



**Management's Discussion and Analysis
For the year ended December 31, 2021**

LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

I am pleased to report on the progress that we have made during the year ended December 31, 2021, highlighted by a 109% revenue growth against the year ended December 31, 2020. We continue to grow our key metric, recurring SaaS license fees which was \$8.7 million for the year ended December 31, 2021, an increase of 201% over 2020.

The continuing growth in our SaaS revenue adds to our annual recurring revenue (“ARR”)¹ base. Progress on this front is reflected in the growth in ARR at December 31, 2021 to \$13.1 million, a 174% increase year on year. The promotion of our SaaS offering remains key to Kneat’s growth strategy and in spite of the pandemic, we are executing well on our plans and gathering further momentum in the market.

Our existing customers continue to expand into new work processes and new sites across their networks, providing great opportunities for growth and expansion of our software. In recent quarters, these customer expansions 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. We are developing our company structure on many fronts, from administration to software development through to sales and marketing, growing our ability to scale our operations into the future. The whole Kneat team can be very proud as they continue to develop innovative compliant software, win increasing numbers of customers and provide excellent end-to-end customer service.

Despite the ongoing challenges presented by the pandemic, we are experiencing no significant adverse effects on our business across customer acquisition, fulfilment, and operations. Our customers have told us that our technology has aided their business continuity efforts at this critical time, because it allows them to manage a large proportion of their validation process remotely. All our employees continue to work remotely and all our operations from software development through to product release, delivery and customer service continue to operate effectively.

Our plan for 2022, is to continue to add and deploy new SaaS customers, expand to new work processes and new sites within our existing customer base, further develop the Kneat Gx platform, continue to build our company structure and leverage our partner relationships to help expand our global reach.

(s) “Eddie Ryan”
Eddie Ryan, CEO

¹ Annual Recurring Revenue (“ARR”) is a supplementary financial measure. See ‘Supplementary Financial Measures’ section of our MD&A for additional information.

kneat.com, inc.

Year ended December 31, 2021

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, 2021, 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 23, 2022. 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\$". Euros are 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 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. The forward-looking information in this MD&A does not include a full assessment or reflection of the unprecedented impacts of the COVID-19 pandemic and the ongoing and developing resulting indirect global and regional economic impacts. This has resulted in significant economic uncertainty and even though the Company has to date experienced no significant impact to its operations, any potential impact on our future is difficult to assess or measure at this time. The Company is regularly assessing the situation and remains in contact with its partners, customers and suppliers to assess any impacts and risks.

In addition to the impacts of COVID-19, 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; 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; 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"), was incorporated on December 12, 2013 under the laws of the Canada Business Corporations Act. On June 27, 2016, the Company completed a transaction with Kneat Solutions Limited whereby kneat.com acquired 100% of the issued and outstanding ordinary shares of Kneat Solutions Limited by way of a scheme of arrangement in Ireland (the "Transaction"). The Company commenced trading on the TSX Venture Exchange (TSXV) as kneat.com on July 5, 2016 under the symbol KSI. The Company graduated to, and began trading on, the main Toronto Stock Exchange (TSX) on November 15, 2021. kneat.com's head office is located at Unit 7, Castletroy Business Park, 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 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 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 and lost revenues.

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, 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, International Conference on Harmonization ICH Q8, Q9 and Q10, 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 within the global life sciences industry. Kneat initially targeted large tier 1 companies in the life sciences industry primarily in the United States and Europe and is now also targeting 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 a push by manufacturers to reduce costs and increase control while maintaining data integrity to a high standard. 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 within the life science industry may be in excess of \$600 million USD 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 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 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 the licenses are available for use by 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 provide 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. Currently, Kneat has relationships with close to 50 partner companies

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 customers' 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 at 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 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 to support acceleration and scaling

FINANCIAL HIGHLIGHTS

2021 Fourth Quarter Financial Highlights

- Total revenues increased 111% to \$6.3 million in Q4 2021, compared to \$3.0 million in Q4 2020.
- Gross Margin increased 177% to \$4.4 million (71%), compared to \$1.6 million (54%) in Q4 2020.
- Annual recurring revenue¹ increased 174% to \$13.1 million as of December 31, 2021 compared to \$4.8 million as of December 31, 2020.
- SaaS annual recurring revenue¹ increased 212% to \$12.2 million in Q4 2021 compared to \$3.9 million in Q4 2020.

