kneat.com, inc.
(formerly Fortune Bay Corp.)

Consolidated Financial Statements
December 31, 2016 and December 31, 2015
(expressed in Canadian dollars)

April 24, 2017

Management's Report

The accompanying consolidated financial statements of **kneat.com, inc. (formerly Fortune Bay Corp.)** (the "Company") have been prepared by the Company's management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and contain estimates based on management's judgment. Internal control systems are maintained by management to provide reasonable assurances that assets are safeguarded and financial information is reliable.

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and the management discussion and analysis. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board of Directors and a majority of its members are independent directors. It meets with the Company's management and auditors and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the consolidated financial statements to the Board of Directors for approval.

(signed) "*Edmund Ryan*"
Chief Executive Officer
Limerick, Ireland

(signed) *"Sarah Oliver"*
Chief Financial Officer
Halifax, Canada

April 24, 2017

Independent Auditor's Report

To the Shareholders of
kneat.com, inc.

We have audited the accompanying consolidated financial statements of kneat.com, inc. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statement of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of kneat.com, inc. and its subsidiaries as at December 31, 2016 and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP
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Emphasis of Matter
We draw attention to Note 1 to these consolidated financial statements, which states that kneat.com, inc. incurred a net loss of $7,015,805 during the year ended December 31 2016. This, along with other matters as described in Note 1, indicates the existence of a material uncertainty which may cast significant doubt about the ability of kneat.com, inc. to continue as a going concern. Our opinion is not qualified in respect of this matter.

Other Matter
The consolidated financial statements of kneat.com, inc. expressed in euros as at December 31, 2015 and for the year then ended were audited by another auditor who expressed an unqualified opinion on those statements on May 9, 2016.

As part of our audit of the consolidated financial statements, we also audited the change in presentation currency described in Note 3 that was applied to amend the 2015 financial statements. In our opinion, the impact of the change in presentation currency is appropriate and has been properly applied. We also audited the impact of the share conversion described in Note 4 that was applied to amend the 2015 financial statements. In our opinion, the impact of this amendment is appropriate and has been properly applied.

We were not engaged to audit, review, or apply any procedures to the 2015 consolidated financial statements of the company other than with respect to the change in presentation currency and the impact of the share conversion and, accordingly, we do not express an opinion or any other form of assurance on the 2015 financial statements taken as a whole.

(signed) *"PricewaterhouseCoopers LLP"*

Chartered Professional Accountants, Licensed Public Accountants

kneat.com, inc. (formerly Fortune Bay Corp.)

Consolidated Statements of Financial Position

As at December 31, 2016, December 31, 2015 and January 1, 2015

(expressed in Canadian dollars)

	December 31, 2016 $	December 31, 2015 $ (note 3, restated)	January 1, 2015 $ (note 3, restated)
Assets			
Current assets			
Cash	4,988,601	1,063,524	18,330
Accounts receivable and other (note 7)	1,294,223	633,400	419,122
	6,282,824	1,696,924	437,452
Accounts receivable (note 7)	476,807	389,614	300,666
Property and equipment (note 8)	321,548	423,133	308,401
Intangible asset (note 9)	2,489,610	1,741,012	1,189,483
	9,570,789	4,250,683	2,236,002
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities (note 10)	1,168,877	589,133	337,145
Directors' current accounts (note 18)	–	259,146	317,396
	1,168,877	848,279	654,541
Loan payable and accrued interest (note 11)	922,608	973,250	885,630
Accounts payable and accrued liabilities (note 10)	192,216	186,086	170,973
	2,283,701	2,007,615	1,711,144
Equity			
Shareholders' equity	7,287,088	2,243,068	524,858
	9,570,789	4,250,683	2,236,002

Going concern (note 1)

Commitments and contingencies (note 21)

Approved on behalf of the Board of Directors on April 24, 2017

(signed) *"Ian Ainsworth"*, Director

(signed) *"Wade Dawe"*, Director

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

kneat.com, inc. (formerly Fortune Bay Corp.)

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31, 2016 and December 31, 2015

(expressed in Canadian dollars)

	2016 $	2015 $ (note 3, restated)
Revenue (note 13)	820,360	986,228
Expenses		
Amortization of intangible assets (note 9)	702,765	526,087
Administrative expenses (note 14)	2,736,489	1,441,915
Finance costs, net (note 15)	175,739	27,302
Listing expense (note 6)	3,795,887	–
Disbursement connected to the Transaction (note 6)	425,285	–
Loss before income taxes	7,015,805	1,009,076
Income tax recovery (note 16)	–	–
Net loss for the year	7,015,805	1,009,076
Other comprehensive loss		
Foreign currency translation adjustment to presentation currency	90,012	(210,963)
Comprehensive loss for the year	7,105,817	798,113
Loss per share – Basic and diluted	0.21	0.04
Weighted-average number of common shares outstanding: Basic and diluted (notes 5 and 12(a))	33,523,669	25,628,012

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

kneat.com, inc. (formerly Fortune Bay Corp.)

Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and December 31, 2015

(expressed in Canadian dollars)

	Number of common shares (note 4)	Common shares $	Warrants $	Contributed surplus $	Translation reserve $	Deficit $	Total $
Balance – January 1, 2015 (note 3, restated)	23,314,877	8,961,055	–	319,316	40,421	(8,795,934)	524,858
Net loss for the year	–	–	–	–	–	(1,009,076)	(1,009,076)
Other comprehensive income for the year	–	–	–	–	210,963	–	210,963
	–	–	–	–	210,963	(1,009,076)	(798,113)
Shares issued during the year (note 3, restated)	3,863,383	2,462,103	–	–	–	–	2,462,103
Share-based compensation expense (note 3, restated)	–	–	–	54,220	–	–	54,220
Balance – December 31, 2015 (note 3, restated)	27,178,260	11,423,158	–	373,536	251,384	(9,805,010)	2,243,068
Net loss for the year	–	–	–	–	–	(7,015,805)	(7,015,805)
Other comprehensive loss for the year	–	–	–	–	(90,012)	–	(90,012)
	–	–	–	–	(90,012)	(7,015,805)	(7,105,817)
Shares and warrants issued pursuant to the Transaction (note 6)	12,385,424	11,518,443	67,424	250,477	–	–	11,836,344
Share-based compensation expense	–	–	–	313,493	–	–	313,493
Balance – December 31, 2016	39,563,684	22,941,601	67,424	937,506	161,372	(16,820,815)	7,287,088

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

kneat.com, inc. (formerly Fortune Bay Corp.)

