

*Unaudited Condensed Interim Consolidated Financial Statements of*

**KNEAT.COM, INC.**

June 30, 2020

(Expressed in Canadian Dollars)

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these unaudited condensed interim consolidated financial statements, they must be accompanied by a notice indicating that these unaudited condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

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

	<b>June 30, 2020</b>	December 31, 2019
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash	12,864,874	4,216,846
Amounts receivable (note 3)	2,091,842	1,807,643
Prepayments	264,292	261,905
Deferred contract acquisition costs	232,648	118,510
	<u>15,453,656</u>	6,404,904
<b>Amounts receivable (note 3)</b>	<b>1,825,795</b>	999,386
<b>Deferred contract acquisition costs</b>	<b>22,397</b>	51,162
<b>Property and equipment (note 4)</b>	<b>9,761,611</b>	1,107,908
<b>Intangible asset (note 5)</b>	<b>7,549,813</b>	6,085,076
	<u>34,613,272</u>	14,648,436
<b>Total assets</b>		
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 6)	1,040,235	784,612
Contract liabilities (note 7)	2,017,965	967,913
Loan payable and accrued interest (note 8)	374,837	277,507
Lease liabilities (note 9)	737,565	148,061
	<u>4,170,602</u>	2,178,093
<b>Contract liabilities (note 7)</b>	<b>120,753</b>	238,732
<b>Lease liabilities (note 9)</b>	<b>8,310,306</b>	496,017
<b>Loan payable and accrued interest (note 8)</b>	<b>374,837</b>	555,014
	<u>12,976,498</u>	3,467,856
<b>Total liabilities</b>		
<b>Equity</b>		
Shareholders' equity	21,636,774	11,180,580
	<u>34,613,272</u>	14,648,436
<b>Total liabilities and equity</b>		

Commitments and contingencies (note 18)

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

Approved on behalf of the Board of Directors on August 26, 2020.

"Ian Ainsworth"  
Director"Wade Dawe"  
Director

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

	<b>Three-month period ended June 30, 2020</b>	<b>Three-month period ended June 30, 2019</b>	<b>Six-month period ended June 30, 2020</b>	<b>Six-month period ended June 30, 2019</b>
	\$	\$	\$	\$
<b>Revenue</b> (note 12)	<b>1,546,402</b>	528,812	<b>2,500,932</b>	942,535
<b>Cost of revenues</b> (note 13)	<b>(1,036,344)</b>	(394,407)	<b>(1,943,531)</b>	(753,331)
<b>Gross margin</b>	<b>510,058</b>	134,405	<b>557,401</b>	189,204
<b>Expenses (income)</b>				
Research and development (note 13)	<b>1,330,619</b>	751,085	<b>2,385,713</b>	1,416,866
Sales and marketing (note 13)	<b>295,007</b>	444,787	<b>646,142</b>	784,711
General and administrative (note 13)	<b>560,445</b>	484,842	<b>1,134,266</b>	884,564
Interest expense	<b>15,349</b>	17,101	<b>31,187</b>	34,113
Interest income	<b>(434)</b>	(957)	<b>(1,430)</b>	(4,538)
Foreign exchange (gain) loss	<b>613,646</b>	187,836	<b>(868,481)</b>	793,587
<b>Loss before income taxes</b>	<b>(2,304,574)</b>	(1,750,289)	<b>(2,769,996)</b>	(3,720,099)
Income taxes (note 14)	-	-	-	-
<b>Net loss for the period</b>	<b>(2,304,574)</b>	(1,750,289)	<b>(2,769,996)</b>	(3,720,099)
<b>Other comprehensive income (loss)</b>				
Foreign currency translation adjustment to presentation currency	<b>272,885</b>	109,657	<b>(674,305)</b>	403,125
<b>Comprehensive loss for the period</b>	<b>(2,031,689)</b>	(1,640,632)	<b>(3,444,301)</b>	(3,316,974)
<b>Loss per share</b> – basic and diluted	<b>(0.03)</b>	(0.03)	<b>(0.04)</b>	(0.06)
<b>Weighted-average number of common shares outstanding</b> - Basic and diluted	<b>67,201,436</b>	59,769,117	<b>64,473,798</b>	57,458,582

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

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## Unaudited Condensed Interim Consolidated Statements of Changes in Equity