2021 Twelve Months Financial Highlights

- Total revenues increased 109% to \$15.5 million in the year ended December 31, 2021, compared to \$7.4 million in the year ended December 31, 2020.
- Gross Margin increased 224% to \$9.3 million (60%) in the year ended December 31, 2021, compared to \$2.9 million (39%) in the year ended December 31, 2020.
- As of December 31, 2021, the Company's total cash position was \$21.6 million and total debt was \$0.1 million.

CORPORATE HIGHLIGHTS

In 2021 Kneat has made substantial progress driving revenue growth by continuing to scale existing customer licenses in addition to winning and onboarding new customers. A summary of recent corporate highlights is included below.

On January 31, 2022, the Company announced that Paul Breen had stepped down as a Director of the Company and Carol Leaman, CEO of Axonify, had been appointed to the Board of Directors.

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.

On December 22, 2021, the Company announced that it had signed a three-year Master Services Agreement with an industry leading global biopharmaceutical company.

On December 9, 2021, the Company announced that it had been ranked third in the prestigious 2021 Deloitte Ireland Technology Fast 50 list.

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

On November 15, 2021, the Company announced its graduation to the main TSX and that as of market open on November 15, its common shares would begin trading on the TSX under the symbol “KSI”.

On July 19, 2021, the Company announced that it signed a three-year Master Services Agreement to be the corporate enterprise e-validation solution for one of the world’s leading healthcare brands.

On June 2, 2021, the Company announced that it signed a three-year Master Services Agreement with one of the world’s leading engineering, consultancy and design firms to digitize Commissioning, Qualification and Validation services to both their food and life sciences clients.

On May 20, 2021, further to the announcement of her nomination for the Company’s Board of Directors on April 22, 2021, the Company confirmed Ms. Nutan Behki’s election to the Board of Directors following the annual and special meeting of shareholders.

On May 7, 2021, the Company announced that it signed a five-year corporate Master Services Agreement with another top ten biopharma company. In December 2020, Kneat announced its SaaS platform was chosen by this research and development-focused biopharma leader for a single site, however in May 2021, this company selected Kneat as its corporate-wide manufacturing e-Validation platform. The customer’s goal is to roll Kneat out in phases for multiple processes across all its manufacturing sites.

On April 28, 2021, the Company announced that it closed its short form prospectus offering, including the full exercise of the over-allotment option, and a concurrent private placement. As such, a total of 7,375,193 common shares of the Company were sold at a price of \$3.00 per common share for aggregate gross proceeds of \$22,125,579.

On March 25, 2021, the Company announced that it signed a five-year Master Services Agreement with one of the world’s largest contract development and manufacturing organizations (CDMO) to digitize its global computer System Validation, Commissioning and Qualification processes.

On March 10, 2021, the Company announced that it had appointed Ms. Laura Sweet, as its Vice President of Marketing. Ms. Sweet is an accomplished marketing and growth executive who has spent her last fourteen years focused on the IT, financial, and B2B SaaS industries.

SELECTED QUARTERLY INFORMATION

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

	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
	\$000’s	\$000’s	\$000’s	\$000’s	\$000’s	\$000’s	\$000’s	\$000’s
Total revenue*	6,263	3,734	3,149	2,355	2,963	1,958	1,546	955
Total operating loss*	(384)	(2,430)	(1,519)	(2,020)	(1,171)	(1,778)	(1,676)	(1,933)
Total net loss*	(1,549)	(2,510)	(1,727)	(4,072)	(1,585)	(1,336)	(2,305)	(465)
Total net loss per common share *	(0.02)	(0.03)	(0.02)	(0.06)	(0.02)	(0.02)	(0.03)	(0.01)