Consolidated Statements of Cash Flows

For the years ended December 31, 2016 and December 31, 2015

(expressed in Canadian dollars)

	2016 $	2015 $ (note 3, restated)
Operating activities		
Net loss for the year	(7,015,805)	(1,009,076)
Charges to loss not involving cash		
Depreciation	75,167	34,008
Share-based compensation expense	251,394	27,150
Interest on long-term liabilities	50,932	22,508
Amortization of intangible asset	702,765	526,087
Listing expense	3,795,887	–
Non-cash professional fees	–	56,727
Write-off of property and equipment	57,204	–
Unrealized foreign exchange loss	127,536	–
Decrease (increase) in non-current accounts receivable	566	(547)
Increase (decrease) in non-current accounts payable and accrued liabilities	(4,525)	2,656
Net change in non-cash operating working capital related to operations (note 17)	(470,244)	(92,426)
Net cash used in operating activities	(2,429,123)	(432,913)
Financing activities		
Proceeds from issuance of shares	–	2,471,426
Proceeds from issuance of debenture to kneat.com (note 2)	1,479,200	–
Receipt of cash from the Transaction (note 6)	6,775,609	–
Net cash provided by financing activities	8,254,809	2,471,426
Investing activities		
Additions to intangible assets	(2,065,125)	(1,186,981)
Receipt of research and development tax credits	314,126	246,427
Additions to property and equipment	(64,219)	(120,691)
Net cash used in investing activities	(1,815,218)	(1,061,245)
Effects of exchange rates on cash	(85,391)	67,926
Increase in cash	3,925,077	1,045,194
Cash – Beginning of year	1,063,524	18,330
Cash – End of year	4,988,601	1,063,524

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

(expressed in Canadian dollars)

1 Nature of operations and going concern

kneat.com, inc. (the “Company” or “kneat.com”) (formerly Fortune Bay Corp.), 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 (refer to note 2 and note 6 for details). The Company commenced trading on the TSX Venture Exchange (“TSX-V”) as kneat.com on July 5, 2016 under the symbol KSI (TSX-V). kneat.com’s head office is located at Unit 7, Castletroy Park Business Centre, Castletroy, Limerick, Ireland. The registered office of kneat.com is located at Suite 2001, 1969 Upper Water Street, Halifax, Nova Scotia, Canada B3J 3R7.

Kneat Solutions Limited, a wholly owned subsidiary of the Company, is in the business of developing and marketing a software application for modelling regulated data intensive processes for pharmaceutical, biotechnology and medical device manufacturers.

The Company’s operations have been financed through the sale of shares, issuance of debt, revenue generated from customers and research and development tax credits. The Company has incurred significant operating losses and negative cash flows from operations since inception and has an accumulated deficit of $16,820,815 as at December 31, 2016.

These consolidated financial statements have been prepared on a going-concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. For the year ended December 31, 2016, the Company incurred a net loss of $7,015,805 (year ended December 31, 2015 - $1,009,076). The Company has limited revenue from customers and negative cash flow from operations. In addition to its working capital requirements, the Company must secure sufficient funding to further develop its software and to fund its general operating costs. Such circumstances create material uncertainties that may cast significant doubt as to the ability of the Company to meet its obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern. Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. Nevertheless, there can be no assurance that these initiatives will be successful or sufficient.

The Company’s ability to continue as a going concern is dependent upon its ability to fund its working capital and operating requirements and eventually to generate positive cash flows from operations. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues and expenses and balance sheet classifications that would be necessary were the going concern assumption determined to be inappropriate and these adjustments could be material.

2 Transaction with Kneat Solutions Limited

On June 27, 2016, kneat.com completed a transaction with Kneat Solutions Limited and 9617337 Canada Limited (now renamed Fortune Bay Corp., herein after referred to as “Spinco”), pursuant to which it: (i) spun-out its resource properties to Spinco by way of a court-approved plan of arrangement in Ontario (the "Arrangement"); and (ii) acquired 100% of the issued and outstanding ordinary shares of Kneat Solutions Limited by way of a concurrent scheme of arrangement in Ireland (the "Merger"), collectively referred to as the “Transaction”.

(expressed in Canadian dollars)

2 Transaction with Kneat Solutions Limited (continued)

Pursuant to the Transaction, shareholders of kneat.com on the close of business on June 24, 2016 received one (1) new common share of kneat.com (each a “kneat.com share”) and one and one half (1.5) of a common share of Spinco (a “Spinco Share”) in exchange for each three (3) common shares of kneat.com held by them on June 24, 2016.

Upon completion of the Transaction on June 27, 2016, shareholders of kneat.com on June 24, 2016 held 31.3% of the issued and outstanding kneat.com shares, with the former shareholders of Kneat Solutions Limited holding the remaining 68.7% of the issued and outstanding kneat.com shares. In addition to acquiring all the issued and outstanding shares of Kneat Solutions Limited, kneat.com retained net $8.0 million of cash.

The shareholders of Kneat Solutions Limited, through owning 68.7% of the outstanding kneat.com shares on completion of the Transaction, control kneat.com. As a consequence of the Transaction, the shareholders of Kneat Solutions Limited acquired control over the combined entity. After its reorganization, kneat.com does not meet the definition of a business, therefore the Transaction is outside the scope of IFRS 3, *Business Combinations*. The Transaction has therefore been accounted for under IFRS 2, *Share-based payment*. Under this basis of accounting, the consolidated entity is considered to be a continuation of Kneat Solutions Limited, with the net identifiable assets of kneat.com deemed to have been acquired by Kneat Solutions Limited. Refer to note 6 for further details.

On March 24, 2016, the Board of Directors of kneat.com approved the payment of €1,000,000 to Kneat Solutions Limited as consideration for a Series A Secured Debenture ("the Debenture") with an interest rate of 7.25% per annum and a maturity date of July 1, 2016. As the Transaction was completed prior to July 1, 2016, the Debenture became an intercompany loan between kneat.com and Kneat Solutions Limited and the kneat.com net cash balance due on closing of the Transaction was reduced by the amount of the Debenture plus all accrued interest.

3 Change in presentation currency

Effective January 1, 2016 the Company changed its presentation currency from the Euro to Canadian dollars. The change in presentation currency is to better reflect the Company’s business activities and to improve investors’ ability to compare the Company’s financial results with other publicly traded businesses in the industry. The Company has applied the change retrospectively as if the new presentation currency had always been the Company’s presentation currency. In accordance with IAS 21, *The effects of changes in the foreign exchange rates*, the financial statements for all periods presented have been translated to the new Canadian dollar presentation currency.

(expressed in Canadian dollars)

3 Change in presentation currency (continued)

For comparative balances, assets and liabilities have been translated into the presentation currency at the rate of exchange prevailing at the reporting date. Revenues and expenses were translated at the annual average exchange rates for the reporting period as these approximated the actual exchange rates at the dates of the underlying transactions. Common share amounts were translated at the historical spot rates on the date of the related transactions. Retained earnings and contributed surplus were translated at average rates for each year as if the Canadian dollar had always been the presentation currency. Exchange differences arising on translation were taken to the translation reserve in shareholders' equity. The Company has presented the effects of the change in presentation currency below, using the following rates:

Financial statement item	Exchange rate
Assets and liabilities	
As at December 31, 2015	1.51464
As at December 31, 2014	1.41319
Revenues and expenses	
For the year ended December 31, 2015	1.41799
Common shares	
Range of historical spot rates for transactions that occurred during:	
For the year ended December 31, 2015	1.32030 - 1.48440
For the year ended December 31, 2014	1.40790 - 1.54780
For the year ended December 31, 2013	1.29532 - 1.46550
For the year ended December 31, 2012	1.21643 - 1.33183
For the year ended December 31, 2011	1.34811 - 1.39997
For the year ended December 31, 2010	1.33088 - 1.46216
For the year ended December 31, 2009	1.52758 - 1.68359
For the year ended December 31, 2008	1.45441 - 1.61539
For the year ended December 31, 2007	1.44211 - 1.45498
For the year ended December 31, 2006	No transactions
For the year ended December 31, 2005	1.59653 - 1.59653
For the year ended December 31, 2004	1.67576 - 1.67576
Contributed surplus	
For the year ended December 31, 2015	1.41799
For the year ended December 31, 2014	1.46639
For the year ended December 31, 2013	1.36771
For the year ended December 31, 2012	1.28506
For the year ended December 31, 2011	1.37596
Retained earnings	
For the year ended December 31, 2015	1.41799
For the year ended December 31, 2014	1.46639
For the year ended December 31, 2013	1.36771
For the year ended December 31, 2012	1.28506
For the year ended December 31, 2011	1.37596
For the year ended December 31, 2010	1.36724
For the year ended December 31, 2009	1.58569
For the year ended December 31, 2008	1.55989
For the year ended December 31, 2007	1.46800
For the year ended December 31, 2006	1.42378
For the year ended December 31, 2005	1.50866
For the year ended December 31, 2004	1.61562