Expressed in Canadian dollars

	Number of Common Shares	Common Shares	Warrants	Contributed Surplus	Translation Reserve	(Deficit)	Total
	#	\$	\$	\$	\$	\$	\$
<b>Balance, January 1, 2019</b>	<b>51,442,180</b>	<b>31,459,760</b>	<b>140,394</b>	<b>1,565,325</b>	<b>(140,579)</b>	<b>(25,431,953)</b>	<b>7,592,947</b>
Net loss for the period	-	-	-	-	-	(3,720,099)	(3,720,099)
Other comprehensive gain (loss) for the period	-	-	-	-	403,125	-	403,125
	-	-	-	-	403,125	(3,720,099)	(3,316,974)
Shares issued pursuant to public equity financing	6,037,500	6,339,376	-	-	-	-	6,339,376
Shares issued pursuant to non-brokered private placement	2,074,437	2,178,160	-	-	-	-	2,178,160
Share issuance costs	-	(686,921)	-	-	-	-	(686,921)
Broker warrants issuance costs	-	(150,870)	150,870	-	-	-	-
Shares issued pursuant to option exercise	216,800	312,827	-	(123,587)	-	-	189,240
Share-based compensation expense	-	-	-	250,297	-	-	250,297
DSUs granted for director fees	-	-	-	306,800	-	-	306,800
<b>Balance, June 30, 2019</b>	<b>59,770,917</b>	<b>39,452,332</b>	<b>291,264</b>	<b>1,998,835</b>	<b>262,546</b>	<b>(29,152,052)</b>	<b>12,852,925</b>
<b>Balance, December 31, 2019</b>	<b>60,185,340</b>	<b>40,008,727</b>	<b>155,801</b>	<b>2,260,688</b>	<b>383,943</b>	<b>(31,628,579)</b>	<b>11,180,580</b>
Net loss for the period	-	-	-	-	-	(2,769,996)	(2,769,996)
Other comprehensive gain (loss) for the period	-	-	-	-	(674,305)	-	(674,305)
	-	-	-	-	(674,305)	(2,769,996)	(3,444,301)
Shares issued pursuant to public equity financing	6,024,275	12,650,978	-	-	-	-	12,650,978
Shares issued pursuant to non-brokered private placement	871,677	1,830,522	-	-	-	-	1,830,522
Share issuance costs	-	(1,048,966)	-	-	-	-	(1,048,966)
Broker warrants issuance costs	-	(253,088)	253,088	-	-	-	-
Shares issued pursuant to option exercise	93,877	114,211	-	(48,821)	-	-	65,390
Shares issued pursuant to warrant exercise	43,879	65,325	(19,252)	-	-	-	46,073
Share-based compensation expense	-	-	-	356,498	-	-	356,498
<b>Balance, June 30, 2020</b>	<b>67,219,048</b>	<b>53,367,709</b>	<b>389,637</b>	<b>2,568,365</b>	<b>(290,362)</b>	<b>(34,398,575)</b>	<b>21,636,774</b>

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

**kneat.com, inc.**  
**Unaudited Interim Consolidated Statement of Cash Flows**

*Expressed in Canadian dollars*

	Six-month period ended June 30, 2020	Six-month period ended June 30, 2019
	\$	\$
<b>Operating activities</b>		
Net loss for the period	(2,769,996)	(3,720,099)
Charges to loss not involving cash:		
Depreciation of property and equipment	189,040	138,181
Share-based compensation	324,527	173,454
Interest expense	31,187	34,113
Amortization of the intangible asset	1,049,542	781,842
Amortization of deferred contract acquisition costs	74,933	5,933
Research and development tax credit recovery	(14,173)	-
Unrealized foreign exchange (gain) loss	(868,481)	793,587
(Decrease) Increase in non-current contract liabilities	(128,624)	328,696
Net change in non-cash working capital related to operations (note 15)	849,766	866,024
<b>Net cash used in operating activities</b>	<b>(1,262,279)</b>	<b>(598,269)</b>
<b>Financing activities</b>		
Proceeds received from the public equity financing	12,650,978	6,339,376
Proceeds received from the non-brokered private placement	1,830,522	2,178,160
Share issuance costs associated with equity financings	(1,048,966)	(686,921)
Payment of principal and interest on the loan payable	(137,914)	(64,933)
Proceeds from the exercise of stock options	65,390	189,240
Proceeds from the exercise of warrants	46,073	-
Repayment of lease liabilities	(71,712)	-
<b>Net cash provided by financing activities</b>	<b>13,334,371</b>	<b>7,954,922</b>
<b>Investing activities</b>		
Additions to the intangible asset	(2,866,821)	(2,066,701)
Additions to property and equipment	(365,285)	(216,149)
<b>Net cash used in investing activities</b>	<b>(3,232,106)</b>	<b>(2,282,850)</b>
<b>Effects of exchange rates on cash</b>	<b>(191,958)</b>	<b>(149,206)</b>
<b>Increase in cash during the period</b>	<b>8,648,028</b>	<b>4,924,597</b>
<b>Cash, beginning of period</b>	<b>4,216,846</b>	<b>2,765,507</b>
<b>Cash, end of period</b>	<b>12,864,874</b>	<b>7,690,104</b>