* 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 has moved 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 leading to potential large scaling events are somewhat unpredictable in their timing and given the early growth stage of the company, they too can result in period-to-period variability in ARR growth rates Revenues will become more stable quarter over quarter based on the recurring subscription revenue model. Fluctuations in operating loss 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 no quarterly or seasonal trends associated with the Company's business.

kneat.com expects to record losses until such time as it secures additional customer contracts. Refer to the *Risk Factors* section of this MD&A and note 17(e) *Liquidity Risk*, of the audited condensed consolidated financial statements for the year ended December 31, 2021 for further details.

NON-GAAP FINANCIAL MEASURES

The Company uses a non-IFRS measure, working capital, in this MD&A, which is not defined under IFRS. 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 supplemental 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, 2021 increased by 174% to \$13.1 million from \$4.8 million at December 31, 2020. Specifically, ARR from SaaS license fees increased by 212% and ARR from maintenance fees increased by 6% from December 31, 2020. The increase in SaaS license fees reflects the increase in the number of customers purchasing the SaaS version of Kneat Gx, which results in recurring revenue over time rather than a one-time upfront on-premise license fee. The increase in recurring maintenance fee revenue is a result of license scaling within the existing and diminishing legacy on-premise customer base.

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

	Q4 2021	Q3 2021	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020
	(\$ MM)	(\$ MM)	(\$ MM)	(\$ MM)	(\$ MM)	(\$ MM)	(\$ MM)	(\$ MM)
SaaS ARR	12.2	11.3	7.3	4.9	3.9	3.0	2.6	1.9
Maintenance ARR	0.9	0.7	0.7	0.8	0.9	0.8	0.7	0.7
Total ARR	13.1	12.0	8.0	5.7	4.8	3.8	3.3	2.6

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 245% for the trailing 12-month period ended December 31, 2021.

Gross Retention Rate (“GRR”)

GRR is a key measure to provide insight into the Company’s success retaining existing customers. GRR measures the annual revenue lost from the customer base, *not* including any benefits from revenue expansion (including cross-sales, upsells, or price increases). GRR 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 cohort of customers at the end of the period excluding any expansions, but including downgrades and churn during the period, by the ARR at the beginning of the period. It is a measure of the retention of ARR at the beginning of the period with a maximum possible value of 100% if there are no downgrades and churn. GRR was 100% for the trailing 12-month period ended December 31, 2021.

SELECTED ANNUAL INFORMATION

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

	2021	2020	2019
	\$000’s	\$000’s	\$000’s
Total revenue	15,501	7,422	3,950
Total net loss	(9,858)	(5,691)	(6,197)
Total net loss per common share	(0.13)	(0.09)	(0.11)
Total assets	51,281	33,801	14,648
Total non-current financial liabilities	–	(120)	(555)

RESULTS OF OPERATIONS

Three-month period ended December 31, 2021

Revenues for the three-month period ended December 31,

	2021	2020	\$ change in 2021	% change in 2021
SaaS license fees	\$3,035,105	\$1,137,589	\$1,897,516	167%
On-premise license fees	\$1,227,903	\$583,700	\$644,203	110%
Maintenance fees	\$216,304	\$274,198	(\$57,894)	(21%)
Professional services and other	\$1,783,727	\$967,087	\$816,640	84%
Total revenues	\$6,263,039	\$2,962,574	\$3,300,465	111%

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, 2021 SaaS license fees were \$3,035,105 as compared to \$1,137,589 for the three-month period ended December 31, 2020. The increase of \$1,897,515 in SaaS license fees was a result of onboarding new SaaS customers quarter over quarter, and the scaling of the number of licenses purchased by existing customers. At the end of 2021 the Company had 48 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 base will contribute in excess of \$50 million in Annual Recurring Revenue when all customers are fully scaled to all validation processes across all their sites.