(expressed in Canadian dollars)

3 Change in presentation currency (continued)

Consolidated Statements of Financial Position

	December 31, 2015 Euro (as originally stated)	Translation rate	December 31, 2015 Canadian dollar (restated)	January 1, 2015 Euro (as originally stated)	Translation rate	January 1, 2015 Canadian dollar (restated)
Assets						
Current assets						
Cash	702,163	1.51464	1,063,524	12,971	1.41319	18,330
Accounts receivable and other	418,185	1.51464	633,400	296,579	1.41319	419,122
	1,120,348		1,696,924	309,550		437,452
Accounts receivable	257,232	1.51464	389,614	212,757	1.41319	300,666
Property and equipment	279,362	1.51464	423,133	218,231	1.41319	308,401
Intangible asset	1,149,456	1.51464	1,741,012	841,701	1.41319	1,189,483
	2,806,398		4,250,683	1,582,239		2,236,002
Liabilities						
Current liabilities						
Accounts payable and accrued liabilities	388,959	1.51464	589,133	238,570	1.41319	337,145
Directors' current accounts	171,094	1.51464	259,146	224,596	1.41319	317,396
	560,053		848,279	463,166		654,541
Loan payable and accrued interest	642,562	1.51464	973,250	626,689	1.41319	885,630
Accounts payable and accrued liabilities	122,858	1.51464	186,086	120,985	1.41319	170,973
	1,325,473		2,007,615	1,210,840		1,711,144
Equity	1,480,925	1.51464	2,243,068	371,399	1.41319	524,858
	2,806,398		4,250,683	1,582,239		2,236,002

(expressed in Canadian dollars)

3 Change in presentation currency (continued)

Consolidated Statements of Loss and Comprehensive Loss

	December 31, 2015 Euro (as originally stated)	Translation rate	December 31, 2015 Canadian dollar (restated)
Revenue	695,511	1.41799	986,228
Expenses			
Amortization of intangible assets	371,009	1.41799	526,087
Administrative expenses	1,016,872	1.41799	1,441,915
Finance costs, net	19,254	1.41799	27,302
Loss before income taxes	711,624		1,009,076
Income tax recovery	–	1.41799	–
Net loss for the year	711,624		1,009,076
Other comprehensive loss			
Foreign currency translation adjustment to presentation currency	–		(210,963)
Comprehensive loss for the period	711,624		798,113

(expressed in Canadian dollars)

3 Change in presentation currency (continued)

Consolidated Statements of Changes in Equity

	Common shares Euro (as originally stated)	**Translation rate**	**Common shares** Canadian dollar (restated)	**Contributed surplus** Euro (as originally stated)	**Translation rate**	**Contributed surplus** Canadian dollar (restated)	**Translation reserve** Euro (as originally stated)	**Translation rate**	**Translation reserve** Canadian dollar (restated)	**Retained earnings** Euro (as originally stated)	**Translation rate**	**Retained earnings** Canadian dollar (restated)	**Total equity** Euro (as originally stated)	**Total equity** Canadian dollar (restated)
Balance – January 1, 2015	6,237,910	1.43654	8,961,055	234,141	1.36378	319,316	–		40,421	(6,100,652)	1.44181	(8,795,934)	371,399	524,858
Net loss for the year	–		–	–		–	–		–	(711,624)	1,41799	(1,009,076)	(711,624)	(1,009,076)
Other comprehensive income for the year	–		–	–		–	–		210,963	–		–	–	210,963
	–		–	–		–	–		210,963	(711,624)		(1,009,076)	(711,624)	(798,113)
Shares issued during the year	1,782,913	1.38094	2,462,103	–		–	–		–	–	–	–	1,782,913	2,462,103
Share-based compensation	–		–	38,237	1.41800	54,220	–		–	–		–	38,237	54,220
Balance – December 31, 2015	8,020,823		11,423,158	272,378		373,536	–		251,384	(6,812,276)		(9,805,010)	1,480,925	2,243,068

(expressed in Canadian dollars)

3 Change in presentation currency (continued)

Consolidated Statements of Cash Flows

	December 31, 2015 Euro (as originally stated)	Translation rate	December 31, 2015 Canadian dollar (restated)
Operating activities			
Net loss for the year	(711,624)	1.41799	(1,009,076)
Charges to loss not involving cash:			
Depreciation	23,983	1.41799	34,008
Share-based compensation	19,147	1.41799	27,150
Interest on long-term debt	15,873	1.41799	22,508
Amortization of intangible asset	371,009	1.41799	526,087
Non-cash professional fees	40,005	1.41799	56,727
Increase in non-current accounts receivable	(386)	1.41799	(547)
Decrease in non-current accounts payable and accrued liabilities	1,873	1.41799	2,656
Net change in non-cash working capital related to operations	(65,181)	1.41799	(92,426)
Net cash used in operating activities	(305,301)		(432,913)
Financing activities			
Proceeds from issuance of shares	1,742,908	1.41799	2,471,426
Net cash provided by financing activities	1,742,908		2,471,426
Investing activities			
Additions to intangible asset	(837,087)	1.41799	(1,186,981)
Receipt of research and development tax credits	173,786	1.41799	246,427
Additions to property and equipment	(85,114)	1.41799	(120,691)
Net cash used in investing activities	(748,415)		(1,061,245)
Effects of exchange rates on cash	–		67,926
Increase in cash	689,192		1,045,194
Cash – Beginning of period	12,971		18,330
Cash – End of period	702,163		1,063,524

(expressed in Canadian dollars)

4 Share conversion

The legal capital of kneat.com has been restated at an exchange ratio of 34.2186 common shares of kneat.com as described in note 6. The effect of the share conversion has been applied retrospectively in line with IAS 33, *Earnings per share*. Accordingly, the number of common shares outstanding has been amended to 23,314,877 as at January 1, 2015 and 27,178,260 as at December 31, 2015 and the weighted average common shares outstanding for the purpose of determining loss per share has been amended to 25,628,012 for the year ended December 31, 2015. As a result of these amendments, the loss per share has been amended to $0.04 for the year ended December 31, 2015.

5 Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except as discussed below.

a) Statement of compliance and basis of consolidation

The consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Board of Directors approved these consolidated financial statements for issue on April 24, 2017.

