resigned from the Board during the year ended 31 December 2022. A total of 258,964 DSUs were settled with these directors. In addition, one director forfeited 30,227 DSUs.

During the year ended December 31, 2022, the Company granted 112,887 RSUs to members of the Board of Directors (December 31, 2021 – nil) and 309,976 RSUs to Key Management (December 31, 2021 – nil).

On April 28, 2021, directors of the Company subscribed to 333,334 common shares for gross proceeds of $1,000,002. In addition, Numus Capital Corp., a company in which a director of kneat.com is a shareholder, acted as a selling agent in the financing and received $120,000 in cash finders' fees.
On February 1, 2021, a director of the Company exercised 33,333 stock options at an exercise price of $0.90 per common share for gross proceeds of $30,000.

On January 22, 2021, directors of the Company exercised a total of 528,716 stock options at an exercise price of $0.90 per common share for gross proceeds of $475,844.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Market Risk

Currency risk

Currency risk is the risk that the fair value or 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.

For the year ended December 31, 2022, 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 $2.5 million; a 5% increase would decrease the net loss by approximately $2.5 million (strengthening of the euro/USD versus CAD). The Company currently does not hedge its currency risk.

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)

	Year ended December 31, 2022			**Year ended December 31, 2021**		
	As reported	**Exchange rate effect**	**5% Stronger**	**As reported**	**Exchange rate effect**	**5% Stronger**
	$	**$**	**$**	**$**	**$**	**$**
Revenues	23,749,201	1,187,460	24,936,661	15,501,350	772,031	16,273,381
Expenses	(32,897,389)	(1,590,682)	(34,488,071)	(25,359,878)	(1,036,478)	(26,396,356)
Net loss	(9,148,188)	(403,222)	(9,551,410)	(9,858,528)	(264,447)	(10,122,975)

(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.

Interest rate 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 audited consolidated statements of financial position. The Company does not hold a loan payable, as the loan was cleared during the year ended December 31, 2022. As a result, the Company is not exposed to cash flow interest rate risk on loan payables.

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 December 31, 2022 and December 31, 2021, the Company's financial assets exposed to credit risk amounted to the following:

	December 31, 2022	**December 31, 2021**
	$	$
Cash	12,282,478	21,562,968
Amounts receivable and other*	5,923,377	4,257,343

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

During the years ended December 31, 2022 and 2021, the Company did not hold any significant financial assets that were past due or impaired. Trade debtors of $4,938,869 are included in amounts receivable as at December 31, 2022 (2021 - $3,273,345). Trade debtors are monitored on a regular basis, with reference to the ECL impairment model, in order to minimize material aging and to ensure adequate collection. Historically there have been no trade debtor collection issues.

There were no material impairment losses recorded during the year and the provision for expected credit losses recorded at both December 31, 2022 and December 31, 2021 was also immaterial. 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, was BBB-, AA- and AA- respectively.

RISK FACTORS

The Company's operations and financial performance are subject to the normal risks of its industry and are subject to various factors which are beyond the control of the Company. Certain of these risk factors are described below. The risks described below are not the only ones facing the Company. Additional risks not currently known to the Company, or that it currently considers immaterial, may also adversely impact the Company's business, operations, financial results or prospects, should any such other events occur.

kneat.com has a limited commercial history and its future profitability is uncertain
kneat.com has a limited commercial history and its business is subject to all of the risks inherent in a growing software company. The Company's likelihood of success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with a company at this stage of growth. If kneat.com continues to incur operating losses and fails to become a profitable company, it may be unable to continue its operations. kneat.com may continue to operate at a net loss for the next several years, as it continues its software development efforts and continues to further develop its sales, marketing and distribution capabilities.

kneat.com's financial resources depend on a variety of dynamic factors
The Company's future capital requirements will depend on many factors, including its ability to maintain and expand its customer base, implement its cost optimization plans and implement its strategic plans. For the foreseeable future, kneat.com may have to fund a significant proportion of its operations and capital expenditures from the net proceeds of future offerings and grants of securities. Any additional equity financing may be dilutive to holders of the Company's common shares and any debt financing, if available, may require restrictions to be placed on the Company's future financing and operating activities. The Company may be unable to obtain additional financing on acceptable terms if the market and economic conditions, financial condition or operating performance of the Company or investor sentiment are unfavorable. The Company's inability to raise further funds may hinder its ability to implement its strategy to grow in the future or pay its obligations when it becomes due.

kneat.com has a history of losses and may never achieve or sustain profitability
kneat.com has incurred substantial losses since its inception, and it may not achieve profitability in the foreseeable future, if at all. kneat.com expects to incur net losses and negative cash flows due in part to increasing research and development expenses, marketing expenses, hiring additional personnel, cloud hosting and other costs. As a result, kneat.com will need to generate additional revenues in order to achieve and maintain profitability. kneat.com may not be able to generate these revenues or achieve profitability in the future. Even if kneat.com does achieve profitability, it may not be able to sustain or increase profitability.