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

# kneat.com, inc.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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### 1. NATURE OF OPERATIONS

kneat.com, inc. (the “Company” or “kneat.com” or “Kneat”), was incorporated on December 12, 2013 under the laws of the Canada Business Corporations Act. On June 27, 2016, the Company completed a transaction with Kneat Solutions Limited whereby kneat.com acquired 100% of the issued and outstanding ordinary shares of Kneat Solutions Limited by way of a scheme of arrangement in Ireland. The Company commenced trading on the TSX Venture Exchange as kneat.com on July 5, 2016 under the symbol KSI. 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.

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### a) Statement of Compliance and Basis of Consolidation

The unaudited condensed interim 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 unaudited condensed interim consolidated financial statements for issue on August 26, 2020.

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”), as issued by the IASB. Accordingly, certain information normally included in annual financial statements prepared in accordance with IFRS, as issued by the IASB, has been omitted or condensed. The unaudited condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2019.

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS as of August 26, 2020, the date the Board of Directors approved the unaudited condensed interim consolidated financial statements. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ended December 31, 2020 could result in the restatement of these unaudited condensed interim consolidated financial statements.

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

<u>Subsidiary</u>	<u>Principal Activity</u>	<u>Country of Incorporation</u>
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.

These unaudited condensed interim consolidated financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of the Company for the year ended

## kneat.com, inc.

### Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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December 31, 2019. Refer to note 2, *Summary of Significant Accounting Policies*, of the kneat.com, inc. annual consolidated financial statements for the year ended December 31, 2019 for information on the other accounting policies, critical accounting judgments and estimates.

#### b) Foreign currency translation

Earnings of foreign operations are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of Kneat Solutions Limited is the Euro and the functional currency of Kneat Solutions Inc. is the United States dollar. The legal parent entity, kneat.com, has a Canadian dollar functional currency. The unaudited condensed interim consolidated financial statements are presented in Canadian dollars. On consolidation assets and liabilities of each foreign entity are translated into Canadian dollars at the exchange rate in effect on the unaudited condensed interim consolidated statements 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 loss, which is a component of shareholders' equity.

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 unaudited condensed interim consolidated statements 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) Share-based payments

The Company has a Deferred Share Unit (“DSU”) plan where DSUs may be granted to members of its Board of Directors or officers of the Company. DSUs typically vest over a three year period and cannot be redeemed until the holder is no longer a director or officer of the Company. All services received in exchange for the grant of DSUs are measured at their fair values as of the date of grant with no subsequent revaluation. The fair value is recognized over the vesting period on a graded vesting basis. Compensation expense is classified consistent with directors fees or salaries and is recognized over the vesting period on the unaudited condensed interim consolidated statements of loss and comprehensive loss.

#### d) New accounting standards adopted during the period

A number of new or amended standards became applicable for the current reporting period. The Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

### 3. AMOUNTS RECEIVABLE

	June 30, 2020	December 31, 2019
	\$	\$
<b>Current</b>		
Research and development tax credits receivable	870,799	828,885
Trade debtors	850,954	610,789
Contract assets	45,280	257,971
Other debtors	37,084	53,002
Sales tax recoverable	287,725	56,996
	<u>2,091,842</u>	<u>1,807,643</u>
<b>Non-current</b>		
Research and development tax credits receivable	1,825,795	999,386
	<u>3,917,637</u>	<u>2,807,029</u>

**kneat.com, inc.****Notes to the Unaudited Condensed Interim Consolidated Financial Statements****4. PROPERTY AND EQUIPMENT**