These consolidated financial statements include certain assets, liabilities and results of operations of the Company, including the following subsidiaries:

Subsidiary	Principal activity	Country of incorporation
Kneat Solutions Limited	Operations	Ireland
Kneat Solutions Inc.	Operations	United States

The Company consolidates the wholly-owned subsidiaries on the basis that it controls these subsidiaries through its ability to govern their financial and operating policies. There are no non-controlling interests; therefore all comprehensive income (loss) is attributable to the shareholders of the Company.

b) Foreign currency translation

Items included in the consolidated financial statements of each entity included in these consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars. Assets and liabilities of each foreign entity are translated into Canadian dollars at the exchange rate in effect on the statement of financial position date. Revenue and expenses are translated at the average rate in effect during the period. Unrealized translation gains and losses are recorded as a cumulative translation adjustment, which is included in other comprehensive income or loss, which is a component shareholders' equity. The functional currency of Kneat Solutions Limited is the EURO ("€") and the functional currency of Kneat Solutions Inc. is the United States Dollar ("USD"). The legal parent entity, kneat.com, has a Canadian dollar functional currency.

(expressed in Canadian dollars)

5 Summary of significant accounting policies (continued)

b) Foreign currency translation (continued)

Foreign currency transactions are translated as follows: (i) monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the exchange rate prevailing at the statement of financial position date; and (ii) non-monetary assets and liabilities denominated in foreign currencies and measured in terms of historic costs are translated using rates of exchange at the transaction dates.

c) Critical accounting judgments and estimates

The preparation of the 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 consolidated financial statements are outlined below.

Accounting for the Transaction

In order to account for the Transaction, management has made estimates related to the valuation of Kneat Solutions Limited on the effective date of the Transaction which impact the calculation of the listing fee recognized in the statement of loss and comprehensive loss and the valuation of the shares issued to holders of kneat.com shares on June 24, 2016. The main estimate used in the valuation of Kneat Solutions Limited is the trading price of kneat.com on the Transaction date. A change in this estimate could have a significant impact on the listing expense and the valuation of the shares issued to holders of kneat.com shares on June 24, 2016 whereby a ten percent decrease in the valuation of Kneat Solutions Limited would decrease the listing expense and decrease the valuation of the shares issued to holders of kneat.com shares on June 24, 2016 by approximately $1,200,000. Conversely, if the valuation of Kneat Solutions Limited was increased by ten percent, the listing expense and the valuation of the shares issued to holders of kneat.com shares on June 24, 2016 would increase by approximately $1,200,000.

Valuation and amortization of internally generated intangible assets

The Company capitalizes certain costs incurred for the development of its Kneat Gx computer software platform. Estimates are used in order to determine the point in time whereby the recognition criteria are met and the allocation and nature of costs to capitalize in accordance with IAS 38, *Intangible Assets*. The capitalized costs include the cost of direct labour and other costs directly attributable to preparing the intangible asset for its intended use. Management then estimates the expected term over which the Company will receive benefits from the software application, which is estimated to be five years. A change in these estimates would have a significant impact on the carrying value of the intangible asset and the amortization and expenses recognized in the statements of loss and comprehensive loss.

(expressed in Canadian dollars)

5 Summary of significant accounting policies (continued)

c) Critical accounting judgments and estimates (continued)

Recovery of research and development tax credits

Amounts recorded for research and development tax credits are calculated based on the expected eligibility and tax treatment of qualifying research and experimental development expenditures recorded in the Company's consolidated financial statements. Estimates are used in determining the eligibility of expenditures incurred and may be subject to audit and further analysis by the tax authorities. A change in the estimates would have a significant impact on the carrying value of the research and development tax credit receivable balance, the research and development tax credit recovery in the statement of loss and comprehensive loss and the carrying value of the intangible asset.

Valuation of stock options

The fair value of the stock options granted by the Company is estimated by management using the Black-Scholes pricing model which incorporates several assumptions including the grant date, exercise price, share price on the grant date, volatility of the underlying stock and the expected term of the stock options. The Company uses historical price data of comparable entities in the estimate of future volatilities. Changes in the assumptions can materially affect the fair value estimates and, therefore, may not necessarily provide a reliable estimate of the fair value of the related stock options.

Recognition of revenue

Revenue recognition is subject to critical judgment, particularly in multiple-element arrangements where judgment is required in allocating revenue to each component, including licenses, professional services, software upgrades and maintenance services, based on the relative fair value of each component. As the Company does not have a significant history of generating revenue, management uses judgement, based on customer specific contracts and comparable sales to determine the appropriate fair value of each component. In addition, as certain of these components have a term of more than one year, the identification of each deliverable and the allocation of the consideration related to the components impacts the timing of revenue recognition. A change in the fair value allocated to each component could materially impact the revenue recognized in the current and future years and deferred income balances at period end.

(expressed in Canadian dollars)

5 Summary of significant accounting policies (continued)

d) Revenue recognition

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. Software licenses sold by the Company are generally perpetual in nature and the arrangements generally comprise various services. Revenues generated by the Company include the following:

(i) *License fees*
Revenues from perpetual licenses are recognized when an agreement has been signed, the product has been delivered, there are no uncertainties surrounding product acceptance, the fees are fixed or determinable, and the amount of revenue and costs can be measured reliably and collection is considered probable such that economic benefits associated with the transaction will flow to the Company. Delivery generally occurs at the point where title and risk of loss have passed to the customer and the Company no longer retains continuing involvement or effective control over the products sold.

(ii) *Maintenance agreements*
Maintenance agreements for proprietary software licences generally call for 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 maintenance agreement.

(iii) *Consulting and training services*
The Company provides consulting and training services to its customers. Revenues from such services are recognized as the services are performed.

(iv) *Multiple-element arrangements*
Some of the Company's sales involve multiple-element arrangements that include software licenses, maintenance and various professional services. The Company evaluates each deliverable in an arrangement to determine whether such deliverable would represent a separate element. Most of the Company's products and services qualify as separate elements and revenue is recognized when the applicable revenue recognition criteria, as described above, are met.

In multiple-element arrangements, the Company separately accounts for each product or service according to the methods described when the following conditions are met:

- the delivered product or service has value to the customer on a stand-alone basis; and
- there is objective and reliable evidence of fair value of any undelivered product or service.

If there is objective and reliable evidence of fair value for all products and services in a sale, the total price of the arrangements is allocated to each product and service based on relative fair value. Otherwise, the Company first allocates a portion of the total price to any undelivered products and services based on their fair value and the remainder to the products and services that have been delivered.

(expressed in Canadian dollars)

5 Summary of significant accounting policies (continued)

e) Income taxes and other taxes

Current income taxes
Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in the consolidated statements of changes in equity and not in the consolidated statements of loss and comprehensive loss.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. The Company recognizes interest and penalties, if any, related to uncertain tax positions in income tax expense.

Deferred income taxes
Deferred income taxes are calculated using the liability method on temporary differences between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses, can be utilized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted, or substantively enacted, at the reporting date. Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Deferred tax relating to items recognized outside of profit or loss is recognized outside of profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive loss or directly in equity.

(expressed in Canadian dollars)

5 Summary of significant accounting policies (continued)

e) Income taxes and other taxes (continued)

Research and development tax credits
Tax credits for research and development are recognized based on amounts expected to be recoverable from the tax authorities in current and future years when there is reasonable assurance that the Company has complied with the related government program. A credit is recognized in the consolidated statement of comprehensive income against the related expense or in the consolidated statement of financial position against the related asset. Research and development tax credits claimed in the current and prior years are subject to government review which could result in adjustments to the carrying value of the related assets or to comprehensive loss.

f) Leases

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives are recognized as a reduction of the total lease expense, over the term of the lease.

g) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises the purchase price and any directly attributable costs of bringing the asset to the working condition and location of its intended use. Leasehold improvements are stated at cost less accumulated depreciation and are depreciated over the shorter of the useful life of the improvement or the remaining lease term.