The length of kneat.com's sales cycle can fluctuate significantly which could result in significant fluctuations in license and other revenues being recognized from quarter to quarter
The decision by a customer to purchase licenses for kneat.com's software product or purchase its services often involves a comprehensive implementation process across the customer's network or networks. As a result, the licensing and implementation of kneat.com's software product and any related services may entail a significant commitment of resources by prospective customers, accompanied by the attendant risks and delays frequently associated with significant technology implementation projects. Given the significant investment and commitment of resources required by an organization to implement kneat.com's software product, its sales cycle may be longer compared to other companies within kneat.com's own industry, as well as companies in other industries. Also because of changes in customer spending habits, it may be difficult for kneat.com to budget, forecast and allocate its resources properly. In weak economic environments, it is not uncommon to see reduced information technology spending. It may take several months, or even several quarters, for marketing opportunities to materialize. If a customer's decision to license kneat.com's software is delayed or if the implementation of the software product takes longer than originally anticipated, the date on which kneat.com may recognize revenues from these licenses would be delayed. Such delays and fluctuations could cause kneat.com's revenues to be lower than expected in a particular period and kneat.com may not be able to adjust its costs quickly enough to offset such lower revenues, potentially negatively impacting its business, operating results and financial condition.

If kneat.com does not continue to develop technologically advanced product functionality, future revenues and its operating results may be negatively affected
kneat.com's success depends upon its ability to design, develop, test, market, license and support new software functionality, services and enhancements of current functionality and services on a timely basis in response to both competitive threats and marketplace demands. Examples of significant trends in the software industry include cloud computing, mobility and social media. In addition, kneat.com's software product, services and enhancements must remain compatible with standard platforms and file formats. Moreover, if new industry standards emerge that kneat.com does not anticipate or adapt to, or with rapid technological change occurring, if alternatives to its services and solutions are developed by its competitors, kneat.com's software and services could be rendered obsolete, causing kneat.com to lose market share and, as a result, harm its business and operating results and its ability to compete in the marketplace.

If kneat.com's software and services do not gain market acceptance, its operating results may be negatively affected
kneat.com intends to pursue the goal for Kneat Gx to be the global standard for regulated data and documentation management across industries where sound data management, documentation practices and regulatory compliance are keys to success. kneat.com intends to pursue its strategy through, among other things, its proprietary research and the development of new software functionality and service offerings. In response to customer demand, it is important to kneat.com's success that it continues to enhance its software product and services and to seek to set the standard for Kneat Gx capabilities. The primary market for its software product and services is rapidly evolving, which means that the level of acceptance of software functionality and services that have been released recently or that are planned for future release by the marketplace is not certain. If the markets for kneat.com's software product and services fail to develop, develop more slowly than expected or become subject to increased competition, its business may suffer. As a result, kneat.com may be unable to: (i) successfully market its current product and services; (ii) develop new software product functionalities and services and enhancements to current software product functionalities and services; (iii) complete customer implementations on a timely basis; or (iv) complete software upgrades and services currently under development. In addition, increased competition could put significant pricing pressures on kneat.com's product which could negatively impact its margins and profitability. If

kneat.com's software product and services are not accepted by its customers or by other businesses in the marketplace, kneat.com's business, operating results and financial condition will be materially affected.

A small number of customers compose a proportionately large percentage of revenue

The Company has been dependent, and expects that during the current fiscal year it will continue to be dependent, on a relatively small number of customers for a large percentage of its revenue. For the year ended December 31, 2022, the Company's top 10 customers made up 55% of the Company's revenues (2021 67%). If one or more of the Company's end-users discontinues its relationship with the Company for any reason, or reduces or postpones current or expected purchases of the Company's products or services, the Company's business, results of operations and financial condition could be materially adversely affected.