On-premise license fees entitle a customer to use the Kneat Gx platform for a set number of users, hosted on the customers' 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, 2021 was \$1,227,903 as compared to \$583,700 for the three-month period ended December 31, 2020. The increase of \$644,203 in on-premise license fees was due to the scaling of a number of on-premise licenses with existing legacy on-premise customers during the quarter leading to recognition of the associated one-time upfront on-premise license fees in the current quarter.

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, 2021 was \$216,304 as compared to \$274,198 for the three-month period ended December 31, 2020. The decrease of \$57,897 in maintenance fees in the current quarter was due to existing customers transitioning to SaaS during 2021 leading to a reduction in the associated maintenance fee revenue recognized during the quarter ended 31 December 2021.

Professional services and other 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 and other revenues for the three-month period ended December 31, 2021 were \$1,783,727 as compared to \$967,087 for the three-month period ended December 31, 2020. This increase of \$816,640 was primarily due to an increase in customer numbers resulting in increased professional services being provided. It is also impacted by the timing of service milestones being met relating to software deployments.

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

	2021	2020	\$ change in 2021	% change in 2021
Cost of revenues	\$1,813,202	\$1,358,804	\$454,398	33%

Cost of revenues consists primarily of employees' salaries and benefits, and allocated other overhead costs related to the professional service team supporting customer deployment, training, maintenance 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, 2021 was \$1,813,202 compared to \$1,358,804 for the three-month period ended December 31, 2020. The increase of \$454,398 was due mainly to an increase in salaries, benefits and related allocated overhead costs associated with increased headcount relating to professional services and customer support, the recognition of a bonus accrual in the quarter ended 31 December 2021, and an increase in cloud hosting costs and consultants' fees.

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

	2021	2020	\$ change in 2021	% change in 2021
Gross margin	\$4,449,837	\$1,603,770	\$2,846,067	177%

Gross margin for the three-month period ended December 31, 2021 was \$4,449,837 (71%) compared to \$1,603,770 (54%) for the three-month period ended December 31, 2020. The increase of \$2,846,067 in gross margin and 20% in gross margin % was driven by a significant increase in revenue coupled with a smaller increase in related cost of revenues over the same quarter of 2020.

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

	2021	2020	\$ change in 2021	% change in 2021
Research and development	\$2,383,106	\$1,530,487	\$852,619	56%

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, 2021 were \$2,383,106 compared to \$1,530,487 for the three-month period ended December 31, 2020. The increase of \$852,619 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, employee bonuses were accrued in the quarter ended 31 December 2021, and the amortization of the intangible asset increased during the quarter ended December 31, 2021 due to additions to the intangible asset made throughout the past year, consisting mainly of the salaries and benefits of the development team, which increased the carrying value of the intangible asset and thus the amortization expense.

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

	2021	2020	\$ change in 2021	% change in 2021
Sales and marketing	\$1,122,431	\$527,919	\$594,512	113%

Sales and marketing expenses consist of employee salaries and benefits for members of the sales 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, 2021 were \$1,122,431 compared to \$527,919 for the quarter ended December 31, 2020. The increase of \$594,512 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, 2021. The Company has also incurred increased costs relating to advertising and other marketing related materials.

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

	2021	2020	\$ change in 2021	% change in 2021
General and administrative	\$1,328,285	\$716,332	\$611,953	85%

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, 2021 were \$1,328,285 compared to \$716,332 for the quarter ended December 31, 2020. The increase of \$611,953 is due primarily to an increase regulatory fees due to the Company's transition to the main

TSX in the quarter ended December 31, 2021, an increase in salaries, benefits, and related allocated overhead costs associated with increased headcount on the administrative team, accrual of an employee bonus in the current quarter and increased insurance costs.

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

	2021	2020	\$ change in 2021	% change in 2021
Interest expense	\$65,388	\$81,319	(\$15,931)	(20%)
Interest income	(\$1,954)	(\$190)	\$1,764	928%
Income tax expense	\$20,911	-	\$20,911	100%
Foreign exchange (gain) loss	\$1,081,406	\$333,130	\$748,276	225%

Interest expense decreased by \$15,931 in the quarter ended December 31, 2021. This was due to reduced interest payments on the Company's Hawthorn House lease and on the Company's loan as it nears maturity in early 2022.