All other costs, such as repairs and maintenance, are charged to the consolidated statements of loss and comprehensive loss during the period in which they are incurred.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. During the annual review of the estimated useful lives of property and equipment, management determined that the estimated useful lives of computers is three years. This results in a change in the depreciation rate from 12.5% to 33.3% per annum. The reduced useful life has resulted in an increased depreciation expense of $24,002 for the year ended December 31, 2016. The Company depreciates the cost of property and equipment over their estimated useful lives at the following rates:

Computers	33.3% per annum
Furniture and fixtures	12.5% per annum
Leasehold improvements	12.5% per annum

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statements of loss and comprehensive loss.

(expressed in Canadian dollars)

5 Summary of significant accounting policies (continued)

h) Cash

Cash comprises cash on hand, current operating bank accounts and demand deposits. Personal guarantees totalling $163,167 are provided by a director and an officer of the Company.

i) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of a financial instrument. Financial assets and financial liabilities are initially measured at fair value. Financial assets are classified into one of the following specified categories: fair value through profit or loss ("FVTPL"), held-to-maturity, available-for-sale ("AFS") and loans and receivables. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities classified as FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in the consolidated statement of loss.

The Company's financial instruments are classified and subsequently measured as follows:

Asset / liability	Classification	Subsequent measurement
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Directors' current accounts	Other financial liabilities	Amortized cost
Loan payable	Other financial liabilities	Amortized cost

Financial Assets
Subsequent to initial recognition, loans and receivables are measured at amortized cost.

Impairment of financial assets
Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated fair value of the financial asset has declined.

Financial Liabilities
Financial liabilities are classified as other financial liabilities and are measured at amortized cost subsequent to initial measurement at fair value.

(expressed in Canadian dollars)

5 Summary of significant accounting policies (continued)

i) Financial instruments (continued)

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported on the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

j) Intangible asset

Expenditure 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 product, Kneat Gx. The development costs of the software product, net of research and development tax credit, are capitalized as they can be measured reliably, the product 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 labour and other costs that are directly attributable to preparing the asset for its intended use.

The estimated useful lives, residual value and amortization rates are reviewed on a regular basis. During the review of the amortization rates, management determined that amortization in the year of addition will be calculated using a half year rule. This results in a change in the depreciation rate from 20% to 10% per annum in the year of addition. The reduced amortization rate in the year of addition resulted in a decrease in the amortization expense of $158,795 for the year ended December 31, 2016.

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%.

k) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amount of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss.

The recoverable amount of an asset is the higher of fair value less costs to dispose and value in use. Value in use is determined by discounting the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of loss.

(expressed in Canadian dollars)

5 Summary of significant accounting policies (continued)

k) Impairment of non-financial assets (continued)

An impairment loss recognized in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that it does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Impairment reversals are recognized immediately in the consolidated statement of comprehensive loss.

During the year ended December 31, 2016, there were no impairments or reversals of impairments recorded.

l) Employee benefits

Defined contribution plans
The Company operates a defined contribution pension plan for employees. A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as expense through the consolidated statements of loss and comprehensive loss as incurred or capitalized to the intangible asset.

Short-term benefits
Liabilities for employee benefits for wages, social insurance costs and annual leave entitlements represent present obligations resulting from employees' services provided up to the reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at the reporting date.

m) Share-based payments

The Company has a share-based compensation plan. Awards of options under this plan are recognized based on the estimated fair value of the options at the grant date, with a corresponding credit to contributed surplus in equity. Fair value is estimated using the Black-Scholes pricing model. If the options are subject to a vesting period, the estimated fair value is recognized over this period on a graded vesting basis, based on the Company's estimate of the shares that will eventually vest.

Option pricing models require the use of assumptions, including the expected volatility. The Company uses historical price data of comparable entities in the estimate of future volatilities.

Cash consideration received on exercise of options is credited to share capital together with the amounts originally recorded as share-based compensation related to the exercised options.

(expressed in Canadian dollars)

5 Summary of significant accounting policies (continued)

n) Loss per share

Loss per share is calculated based on the weighted average number of shares outstanding during the year. Outstanding shares that are subject to cancellation under an escrow agreement are not treated as outstanding and are excluded from the calculation of loss per share until the date the shares are no longer subject to cancellation. The Company follows the treasury method of calculating diluted earnings per share. This method assumes that any proceeds from the exercise of stock options and other dilutive instruments would be used to purchase common shares at the average market price during the year.

Diluted loss per share for the periods presented is the same as basic loss per share, as the Company has incurred losses and the exercise of options and warrants would be anti-dilutive.

o) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. There were no material provisions recorded within the consolidated financial statements as at December 31, 2016 and 2015.

p) Finance income and costs

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Finance costs comprise interest expense on financial liabilities measured at amortized cost and any losses on the sale of financial assets. Borrowing costs that are not directly attributable to the acquisition or production of a qualifying asset are recognized in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a net basis as finance income or finance costs.

q) Standards, interpretations and amendments to published standards that are not yet effective

IFRS 9, Financial Instruments (“IFRS 9”)
IFRS 9, issued on July 24, 2014, is the IASB’s replacement of IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”). IFRS 9 includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting of financial instruments. IFRS 9 is mandatorily effective for periods beginning on or after January 1, 2018 with early adoption permitted. Management is currently assessing the impact of the adoption of IFRS 9 on the consolidated financial statements of the Company and does not intend to early adopt this standard.

(expressed in Canadian dollars)

5 Summary of significant accounting policies (continued)

q) Standards, interpretations and amendments to published standards that are not yet effective (continued)

IFRS 15, Revenue from contracts with customers ("IFRS 15")
In May 2014, the IASB issued IFRS 15. IFRS 15 replaces IAS 18, *Revenue*, IAS 11, *Construction Contracts*, and some revenue related Interpretations. IFRS 15 establishes a new control-based revenue recognition model and provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. The new standard is effective for annual periods beginning on or after January 1, 2018 and is to be applied retrospectively. IFRS 15 allows for early adoption, but the Company does not intend to do so at this time. Management is currently assessing the impact of the adoption of IFRS 15 on the consolidated financial statements of the Company.

IFRS 16, Leases ("IFRS 16")
IFRS 16 was issued on January 13, 2016 and replaces the current guidance in IAS 17, *Leases* ("IAS 17"). IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. Management is currently assessing the impact of IFRS 16 on the consolidated financial statements of the Company and does not intend to early adopt this standard.

Amendments to IAS 7 – Statement of Cash Flows
IAS 7, requires enhanced disclosures about changes in liabilities arising from financial activities, including changes from financing cash flows, changes arising from obtaining or losing control of subsidiaries or other businesses, the effect of changes in foreign exchange rates and changes in fair value. The amendment is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Company is currently evaluating the impact of this new standard on the Company's financial statement measurements and disclosures. The Company does not anticipate early adoption of this standard.