kneat.com relies on third-party service providers

The Company's success depends upon relationships with third-party service providers, including providers of cloud hosting infrastructure, customer relationship management systems, financial reporting systems, human resource management systems, marketing automation systems, and payroll processing systems. If any of these third parties experience difficulty meeting the Company's requirements or standards, become unavailable due to extended outages or interruptions, temporarily or permanently cease operations, face financial distress or other business disruptions, increase their fees; or if the Company's relationships with any of these providers deteriorate; or if any of the agreements entered into with such third parties are terminated or not renewed without adequate transition arrangements, the Company could suffer liabilities, penalties, fines, increased costs and delays in its ability to provide customers with the Company's products, the Company's ability to manage its finances could be interrupted, receipt of payments from customers may be delayed, the Company's processes for managing sales of its offerings could be impaired, the Company's ability to generate and manage sales leads could be weakened, or the Company's business operations could be disrupted. Any of such disruptions may adversely impact the Company's business and its financial condition, results of operations, or cash flows until the Company replaces such providers or develops replacement technology or operations. In addition, if the Company is unsuccessful in identifying high-quality service providers, negotiating cost-effective relationships with them, or effectively managing these relationships, it could adversely affect the Company's business and financial results.

kneat.com depends on suppliers

The Company licenses certain technologies used in its products from third parties, generally on a non-exclusive basis. The termination of any of these licenses, or the failure of the licensors to adequately maintain or update their products, could delay the Company's ability to supply its products while the Company seeks to implement alternative technology offered by other sources which may require significant unplanned investments on its part. In addition, alternative technology may not be available on commercially reasonable terms or may not be available at all. In the future, it may be necessary or desirable to obtain other third-party technology licenses relating to one or more of the Company's products or relating to current or future technologies to enhance the Company's product offerings. There is a risk that the Company will not be able to obtain licensing rights to the required technology on commercially reasonable terms, if at all.

kneat.com's investment in its current research and development efforts may not provide a sufficient, timely return

The development of Kneat Gx is a costly, complex and time-consuming process and the investment in kneat.com's software product development often involves a long wait until a return is achieved on such an investment. kneat.com is making, and will continue to make, significant investments in software research and development and related product opportunities. Investments in new technology and processes are inherently speculative. Commercial success depends on many factors, including the degree of innovation of the software product and services developed through kneat.com's research and development efforts, sufficient support from its strategic partners and effective distribution and marketing. Accelerated software product introductions and short product life cycles require high levels of expenditures for research and development. These expenditures may adversely affect kneat.com's operating results if they are not offset by revenue increases. kneat.com believes that it must continue to dedicate a significant amount of resources to its research and development efforts in order to maintain its competitive position. However, significant revenues from new software product and service investments may not be achieved for a number of years, if at all. Moreover, new software functionality and services may not be profitable, and even if they are profitable, operating margins for new software product functionality and services may not be as high as projected.

Failure to protect kneat.com's intellectual property could harm its ability to compete effectively
kneat.com is highly dependent on its ability to protect its proprietary technology. kneat.com relies on a combination of trade secret laws, copyright protection, as well as non-disclosure agreements and other contractual provisions to establish and maintain its proprietary rights. kneat.com currently does not own any patents or have any patents pending. kneat.com intends to protect its intellectual property rights vigorously; however, there can be no assurance that these measures will, in all cases, be successful. Software piracy has been, and is expected to be, a persistent problem for the software industry and piracy of its software product may represent a loss of revenue to kneat.com. Where applicable, certain of kneat.com's license arrangements have required it to place such source code into escrow for the protection of another party. Despite the precautions kneat.com has taken, unauthorized third parties, including its competitors, may be able to copy certain portions of kneat.com's software product or reverse engineer or obtain and use information that kneat.com regards as proprietary. Also, kneat.com's competitors could independently develop technologies that are perceived to be substantially equivalent or superior to its technologies. kneat.com's competitive position may be adversely affected by its possible inability to effectively protect kneat.com's intellectual property. In addition, certain of its products may from time to time contain open source software. Licensees of open source software may be required to make public certain source code or to make certain derivative works available to others. While kneat.com monitors and controls the use of open source software in its product and in any third-party software that is incorporated into its product, and kneat.com tries to ensure that no open source software is used in such a way as to require it to disclose the source code to the related product or service, there can be no guarantee that such use could not inadvertently occur. If this happened it could harm kneat.com's intellectual property position and have a material adverse effect on its business, results of operations and financial condition.