Income tax expense relates to a provision for U.S. State income tax liability for 2021.

The foreign currency loss of \$1,081,406 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.

Year ended December 31, 2021

Revenues for the year ended December 31,

	2021	2020	\$ change in 2021	% change in 2021
SaaS license fees	\$8,675,145	\$2,884,676	\$5,790,469	201%
On-premise license fees	\$1,800,443	\$1,096,452	\$703,991	64%
Maintenance fees	\$843,357	\$812,235	\$31,122	4%
Professional services and other	\$4,182,405	\$2,628,554	\$1,553,851	59%
Total revenues	\$15,501,350	\$7,421,917	\$8,079,433	109%

For the year ended December 31, 2021 SaaS license fees were \$8,675,145 as compared to \$2,884,676 for the year ended December 31, 2020. The increase of \$5,790,469 in SaaS license fees, a 201% increase, was the result of onboarding new SaaS customers, as well as the scaling of the number of licences purchased by existing customers.

On-premise license fee revenue for the year ended December 31, 2021 was \$1,800,443 as compared to \$1,096,452 for the year ended December 31, 2020. The increase of \$703,991 in the year ended December 31, 2021 is due to scaling of the number of licenses purchased by existing legacy on-premise customers during the year.

Maintenance fee revenue for the year ended December 31, 2021 was \$843,357 as compared to \$812,235 for the year ended December 31, 2020. The slight increase of \$31,122 was due to scaling of on-premise licenses with certain existing on-premise customers during the year, offset by a decrease from other existing customers transitioning to SaaS during the year.

Professional services and other revenues for the year ended December 31, 2021 were \$4,182,405 as compared to \$2,628,554 for the year ended December 31, 2020. This increase of \$1,553,851 is primarily due an increase in customer numbers and the larger professional services team in place for the full year in 2021 providing an increased level of professional services to those customers. It is also impacted by the timing of service milestones being met relating to software deployments and other professional services projects.

Cost of revenues for the year ended December 31,

	2021	2020	\$ change in 2021	% change in 2021
Cost of revenues	\$6,180,272	\$4,540,879	\$1,639,393	36%

The increase of \$1,639,393 was due mainly to an increase in salaries, benefits and related costs associated with increased headcount on the professional services and customer support teams as well as increased cloud hosting fees and the recognition of an annual bonus accrual in 2021.

Gross margin for the year ended December 31,

	2021	2020	\$ change in 2021	% change in 2021
Gross margin	\$9,321,078	\$2,881,038	\$6,440,040	224%

Gross margin for the year ended December 31, 2021 was \$9,321,078 (60%) compared to \$2,881,038 (39%) for the year ended December 31, 2020. The increase of \$6,379,316 in gross margin and 21% in gross margin % was due to a significant increase in revenues over the year and a smaller related increase in cost of sales compared to 2020.

Research and development expenses for the year ended December 31,

	2021	2020	\$ change in 2021	% change in 2021
Research and development	\$8,325,647	\$5,307,172	\$3,018,475	57%

The increase of \$3,018,475 is due primarily to an increase in salaries and benefits and related allocated overhead costs associated with increased headcount and general salary increases for individuals on the research and development team and related increased recruitment costs, as well as the recognition of an annual employee bonus accrual. In addition, the amortization of the intangible asset increased during the year ended December 31, 2021 due to additions to the intangible asset, consisting mainly of the salaries and benefits of the development team, which increased the carrying value of the intangible asset and thus the amortization expense.

Sales and marketing expenses for the year ended December 31,

	2021	2020	\$ change in 2021	% change in 2021
Sales and marketing	\$3,775,826	\$1,731,650	\$2,044,176	118%

The increase in sales and marketing expense was due primarily to an increase in contract acquisitions costs in the year ended December 31, 2021 as well as an increase in salaries and related overhead due to increased headcount on the sales and marketing teams and the recognition of an annual employee bonus accrual. The company also incurred increased costs relating to advertising and other marketing related materials.