6 Accounting for the Transaction

On June 27, 2016, kneat.com acquired 100% of the 794,254 issued and outstanding ordinary and A ordinary shares of Kneat Solutions Limited in exchange for 12,385,424 common shares of kneat.com. This resulted in 39,563,684 outstanding common shares of kneat.com. Previous shareholders of Kneat Solutions Limited held 68.7% or 27,178,260 common shares of kneat.com and previous shareholders of kneat.com held 31.3% or 12,385,424 common shares of kneat.com immediately following the Transaction.

(expressed in Canadian dollars)

6 Accounting for the Transaction (continued)

As a consequence of the Transaction, the shareholders of Kneat Solutions Limited acquired control over the combined entity. After the spin-out of its resources properties to SpinCo, kneat.com does not meet the definition of a business as its assets consist only of cash, with no ability to generate outputs. Therefore, the transaction is outside the scope of IFRS 3, *Business Combinations*. The Transaction has therefore been accounted for under IFRS 2, *Share-based payment*. Under this basis of accounting, the consolidated entity is considered to be a continuation of Kneat Solutions Limited, with the net identifiable assets of kneat.com deemed to have been acquired by Kneat Solutions Limited on June 27, 2016.

All figures related to the common shares, as well as loss per share, in these consolidated financial statements, have been retroactively restated to reflect the legal capital of kneat.com at an exchange ratio of one Kneat Solutions Limited share to 34.2186 common shares of kneat.com as per the terms of the Transaction agreement. The number of Kneat Solutions Limited ordinary and A ordinary shares at December 31, 2015 have been restated from 794,254 to 27,178,260.

As a result of the Transaction falling within the scope of IFRS 2, the Transaction was accounted for by Kneat Solutions Limited as the issuance of shares at fair value for the net assets of kneat.com and a listing expense, which reflects the difference between the fair value of the Kneat Solutions Limited deemed shares issued to kneat.com shareholders and kneat.com's net assets acquired. In accordance with IFRS 2, the excess of the fair value of the deemed shares issued over the acquired net assets is recognized in the statement of loss and comprehensive loss as a listing expense. The fair value of the 794,254 issued and outstanding ordinary and A ordinary shares of Kneat Solutions Limited was estimated to be $25,275,782 based on management's estimates as described in note 5 (c).

Under IFRS 2, the capital transaction is measured at the fair value of the shares deemed to have been issued by Kneat Solutions Limited such that the kneat.com shareholders held 31.3% of the combined entity. The fair value of the deemed shares of Kneat Solutions Limited issued to kneat.com shareholders is based on the fair value of Kneat Solutions Limited on the effective date of the Transaction and is estimated to be $11,518,443 and has been allocated as follows:

	$
Net assets of kneat.com on the Transaction date (consisting of approximately $8.2 million in cash and $0.2 million in accounts payable)	8,040,457
Fair value of 31.3% of the equity of the combined entity based on the estimated fair value	(11,518,443)
Fair value of warrants (note 12)	(67,424)
Fair value of options (note 12)	(250,477)
Listing expense	(3,795,887)

The listing expense is expensed through the consolidated statements of loss and comprehensive loss. The consideration and allocation reflects the best estimates and assumptions of the management of the Company after taking in to account all available information.

(expressed in Canadian dollars)

6 Accounting for the Transaction (continued)

Certain former Kneat Solutions Limited shareholders took part in an employment and investment incentive scheme ("EIIS") under Part 16 of the Irish Taxes Consolidation Act 1997, pursuant to which they availed of income tax relief on their investment in Kneat Solutions Limited. As a result of the Transaction, a claw back of this relief from these shareholders may occur. Only those former Kneat Solutions Limited shareholders who have held their EIIS shares for less than three years up to June 27, 2016 should be affected by this claw back. kneat.com and Kneat Solutions Limited formulated a proposal whereby kneat.com would make a payment to the Irish Revenue Commissioners that would be equivalent to or less than the amount of the tax relief as a result of the Transaction. Any payment to any shareholder pursuant to this proposal would only be made after kneat.com has been provided with satisfactory documentary evidence of the loss of tax relief. As at December 31, 2016, the estimated cost that may be incurred as a result of the Transaction is $425,285. This figure is management's best estimate based on supporting evidence received from former Kneat Solutions Limited shareholders to date and is subject to change pending final annual tax filings by former Kneat Solutions Limited shareholders which is expected to be finalized in 2017.

7 Accounts receivable and other

	2016 $	2015 $
Current		
Research and development tax credit receivable	419,344	324,509
Trade debtors	726,745	230,280
Other debtors	23,722	33,486
Unpaid share capital	–	20,455
Value added tax receivable	72,383	13,344
Prepayments	52,029	11,326
	1,294,223	633,400
Non-current		
Research and development tax credit receivable	476,807	389,614
	1,771,030	1,023,014

(expressed in Canadian dollars)

8 Property and equipment

	Property and equipment $	Leasehold improvements $	Total $
Cost			
As at January 1, 2015	161,129	217,374	378,503
Additions	120,691	–	120,691
Effect of movements in exchange rates	19,793	15,605	35,398
As at December 31, 2015	301,613	232,979	534,592
Additions	46,241	8,797	55,038
Write-offs	(142,830)	–	(142,830)
Effect of movements in exchange rates	(15,946)	(15,020)	(30,966)
As at December 31, 2016	189,078	226,756	415,834

	Property and equipment $	Leasehold improvements $	Total $
Accumulated depreciation			
As at January 1, 2015	70,101	–	70,101
Depreciation charge	34,008	–	34,008
Effect of movements in exchange rates	7,350	–	7,350
As at December 31, 2015	111,459	–	111,459
Depreciation charge	46,519	28,648	75,167
Write-offs	(85,626)	–	(85,626)
Effect of movements in exchange rates	(5,788)	(926)	(6,714)
As at December 31, 2016	66,564	27,722	94,286

	Property and equipment $	Leasehold improvements $	Total $
Carrying amount			
Balance, December 31, 2015	190,154	232,979	423,133
Balance, December 31, 2016	122,514	199,034	321,548

(expressed in Canadian dollars)

9 Intangible asset

Cost	**$**
As at January 1, 2015	1,662,327
Additions, net of research and development tax credits of $248,656	962,481
Effect of movements in exchange rates	184,938
As at December 31, 2015	2,809,746
Additions, net of research and development tax credits of $529,437	1,590,064
Effect of movements in exchange rates	(228,986)
As at December 31, 2016	4,170,824
Accumulated amortization	**$**
As at January 1, 2015	472,843
Amortization charge	526,087
Effect of movements in exchange rates	69,804
As at December 31, 2015	1,068,734
Amortization charge	702,765
Effect of movements in exchange rates	(90,285)
As at December 31, 2016	1,681,214
Carrying amount	**$**
Balance, December 31, 2015	1,741,012
Balance, December 31, 2016	2,489,610

10 Accounts payable and accrued liabilities

	2016	**2015**
	$	**$**
Current		
Trade payables	287,101	66,452
Accruals	639,764	256,683
Social insurance cost payable	110,599	137,488
Value added tax payable	11,634	–
Deferred income	42,549	32,422
Other payables	56,877	62,962
Accrued interest on loan payable (note 11)	11,602	–
Lease incentives	8,751	33,126
	1,168,877	589,133
Non-current		
Lease incentives	192,216	186,086
	1,361,093	775,219

(expressed in Canadian dollars)

11 Loan payable and accrued interest

On June 27, 2016, Enterprise Ireland and kneat.com executed a loan agreement whereby Enterprise Ireland agreed to exchange its cumulative redeemable convertible preference shares in Kneat Solutions Limited, comprised of 232,000 convertible preference shares and 300,000 A convertible preference shares plus accrued interest, for a loan payable to Enterprise Ireland on the third anniversary of the Merger effective date, being June 27, 2019. The interest rate is 3% on the principal balance of €532,000, not compounded and payable annually. Management has determined that the underlying terms of the loan payable do not differ substantially from the terms of the cumulative redeemable convertible preference shares and thus it has been accounted for as a modification of the original financial liability. As at December 31, 2016, the loan payable and accrued interest balance on the statement of financial position was comprised of a principal balance of $754,823 and accrued interest of $179,386 (2015 - principal balance of $805,788 and accrued interest of $167,462).