Other companies may claim that kneat.com infringes their intellectual property, which could materially increase costs and materially harm its ability to generate future revenues and profits
Claims of infringement are becoming increasingly common as the software industry develops and as related legal protections, including patents, are applied to software products. Although kneat.com does not believe that its products infringe on the rights of third parties, third parties may assert infringement claims against it in the future. Although most of kneat.com's technology is proprietary in nature, kneat.com may include certain third party and/or open source software in its software product. In the case of third-party software, kneat.com believes this software is licensed from the entity holding the intellectual property rights. Although kneat.com believes that it has secured proper licenses for all third-party intellectual property that is integrated into its product, third parties may assert infringement claims against kneat.com in the future, including the sometimes aggressive and opportunistic actions of non-practicing entities whose business model is to obtain patent-licensing revenues from operating companies such as kneat.com. Any such assertion, regardless of merit, may result in litigation or may require kneat.com to obtain a license for the intellectual property rights of third parties. Such licenses may not be available or they may not be available on commercially reasonable terms. In addition, as kneat.com continues to develop software product functionality and expand its portfolio using new technology and innovation, kneat.com's exposure to threats of infringement may increase. Any infringement claims and related litigation could be time-consuming, disruptive to kneat.com's ability to generate revenues or enter into new market opportunities and may result in significantly increased costs as a result of kneat.com's defense against those claims or its attempt to license the intellectual property rights or rework kneat.com's product to avoid infringement of third-party rights. Typically, kneat.com's agreements with its partners and customers contain provisions which require kneat.com to indemnify them for damages sustained by them as a result of any infringement claims involving kneat.com's product. Any of the foregoing infringement claims and related litigation could have a significant adverse impact on kneat.com's business and operating results as well as its ability to generate future revenues and profits.

kneat.com is subject to a variety of laws, changes in which may adversely impact its ability to operate effectively
kneat.com operates offices in Canada, the United States and Ireland and continues to offer its product and services in the European Union, Canada, the United States and other countries. kneat.com is and will be subject to a variety of laws in the European Union, Canada, the United States and other countries, including laws regarding consumer protection, privacy, intellectual property, taxation and content suitability, distribution and antitrust, that are continuously evolving and developing. The scope, enforcement and interpretation of the laws that are or may be applicable to kneat.com and its subsidiaries are often uncertain and may be conflicting, particularly laws outside of Ireland, Canada and the United States. It is also likely that as business grows and evolves to a greater

number of countries, kneat.com will become subject to laws and regulations in additional jurisdictions. Compliance with applicable laws or regulations could be very difficult or liability could arise under these laws or regulations due to amendments to or evolving interpretation and enforcement of such laws and regulations. As a result, kneat.com could be directly harmed, and may be forced to implement new measures to reduce the exposure to this liability. This may require substantial resources to be expended or a modification of its product and services, which would harm the business, financial condition and results of operations of kneat.com.

Fluctuations in exchange rates of foreign currency could impact kneat.com's operating results
kneat.com currently reports its results in the Canadian dollar. Fluctuations in the exchange rates between the European Euro, United States dollar and Canadian dollar may have a material adverse effect on the business, financial condition and operating results of the Company. To date, kneat.com has not engaged in exchange rate hedging activities and may not do so in the foreseeable future.

Current and future competitors could have a significant impact on kneat.com's ability to generate future revenues and profits
The markets for kneat.com's software product and services are competitive and are subject to technological change and other pressures created by changes in its industry. The convergence of many technologies may result in unforeseen competitors arising from companies that were traditionally not viewed as threats to kneat.com's marketplace. kneat.com expects competition to increase and intensify in the future as the pace of technological change and adaptation quickens and as additional companies enter its markets, including those competitors who offer similar solutions as kneat.com does, but offer it through a different form of delivery. kneat.com could lose market share if its current or prospective competitors: (i) introduce new competitive products or services; (ii) add new functionality to its existing product and services; (iii) acquire competitive products and services; (iv) reduce prices; (v) form strategic alliances with other companies and/or (vi) undertake other activities to weaken the Company's position in the market place. If other businesses were to engage in aggressive pricing policies with respect to competing products, or if the dynamics in kneat.com's marketplace resulted in increasing bargaining power by the consumers of kneat.com's software product and services, kneat.com would need to lower the prices it charges for the product and services it offers. This could result in lower revenues or reduced margins, either of which may materially and adversely affect kneat.com's business and operating results. Additionally, if prospective consumers choose other methods of data and document management within regulated environments, different from that which we offer, kneat.com business and operating results could also be materially and adversely affected.

kneat.com must continue to manage its internal resources during periods of company growth or its operating results could be adversely affected
kneat.com's growth, coupled with the rapid evolution of its markets, may place significant strains on kneat.com's administrative and operational resources and increased demands on its internal systems, procedures and controls. kneat.com's administrative infrastructure, systems, procedures and controls may not adequately support its operations. In addition, kneat.com's management may not be able to achieve the rapid, effective execution of the product and business initiatives necessary to successfully implement kneat.com's operational and competitive strategy. If kneat.com is unable to manage growth effectively, its operating results will likely suffer which may, in turn, adversely affect its business.