General and administrative expenses for the year ended December 31,

	2021	2020	\$ change in 2021	% change in 2021
General and administrative	\$3,573,496	\$2,399,566	\$1,173,930	49%

The increase of \$1,173,930 is due primarily to an increase in regulatory fees and insurance costs during the year as well as an increase in software costs associated with investment in the new ERP system. There were also increases in salaries, benefits and related costs associated with increased headcount and the recognition of annual bonus accrual in 2021.

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

	2021	2020	\$ change in 2021	% change in 2021
Interest expense	\$284,954	\$192,300	\$92,654	48%
Interest income	(\$6,446)	(\$1,812)	\$4,634	256%
Income tax expense	\$20,911	-	\$20,911	100%
Foreign exchange (gain) loss	\$3,205,218	(\$1,056,668)	(\$4,261,886)	(403%)

Interest expense increased by \$92,654 in the year ended December 31, 2021. This was due to monthly interest charges on the lease of the Company's new premises at Hawthorn House which commenced in July 2020.

Income tax expense relates to a provision for U.S. State income tax liability for 2021.

The foreign currency loss of \$3,205,218 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.

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, 2021, kneat.com had cash of \$21,562,968 compared to \$8,659,085 as at December 31, 2020.

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 net cash proceeds of approximately \$20 million raised in this financing will be used for growth initiatives, working capital and general corporate purposes.

On March 12, 2020, the Company announced that it closed its short form prospectus offering for gross proceeds of \$12,650,978 and a concurrent non-brokered private placement for aggregate gross proceeds of \$1,830,522.

The Company's debt relates to the loan payable held by Enterprise Ireland. During the year ended December 31, 2019, Enterprise Ireland and Kneat agreed to a revised loan repayment schedule which resulted in payments being restructured and is payable over a three-year period. As of December 31, 2021, the minimum annual principal repayments of the loan payable over the next year is \$113,242.

The working capital balance was \$17,950,741 (current assets \$28,143,124 less current liabilities \$10,192,383) at December 31, 2021 as compared to \$7,395,822 at December 31, 2020 (current assets \$13,433,328 less current liabilities \$6,037,506). 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, 2021, kneat.com raised net funds through financing activities of \$21,200,137. Investing activities, focused mainly on development of Kneat Gx, resulted in net cash outflows from investing activities of \$10,043,265 for the year ended December 31, 2021. In addition, kneat.com generated net cash of \$2,307,553 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 has generated limited but 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 consolidated financial statements

COMMITMENTS AND CONTINGENCIES

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

The Company has committed to purchase certain services which will result in the Company paying \$1,690,552 within one year and \$2,334,119 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 23, 2022, the Company had 76,978,076 common shares outstanding (December 31, 2021 – 76,978,076). No common shares are subject to escrow agreements.

As of February 23, 2022, the Company has 3,056,527 (December 31, 2021 – 2,817,135) stock options outstanding at an average exercise price of \$2.13 per common share with varying expiry dates. In addition, as at February 23, 2022 the Company has 727,544 deferred share units outstanding (December 31, 2021 – 693,560).

As of February 23, 2022, there were a total of 235,495 (December 31, 2021 – 235,495) common share purchase warrants outstanding with an exercise price of \$2.10 per share and an expiry date of March 12, 2022.

RELATED PARTY TRANSACTIONS

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 March 12, 2020, directors of the Company subscribed to 238,096 common shares for gross proceeds of \$500,001. In addition, Numus Capital Corp. acted as selling agent in the financing and received 52,301 broker warrants and \$109,831 in cash finders' fees.

On February 1, 2021, a director of the Company exercised 33,333 stock options at an exercise price of \$.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 \$.90 per common share for gross proceeds of \$475,844

During the year ended December 31, 2021, the Company issued a total of 110,559 DSUs to members of the Board of Directors who are not employees or officers of the Company (2020 – 114,948).