	$
As at January 1, 2015	885,631
Interest accrual	22,508
Effect of movements in exchange rate	65,111
As at December 31, 2015	973,250
Interest accrual	23,268
Effect of movements in exchange rate	(62,308)
As at December 31, 2016	934,210
Less: Current portion of accrued interest (note 10)	(11,602)
Non-current portion of loan payable and accrued interest	922,608

12 Share capital

a) Common shares

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

	Number of shares	Amount $
Outstanding – January 1, 2015	23,314,877	8,961,055
Shares issued during the year	3,863,383	2,462,103
Outstanding – December 31, 2015	27,178,260	11,423,158
Shares issued pursuant to the Transaction (note 6)	12,385,424	11,518,443
Outstanding – December 31, 2016	39,563,684	22,941,601

As at December 31, 2016, 17,048,720 common shares of the Company are subject to an escrow agreement pursuant to the terms of the Transaction and will be released over time.

(expressed in Canadian dollars)

12 Share capital (continued)

b) Warrants

Pursuant to the Transaction, 267,857 warrants were issued, valued at $67,424. The fair value of the 267,857 warrants issued has been estimated at the grant date using the Black-Scholes option pricing model. The weighted-average assumptions used in the pricing model for warrants issued during the year ended December 31, 2016 are as follows:

Rise-free interest rate	0.53%
Expected life	0.76 years
Expected volatility	75.2%
Expected dividend per share	0.00%
Weighted average fair value	$0.25

As at December 31, 2016, 267,857 common share purchase warrants are outstanding, exercisable at $0.90 into common shares of the Company and expiring on April 1, 2017.

c) Share-based compensation

The Company has adopted a share-based compensation plan, providing the Board of Directors with the discretion to grant an equivalent number of options of up to 10% of the issued and outstanding share capital of the Company. Stock options are granted with an exercise price of not less than the closing share price of the date preceding the date of grant. As at December 31, 2016, 1,970,509 remain available for grant under the terms of the stock option plan.

As per the terms of the Transaction, all Kneat Solutions Limited stock options were cancelled and 1,045,635 stock options in kneat.com were granted to former Kneat Solutions Limited stock option holders. In accordance with IFRS 2, *Share-based payment*, the 1,045,635 stock options granted to former Kneat Solutions Limited option holders are treated as though the options were modified although they are legally new options in kneat.com. These kneat.com options have an exercise price of $0.90, a term of five years and vest over varied periods. The incremental value of $167,168 related to the modification of these options has been expensed to the statement of loss and comprehensive loss as it was triggered by the Transaction.

In connection with the Transaction, 666,667 kneat.com stock options were granted to former holders of options in Fortune Bay Corp. These options were granted with an average exercise price of $0.90 per share and are fully vested with expiration dates ranging from September 25, 2016 to November 10, 2020.

The following are the weighted-average assumptions used in calculating the value of the stock options granted during the year ended December 31, 2016:

Risk-free interest rate	0.56%
Expected life	4.3 years
Expected volatility	140%
Expected dividend per share	0.0%
Weighted-average share price	$1.02

(expressed in Canadian dollars)

12 Share capital (continued)

c) Share-based compensation (continued)

The following table reconciles the stock option activity during the years ended December 31, 2016 and December 31, 2015:

	Number of options	Weighted-average exercise price $
Balance – January 1, 2015	1,221,125	0.90
Forfeited	(58,445)	0.90
Balance – December 31, 2015	1,162,680	0.90
Granted	1,333,054	0.84
Forfeited	(143,208)	0.90
Expired	(366,667)	0.90
Balance – December 31, 2016	1,985,859	0.86

The number of options and exercise prices in the table above have been retroactively restated to reflect the modification of options described above (see note 6).

The following table summarizes information related to outstanding and exercisable stock options as at December 31, 2016:

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price
March 19, 2019	2.2	200,000	200,000	0.90
January 2, 2020	3.0	66,667	66,667	0.90
November 10, 2020	3.9	33,333	33,333	0.90
July 4, 2021	4.5	1,427,272	896,351	0.90
September 26, 2021	4.7	10,587	2,647	0.90
October 3, 2021	4.8	248,000	–	0.55

For the year ended December 31, 2016, the estimated value of options earned during the year and recorded in the consolidated statements of loss and comprehensive loss was $251,394 (year ended December 31, 2015 - $27,150). The estimated value of options earned during the year ended December 31, 2016 and recorded as an addition to the intangible asset was $62,099 (year ended December 31, 2015 - $27,070).

(expressed in Canadian dollars)

13 Revenue

Revenue consist of the following:

	2016 $	2015 $
License fees	690,892	102,197
Maintenance fees	63,498	144,519
Professional services and other	65,970	739,512
	820,360	986,228

14 Expenses by nature

	2016 $	2015 $
Administrative expenses		
Audit and accounting fees	118,722	56,720
Cloud hosting and other services	204,849	133,209
Consultancy fees	161,318	122,938
Depreciation of plant and equipment	75,167	34,008
Director and key management salaries and benefits	459,634	182,848
Employee salaries, wages and benefits	442,265	596,869
Other administrative cost	195,701	101,168
Professional fees	501,549	290,182
Research and development tax credit recovery	(17,797)	(366,319)
Rent and rates	23,183	73,000
Sales, marketing and advertising	89,529	89,282
Securities and regulatory fees	46,668	–
Share-based compensation	251,394	27,150
Travel expenses	127,103	100,860
Write-off of fixed assets	57,204	–
	2,736,489	1,441,915

15 Finance costs, net

	2016 $	2015 $
Interest expense	50,932	27,302
Interest income	(2,729)	–
Foreign exchange loss	127,536	–
	175,739	27,302

(expressed in Canadian dollars)

16 Income taxes

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

	2016 $	2015 $
Loss before income taxes	(7,015,805)	(1,009,076)
Statutory rate	25.3%	12.5%
Tax recovery at statutory rate	(1,774,998)	(126,135)
Permanent differences and other	1,398,414	14
Recovery for losses and deductible differences not recognized in current and prior years	376,584	126,121
Income tax recovery	–	–

At December 31, 2016, the Company has unused non-capital losses of $0.7 million (December 31, 2015 - nil) available for carry-forward purposes which expire in 2036.

The Company also has unused non-capital loss carry-forwards of $10.6 million (December 31, 2015 - $9.6 million) that have no expiration date, however, the use of these carry-forwards is restricted to taxable income from operations.