If kneat.com loses the services of its executive officers or other key employees or if it is not able to attract or retain top employees, kneat.com's business could be significantly harmed
kneat.com's performance is substantially dependent on the performance of its executive officers and key employees. kneat.com does not maintain "key person" life insurance policies on any of its employees. kneat.com's success is also highly dependent on its continuing ability to identify, hire, train, retain and motivate highly qualified management, technical, sales and marketing personnel. In particular, the recruitment of top developers and experienced salespeople remains critical to its success. Competition for such people is intense, substantial and continuous, and kneat.com may not be able to attract, integrate or retain highly qualified technical, sales or managerial personnel in the future. In addition, in its effort to attract and retain critical personnel, kneat.com may experience increased compensation costs that are not offset by either improved productivity or higher prices for its software product or services.

kneat.com may fail to achieve its financial forecasts due to inaccurate sales forecasts or other factors

kneat.com's revenues, particularly its software license revenues, are difficult to forecast and as a result its quarterly operating results can fluctuate substantially. kneat.com uses a "pipeline" system, a common industry practice, to forecast sales and trends in its business. By reviewing the status of outstanding sales proposals to its customers and potential customers, kneat.com makes an estimate as to when a customer will make a purchasing decision involving its software product. These estimates are aggregated periodically to make an estimate of kneat.com's sales pipeline, which kneat.com uses as a guide to plan its activities and make financial forecasts. kneat.com's sales pipeline is only an estimate and may be an unreliable predictor of actual sales activity, both in a particular quarter and over a longer period of time. Many factors may affect actual sales activity, such as weakened economic conditions, which may cause kneat.com's customers and potential customers to delay, reduce or cancel software and service related purchasing decisions and the tendency of some of kneat.com's customers to wait until the end of a fiscal period in the hope of obtaining more favourable terms from kneat.com. If actual sales activity differs from kneat.com's pipeline estimate, then kneat.com may have planned its activities and budgeted incorrectly and this may adversely affect its business, operating results and financial condition.

kneat.com's software product and services may contain defects that could harm its reputation, be costly to correct, delay revenues, and expose kneat.com to litigation

kneat.com's software product and services are highly complex and sophisticated and, from time to time, may contain design defects, software errors, hardware failures or other computer system failures that are difficult to detect and correct. If these defects are discovered, kneat.com may not be able to successfully correct such errors in a timely manner. In addition, despite the extensive tests kneat.com conducts on all its software product or services, kneat.com may not be able to fully simulate the environment in which its product or services will operate and, as a result, kneat.com may be unable to adequately detect the design defects or software or hardware errors which may become apparent only after the product is installed in an end-user's network, and users have transitioned to kneat.com's services. The occurrence of errors and failures in kneat.com's software product or services could result in the delay or the denial of market acceptance of its product and alleviating such errors and failures may require kneat.com to make significant expenditure of its resources. Customers often use kneat.com services and solutions for critical business processes and as a result, any defect or disruption in kneat.com's solutions, any data breaches or misappropriation of proprietary information, or any error in execution, including human error or intentional third-party activity such as denial of service attacks or hacking, may cause customers to reconsider renewing their contract with kneat.com. The errors in or failure of kneat.com's software product and services could also result in kneat.com losing customer transaction documents and other customer files, causing significant customer dissatisfaction and possibly giving rise to claims for monetary damages. The harm to kneat.com's reputation resulting from product and service errors and failures may be materially damaging. kneat.com's agreements with its strategic partners and end-users typically contain provisions designed to limit its exposure to claims. However, such provisions may not effectively protect kneat.com against claims and the attendant liabilities and costs associated with such claims. Any claims for actual or alleged losses to kneat.com's customers' businesses may require kneat.com to spend significant time and money in litigation or arbitration or to pay significant settlements or damages. Defending a lawsuit, regardless of merit, can be costly and would divert management's attention and resources. Although kneat.com maintains insurance coverage, such coverage may not be adequate to cover all such claims. Accordingly, any such claim could negatively affect its business, operating results or financial condition.

Unauthorized disclosures and breaches of security data may adversely affect kneat.com's operations

kneat.com relies heavily on its information technology systems including, without limitation, its networks, equipment, hardware, software, telecommunications, and other information technology (collectively, "IT systems"), and the IT systems of its vendors and third-party service providers, to operate its business as a whole. kneat.com has strict measures to protect its IT systems against unauthorized access and disclosure of personal information and of kneat.com's confidential information and confidential information belonging to its customers. kneat.com has policies and procedures in place dealing with data security and records retention. However, there is no assurance that the security measures kneat.com has put in place will be effective in every case. Breaches in security could result in a negative impact for kneat.com and for its customers, affecting kneat.com's and its customers' businesses, assets, revenues, brands and reputations and resulting in penalties, fines, litigation and other potential liabilities, in each case depending on the nature of the information disclosed. Security breaches could also affect kneat.com's relations with its customers, injure kneat.com's reputation and harm its ability to keep existing customers and to attract new customers. These risks to kneat.com's business may increase as it expands the number of web-based and cloud-based product and services kneat.com offers.