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, loan payable, 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, 2021, a 5% decrease in the exchange rate between the functional currencies and foreign currencies would increase the net loss by approximately \$3.1 million; a 5% increase would decrease the net loss by approximately \$3.1 million. 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, 2021			Year ended December 31, 2020		
	As reported	Exchange rate effect	5% Stronger	As reported	Exchange rate effect	5% Stronger
	\$	\$	\$	\$	\$	\$
Revenues	15,501,350	772,031	16,273,381	7,421,917	371,096	7,793,013
Expenses	(25,359,878)	(1,036,478)	(26,396,356)	(13,113,087)	(681,357)	(13,794,444)
Net loss	(9,858,528)	(264,447)	(10,122,975)	(5,691,170)	(310,261)	(6,001,431)

(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 and the loan payable on the audited consolidated statements of financial position. The Company holds a loan payable with a fixed interest rate. This is privately issued, with no secondary market. It is measured at amortized cost. As a result, the Company is not exposed to cash flow interest rate risk on its loan payable.

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, 2021 and December 31, 2020, the Company's financial assets exposed to credit risk amounted to the following:

	December 31, 2021	December 31, 2020
	\$	\$
Cash	21,562,968	8,659,085
Amounts receivable and prepayments*	4,257,343	3,366,954

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

During the years ended December 31, 2021 and 2020, the Company did not hold any significant financial assets that were past due or impaired. Trade debtors of \$3,273,345 are included in amounts receivable as at December 31, 2021 (2020 - \$2,437,585). 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, 2021 and December 31, 2020 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.

Financial Resources

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 and other hosting 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.

Small Number of Customers Compose 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, 2021, the Company's top 10 customers made up 67% of the Company's revenues. (2020 68%). 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.

Reliance 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, 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.

Dependence 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 ship 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.

Impact of laws

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 abroad, 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.

Foreign currency and exchange rate risk

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 it

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, 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. 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. Brexit has created economic and political uncertainty and the impact of it may not be fully known for several years. 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. Any of these events may have an adverse effect on Kneat's operating results and financial position.

COVID-19

Kneat is monitoring the ongoing outbreak of COVID-19 which could have adverse consequences on the Company including, but not limited to, business continuity interruptions, disruption of development activities, unfavorable market conditions, and the health and safety of employees. The Company has been following established business continuity and disaster recovery plans since the outbreak began. The Company has instituted remote workforce plans for employees in cases where functions can be completed in this manner. Each functional area has established protocols that ensures critical roles has effective social distancing, either via remote working, employee rotation or functions residing in different physical locations. As government guidelines are being continuously updated, the Company ensures that its plans for visitors and employees remain consistent with these guidelines. In response to the recent outbreak, the Company has developed a plan to monitor, and effectively mitigate, risks posed to our employees and business. However, no such plan can eliminate the risks associated with events of this magnitude. Any failure to respond effectively or appropriately to such events could adversely affect the Company's operations, reputation and financial results.

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 against. 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.

The Company 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.

Taxation

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.

The Company 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 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.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

At December 31, 2021, the Company is exempt from representations relating to the establishment and maintenance of disclosures controls and procedures (DC&P) and internal controls over financial reporting (ICFR), as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109).

Limitations of Controls and Procedures

The Company's management, including the CEO and CFO, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

CRITICAL ACCOUNTING POLICIES

kneat.com's significant accounting policies are disclosed in note 2, *Summary of Significant Accounting Policies*, of the annual consolidated financial statements for the year ended December 31, 2021. kneat.com has identified certain accounting policies that it believes are most critical in understanding the judgments 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 asset

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 2021 or 2020.

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 and other in the 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 various professional services. The Company evaluates each product and service in a contract to determine if they represent distinct performance obligations and thus require separate accounting treatment. 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.

SIGNIFICANT ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the audited consolidated financial statements in conformity with IFRS requires management to make judgments 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. 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. Information about critical accounting judgments 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 judgment. In addition, the determination of the stand-alone selling price for distinct performance obligations may also require significant judgment. As the Company has a limited 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.

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