At December 31, 2016, the Company has no unrecognized deferred tax liabilities (December 31, 2015 - $nil) for taxes that would be payable on unremitted earnings.

There are no income tax consequences attached to the payment of dividends in 2016 or 2015 by the Company to its shareholders as the Company did not pay dividends during these years.

17 Supplemental cash flow information

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

	2016 $	2015 $
Increase in accounts receivable and other	(568,445)	(229,811)
Decrease in directors' current account	(250,855)	(75,865)
Increase in accounts payable and accrued liabilities	349,056	213,250
	(470,244)	(92,426)

(expressed in Canadian dollars)

18 Related party transactions

Amounts receivable from officers and directors were $8,513 as at December 31, 2016 (Amounts payable to officers and directors at December 31, 2015 - $259,146). During the year ended December 31, 2016, the Company repaid directors' current account balances of $250,855 (December 31, 2015 - $75,866).

During the year ended December 31, 2015, a director of Kneat Solutions Limited was granted 2,727 shares of Kneat Solutions Limited valued at $56,151 as compensation for consulting fees.

During the year ended December 31, 2016, the Company incurred costs for management services from a related party, Numus Financial Inc. ("Numus"), a company controlled by a director of kneat.com in the amount of $18,000 (December 31, 2015 - $nil) and incurred rent and office costs from Numus in the amount of $14,848 (December 31, 2015 - $nil).

During the year ended December 31, 2016, the Company paid professional fees on behalf of a related party, Beek Investments Limited ("Beek"), a company controlled by directors and officers of kneat.com, in the amount of $16,104 (December 31, 2015 - $nil). As at December 31, 2016, the amount due from Beek was $16,104.

19 Key management compensation

Key management includes the Company's directors, Chief Executive Officer, Director of Research and Development and the Director of Quality. Effective June 27, 2016, key management was updated to include the Chief Financial Officer. Compensation awarded to key management is summarized as follows:

	2016 $	2015 $
Salaries and other benefits	372,517	182,848
Share-based compensation	154,083	7,257
Listing expense	189,977	–
Capitalized to intangible asset	66,665	50,411
Directors' fees	87,117	–
	870,359	240,516

(expressed in Canadian dollars)

20 Fair value financial instruments and risk management

a) Capital Management

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

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

	2016 $	2015 $
Equity	7,287,088	2,243,068
Less: Cash	(4,988,601)	(1,063,524)
	2,298,487	1,179,544

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may issue equity or return capital to shareholders. No changes were made in the objectives, policies or processes for managing capital during the year ended December 31, 2016.

b) Fair values of financial instruments

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

c) Financial risk management objectives

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

(expressed in Canadian dollars)

20 Fair value financial instruments and risk management (continued)

d) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date. At December 31, 2016 and 2015, the Company's financial assets exposed to credit risk amounted to the following:

	2016 $	2015 $
Cash	4,988,601	1,063,524
Accounts receivable and other	1,771,030	1,023,014

During the years ended December 31, 2016 and 2015, the Company did not hold any financial assets that were past due or impaired. Trade debtors of $726,745 are included in accounts receivable as at December 31, 2016 (2015 - $230,280). Trade debtors are monitored on a regular basis in order to minimize material aging and to ensure adequate collection.

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

e) Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they become due. The Company has a planning and budgeting process to monitor operating cash requirements, including amounts projected for capital expenditures, which are adjusted as input variables change. These variables include, but are not limited to, the ability of the Company to generate revenue from current and prospective customers, general and administrative requirements of the Company and the availability of capital markets. As these variables change, liquidity risks may necessitate the need for the Company to issue equity or obtain debt financing. Refer to note 1 for further details related to the ability of the Company to continue as a going concern.

The Company is currently negotiating contracts with several customers and is pursuing financing alternatives. There can be no assurance that additional customer revenues will be generated or additional future financings will be available on acceptable terms or at all. If the Company is unable to obtain additional financing when required, the Company may have to substantially reduce or eliminate planned expenditures.

Accounts payables and accrued liabilities are paid in the normal course of business generally according to their terms.

(expressed in Canadian dollars)

20 Fair value financial instruments and risk management (continued)

e) Liquidity risk (continued)

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities as at December 31, 2016:

	Within 1 year	2-3 years	4-5 years	Over 5 years	Total
Accounts payable and accrued liabilities	1,117,577	–	–	–	1,117,577
Loan payable	–	922,608	–	–	922,608
	1,117,577	922,608	–	–	2,040,185

f) 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, loan payable, intercompany balances and accounts payable and accrued liabilities that are held in currencies that are not in the transacting entity's functional currency. For the year ended December 31, 2016, a 5% decrease in the exchange rate between the functional currency and foreign currencies would decrease the net loss by approximately $318,000; a 5% increase would increase the net loss by approximately $318,000. The Company currently does not hedge its currency risk.

g) Interest risk

Interest risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates.

An immaterial amount of interest rate exposure exists in respect of cash balances and the loan payable on the consolidated statement of financial position. The Company holds a loan payable with a fixed interest rate. These are privately-issued, with no secondary market. They are measured at amortized cost and bear a fixed interest rate. As a result, the Company is not exposed to cash flow interest rate risk on its loan payable.

(expressed in Canadian dollars)

20 Fair value financial instruments and risk management (continued)

h) Fair value measurements recognized in the statement of financial position

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

At December 31, 2016 and December 31, 2015, the Company had no financial instruments that were measured and recognized on the consolidated statement of financial position at fair value. In addition, there were no transfers between levels during the period.

21 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.

Kneat Solutions Limited leases its offices in Limerick, Ireland under an operating lease agreement dated July 11, 2014, which is also the date of the commencement of the lease. The operating lease is subject to termination clauses at the expiration of the fifth year and the tenth year of the lease. The lease term is twenty-five years with a reduced rent period of 18 months from the date of the commencement of the lease. The lease expense is recognized evenly over the lease term.

The Company's commitments under the operating lease, in the form of non-cancellable future lease payments are not reflected as a liability on its consolidated statement of financial position. The lease agreement gives the Company the option to terminate the lease on the fifth and tenth anniversary of the lease signing. Non-cancellable lease payment are $80,250 in 2017, $80,250 in 2018 and $40,125 in 2019.

Lease incentives relate to the reimbursement of the fit out cost from the lessor and to the reduced rent period. A reduction of the total lease expense of $4,524 was recognized for the year ended December 31, 2016 in relation to the reimbursement of the fit out costs from the lessor (2015 - $6,239).

The Company also leases computer equipment under finance lease agreements, with lease terms of three to five years.

The Company has committed to sponsor several conferences in 2017 which will result in the Company paying $35,014 throughout 2017.

(expressed in Canadian dollars)

22 Subsequent events

On January 11, 2017, 239,000 stock options were granted to employees of the Company. The stock options are exercisable at a price of $0.58 per share and expire on January 11, 2022.

On February 1, 2017, 100,000 stock options were granted to employees of the Company. The stock options are exercisable at a price of $0.57 per share and expire on February 1, 2022.

On April 1, 2017, 267,857 warrants expired unexercised.

On April 4, 2017, 100,000 stock options were granted to employees of the Company. The stock options are exercisable at a price of $0.57 per share and expire on April 4, 2022.

Subsequent to year-end, 101,374 stock options were forfeited following the resignation of employees which will result in the reversal of $11,177 of share-based compensation in future periods.