kneat.com may become involved in litigation that may materially adversely affect the Company
From time to time in the ordinary course of kneat.com's business, it may become involved in various legal proceedings, including commercial, product liability, employment, class action and other litigation and claims, as well as governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources and cause kneat.com to incur significant expenses. Furthermore, because litigation is inherently unpredictable, the results of any such actions may have a material adverse effect on kneat.com's business, operating results or financial condition.

kneat.com's operating results could be adversely affected by any weakening of economic conditions
kneat.com's overall performance depends in part on worldwide economic conditions. Certain economies have experienced periods of downturn as a result of a multitude of factors, including, but not limited to, turmoil in the credit and financial markets, concerns regarding the stability and viability of major financial institutions, declines in gross domestic product, rising inflation and interest rates, increases in unemployment and volatility in commodity prices and worldwide stock markets, and excessive government debt. The severity and length of time that a downturn in economic and financial market conditions may persist, as well as the timing, strength and sustainability of any recovery, are unknown and are beyond kneat.com's control. During such downturns, many customers may delay or reduce technology purchases. Contract negotiations may become more protracted or conditions could result in reductions in the licensing of kneat.com's software product and the sale of cloud and other services, longer sales cycles, pressure on kneat.com's margins, difficulties in collection of accounts receivable or delayed payments, increased default risks associated with kneat.com's accounts receivables, slower adoption of new technologies and increased price competition. In addition, deterioration of the global credit markets could adversely impact kneat.com's ability to complete licensing transactions and services transactions, including maintenance and support renewals. Brexit has created economic and political uncertainty and the impact of it may not be fully known for several years. The consequences of Brexit may cause some of our customers or potential customers to reduce spending and/or may result in new regulatory and cost challenges for Kneat and its customers in that region. These adverse conditions could result in reductions in revenues from our United Kingdom based customers, slower adoption of new technologies as new regulations are put in place, and increased price competition if tariffs are implemented. In addition, impacts related to political instability, including Russia's invasion of Ukraine, may heighten many risks and uncertainties and could have a material adverse impact on our business. Any of these events, as well as a general weakening of, or declining corporate confidence in, the global economy, or a curtailment in government or corporate spending could delay or decrease kneat.com's revenues, and therefore have a material adverse effect on its business, operating results and financial condition.

Cyber security incidents and privacy breaches could result in important remediation costs, increased cyber security costs, litigation and reputational harm
Cyber security incidents can result from deliberate attacks or unintentional events. Cyber-attacks and security breaches could include unauthorized attempts to access, disable, improperly modify or degrade the Company's information, systems and networks, the introduction of computer viruses and other malicious codes and fraudulent "phishing" emails that seek to misappropriate data and information or install malware onto users' computers. Cyber-attacks in particular vary in technique and sources, are persistent, frequently change and are increasingly more targeted and difficult to detect and prevent. Disruptions due to cyber security incidents could adversely affect the Company's business. In particular, a cyber security incident could result in the loss or corruption of data from the Company's research and development activities. Also, the Company's trade secrets, including unpatented know how, technology and other proprietary information could be disclosed to competitors further to a breach, which would harm the Company's business and competitive position. If the Company is unable to protect the confidentiality of its trade secrets, the Company's business and competitive position would be harmed. The Company relies on a third-party to provide Infrastructure as a Service (IaaS) for the Kneat Gx SaaS product. Management and control of the Company's third-party providers are executed in accordance with the Company's vendor approval and control procedure which categorises its third-party providers based on risk. Oversight of the performance of third-party providers is performed at management review meetings in accordance with the Company's quality management system requirements. The third-party provides System and Organization Controls

(SOC) reports bi-annually, which are independent third-party examination reports that demonstrate how the entity achieves key compliance controls and objectives. All changes to infrastructure and configurations associated with the Company's SaaS cloud are governed by the Company's change control procedure and are specified, implemented and qualified according to GxP best practices. All activities within the third-party provider account are monitored and logged. The servers, services and applications running within the Company's SaaS cloud are monitored in real-time with alerts for failure and potential causes of impending failure.

kneat.com must successfully upgrade and maintain its information technology systems
The Company relies on various information technology systems to manage its operations. There are inherent costs and risks associated with maintaining, modifying and/or changing these systems and implementing new systems, including potential disruption of the Company's internal control structure, substantial capital expenditures, additional administration and operating expenses, retention of sufficiently skilled personnel to implement and operate its systems, demands on management time and other risks and costs of delays or difficulties in transitioning to new systems or of integrating new systems into the Company's current systems. In addition, the Company's information technology system implementations may not result in productivity improvements at a level that outweighs the costs of implementation, or at all. The implementation of new information technology systems may also cause disruptions in the Company's business operations and have an adverse effect on its business, prospects, financial condition and operating results.

kneat.com is subject to changes in its tax status or in taxation legislation in jurisdictions where it operates.
Any change in the Company's tax status or in taxation legislation in any jurisdiction in which the Company operates could affect the Company's financial condition and results and its ability (if any) to provide returns to shareholders of the Company. The taxation of an investment in the Company depends on the individual circumstances of investors.

kneat.com is subject to possible audit by tax authorities in the countries in which it operates
The Company is subject to possible audit by tax authorities in the countries in which it operates and/or sells its products and services. The outcome of an audit could result in the relevant authorities taking a different position to the Company on a taxation issue which could have an adverse affect on the Company as it may result in the Company being subject to fines and penalties, being liable to pay higher taxes or to repay amounts previously received, and/or not being eligible to receive amounts which are accrued in the financial statements but which have not yet been received.

COVID-19
Impacts related to the COVID-19 pandemic are expected to continue to pose risks to our business for the foreseeable future, may heighten many of the risks and uncertainties identified herein, and could have a material adverse impact on our business, operations or financial performance in a manner that is difficult to predict.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining our disclosure controls and procedures. We maintain a set of disclosure controls and procedures designed to provide reasonable assurance that information required to be publicly disclosed is recorded, processed, summarized and reported on a timely basis. Our CEO and CFO have evaluated the design of our disclosure controls and procedures at the end of the financial year and based on the evaluation have concluded that the disclosure controls and procedures are effective.

Internal Controls over Financial Reporting

Our internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Our management is responsible for establishing and maintaining adequate ICFR. Management, including our CEO and CFO, does not expect that our ICFR will prevent or detect all errors and all fraud or will be effective under all future conditions. A control system is subject to inherent limitations and even those systems determined to be effective can provide only reasonable, but not absolute, assurance that the control objectives will be met with respect to financial statement preparation and presentation.

National Instrument 52-109 of the Canadian Securities Administrators requires our CEO and CFO to certify that they are responsible for establishing and maintaining ICFR and that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Our CEO and CFO are also responsible for disclosing any changes to our internal controls during the most recent period that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. Our management under the supervision of our CEO and CFO has evaluated the design of our ICFR based on the Internal Control – Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. As at December 31, 2022, management assessed the design of our ICFR and concluded that our ICFR is effective.

Changes in Internal Controls over Financial Reporting

There has been no change in the Company's ICFR that occurred during period ended December 31, 2022 that has materially affected, or is reasonably likely or materially affect, the Company's ICFR.

CRITICAL ACCOUNTING POLICIES

kneat.com's significant accounting policies are disclosed in note 2, *Summary of Significant Accounting Policies*, of the audited consolidated financial statements for the year ended December 31, 2022. kneat.com has identified certain accounting policies that it believes are most critical in understanding the judgements that are involved in producing the audited consolidated financial statements and the estimates made that could impact results of the operations, which are discussed below.

Intangible assets

Expenditures on research activities undertaken with the prospect of gaining new technical knowledge and understanding is recognized in the consolidated statements of loss and comprehensive loss as an expense as incurred.

The intangible asset consists of the internally generated software platform, Kneat Gx. The development costs of the software platform, net of research and development tax credits, are capitalized as they can be measured reliably, the platform is technically and commercially feasible, future economic benefits are probable and the Company intends to, and has sufficient resources to, complete development and to use or sell the product. Expenditures capitalized include the cost of direct labour and other costs that are directly attributable to preparing the asset for its intended use.

The intangible asset is amortized based on the cost of the asset less its residual value. Amortization is charged to the consolidated statements of loss and comprehensive loss on a straight-line basis over the estimated useful economic life, from the date the asset is available for use, at an annual rate of 20%.

The estimated useful life, residual value and amortization rate are reviewed annually and no changes to estimates were made in 2022 or 2021.

Revenue Recognition

Revenue from contracts

The Company derives its revenues under license agreements from the sale of proprietary software licenses and provides software-related services including training, installation, upgrades, consulting and maintenance, which include product support services. Revenues are recognized when control of these licenses and services are transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services.

Revenue recognition is determined through the following five steps:

- Identification of the contract with the customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

Revenues generated by the Company include the following:

i) *Software as a service ("SaaS") license fees*

SaaS license agreements (also referred to as "subscription fees") entitle the customer to utilize the Kneat Gx platform, which is hosted by the Company on a cloud server, for a specified number of users without taking possession. SaaS license fee revenue is recognized rateably over the contract term, commencing on the date when Kneat's services are made available to the customer. Customers are typically invoiced and pay annually in advance for subscription fees upon execution of the initial contract or subsequent renewals.

ii) *On-premise license fees*

On-premise license fees entitle the customer to deploy the Kneat Gx platform on the customers' own servers. Revenues from on-premise perpetual license sales are recognized at a point in time, upon delivery or go-live, when transfer of control of the software has passed to the customer, there are no uncertainties surrounding product acceptance and consideration is known and considered collectible.

iii) *Maintenance fees*

Maintenance fees for on-premise software licenses generally require the Company to provide technical support and unspecified software updates to customers. Maintenance revenues for technical support and unspecified software update rights are recognized rateably over the term of the contract. The Company typically invoices and collects maintenance fees annually in advance.

iv) *Professional services*

The Company provides consulting, training, process mapping, project management and other services to its customers that are distinct from the sale of licenses. Revenues from such services are generally recognized at the point in time when performance obligations are satisfied.

The Company also performs services related to implementation. Services related to implementation are not a distinct performance obligation and thus are recognized consistent with the licenses for which they relate but are classified as professional services in the audited consolidated statements of loss and comprehensive loss.

Contracts with multiple performance obligations

Many of the Company's contracts involve multiple performance obligations that include licenses, maintenance and professional services. The Company evaluates each product and service in a contract to determine if they represent distinct performance obligations and determines whether to recognize revenue over time or at a point in time. For these contracts, the transaction price is allocated to the separate performance obligations based on their estimated stand-alone selling prices. The stand-alone selling prices of each performance obligation in these contracts is based on such factors as historical selling prices for these performance obligations in similar transactions, current pricing practices and other factors.

Deferred contract acquisition costs
Deferred contract acquisition costs are incremental selling costs that are associated with acquiring customer contracts and consist of sales commissions paid or due to the sales team. Capitalized contract acquisition costs are amortized consistently with the pattern of transfer to the customer for the goods and services to which the asset relates. The Company determines the amortization period by considering the customer specific contract deliverables, term and other factors. Amortization of deferred contract acquisition costs is included in sales and marketing expenses in the consolidated statements of loss and comprehensive loss. The Company applies the practical expedient available under IFRS 15 and does not capitalize incremental costs of obtaining contracts if the amortization period is one year or less.

Contract liabilities
Contract liabilities consist of deferred revenue for payments received and payments due in advance of revenue recognition from contracts with customers and are recognized in the consolidated statements of loss and comprehensive loss as revenue recognition criteria are met.

Contract assets
Contract assets consist of amounts earned but not yet billed as of the year-end date.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the audited consolidated financial statements in conformity with IFRS requires management to make judgements and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates.

Information about critical accounting judgements and estimates in applying accounting policies that have the most significant impact on the amounts recognized in the audited consolidated financial statements are outlined below.

Recognition of revenue
Contracts with customers often include promises to deliver multiple products and services. Determining whether these products and services represent distinct performance obligations and whether to recognize revenue over time or at a point in time may require significant judgment. In addition, the determination of the stand-alone selling price for distinct performance obligations may also require judgment. Based upon the company's history of generating revenue, management uses judgment, based on customer specific contracts and comparable sales, to determine the appropriate stand-alone selling value for each performance obligation.

In addition, certain of these performance obligations can have a term of more than one year and thus the identification and stand-alone selling price of the individual performance obligations impacts the timing of revenue recognition. A change in the stand-alone selling price allocated to each performance obligation could materially impact the revenue recognized in the current and future periods and the contract liability balance at period-end.

Internally generated intangible asset
The Company capitalizes certain costs incurred for the development of its Kneat Gx software platform in accordance with IAS 38, *Intangible Assets*. The capitalized costs include the costs directly attributable to preparing the intangible asset for its intended use, net of any qualifying research and development tax credits which are subject to audit by tax authorities. Management estimates the expected term over which the Company will receive benefits from the software application to be five years. A change in these estimates would have a significant impact on the carrying value of the intangible asset, the amounts receivable for the research and development tax credit and the amortization and expenses recognized in the consolidated statements of loss and comprehensive loss. The Company also applies judgment in determining the specific development costs that meet the Company's capitalization criteria.

Other areas of uncertainty are related to the incremental borrowing rate inherent in leases, estimation of expected credit losses, the measurement and recoverability of property, plant and equipment and the measurement of share-based arrangements.

Estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Additional information regarding the Company is available on SEDAR at www.sedar.com and on the Company's website at www.kneat.com.