<b>Cost</b>	Computers and servers	Furniture and fixtures	Right-of-use assets	Leasehold improvements	Total
	\$	\$	\$	\$	\$
<b>As at January 1, 2019</b>	304,066	67,714	-	417,634	789,414
Additions	191,793	36,780	575,482	99,251	903,306
Modifications	-	-	34,116	-	34,116
Effect of movements in exchange rates	(21,540)	(4,721)	(8,937)	(27,216)	(62,414)
<b>As at December 31, 2019</b>	474,319	99,773	600,661	489,669	1,664,422
Additions	131,348	9,146	8,384,150	196,369	8,721,013
Effect of movements in exchange rates	27,265	5,402	94,113	26,815	153,595
<b>As at June 30, 2020</b>	632,932	114,321	9,078,924	712,853	10,539,030
	Computers and servers	Furniture and fixtures	Right-of-use assets	Leasehold improvements	Total
	\$	\$	\$	\$	\$
<b>As at January 1, 2019</b>	135,569	29,982	-	111,343	276,894
Depreciation charge	105,762	11,436	126,584	57,305	301,087
Effect of movements in exchange rates	(9,886)	(2,020)	(1,856)	(7,705)	(21,467)
<b>As at December 31, 2019</b>	231,445	39,398	124,728	160,943	556,514
Depreciation charge	81,274	6,937	65,781	35,048	189,040
Effect of movements in exchange rates	13,018	2,153	7,809	8,885	31,865
<b>As at June 30, 2020</b>	325,737	48,488	198,318	204,876	777,419
	Computers and servers	Furniture and fixtures	Right-of-use assets	Leasehold improvements	Total
	\$	\$	\$	\$	\$
<b>Balance - December 31, 2019</b>	242,874	60,375	475,933	328,726	1,107,908
<b>Balance – June 30, 2020</b>	307,195	65,833	8,880,606	507,977	9,761,611

Depreciation of property and equipment is included in the unaudited condensed interim consolidated statements of loss and comprehensive loss for \$189,040 (six-month period ended June 30, 2019 – \$138,181).



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

<b>Cost</b>	\$
<b>As at January 1, 2019</b>	9,155,063
Additions, net of research and development tax credits of \$1,071,712	3,349,818
Effect of movements in exchange rates	(613,832)
<b>As at December 31, 2019</b>	11,891,049
Additions, net of research and development tax credits of \$716,705	2,182,133
Effect of movements in exchange rates	648,810
<b>As at June 30, 2020</b>	14,721,992
<b>Accumulated amortization</b>	\$
<b>As at January 1, 2019</b>	4,371,731
Amortization charge	1,729,260
Effect of movements in exchange rates	(295,018)
<b>As at December 31, 2019</b>	5,805,973
Amortization charge	1,049,542
Effect of movements in exchange rates	316,664
<b>As at June 30, 2020</b>	7,172,179
<b>Carrying amount</b>	\$
<b>Balance - December 31, 2019</b>	6,085,076
<b>Balance – June 30, 2020</b>	7,549,813

Amortization of the intangible asset of \$1,049,542 (six-month period ended June 30, 2019 - \$781,842) is included in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	June 30, 2020	December 31, 2019
	\$	\$
Trade payables	41,509	196,670
Accruals	532,769	315,025
Employee remittances	376,064	213,289
Sales tax payable	31,962	2,033
Other payables	57,932	57,595
	1,040,236	784,612

**7. CONTRACT LIABILITIES**

	June 30, 2020	December 31, 2019
	\$	\$
<b>Balance - Beginning of period</b>	1,206,645	391,910
Deferral of revenue	2,615,483	2,497,215
Recognition of deferred revenue	(1,735,126)	(1,653,544)
Effect of movement in exchange rate	51,716	(28,936)
<b>Balance - End of period</b>	2,138,718	1,206,645
Less: current portion of contract liabilities	(2,017,965)	(967,913)
<b>Non-current portion of contract liabilities</b>	120,753	238,732

**8. LOAN PAYABLE AND ACCRUED INTEREST**

	June 30, 2020	December 31, 2019
	\$	\$
<b>Balance - Beginning of period</b>	832,521	1,026,752
Interest accrual	12,482	25,508
Interest repayment	(137,914)	(157,917)
Effects of movements in exchange rates	42,585	(61,822)
<b>Balance - End of period</b>	749,674	832,521
Less: Current portion	(374,837)	(277,507)
<b>Non-current portion</b>	374,837	555,014

On February 28, 2019, Enterprise Ireland and the Company agreed to a revised loan payment schedule. The revised schedule results in payments being made over a three-year period on a quarterly basis. Management has determined that the revised terms of the loan payable do not differ substantially from the terms of the original loan. As such, the loan was accounted for as a non-substantial modification of the original loan. As at June 30, 2020, the loan payable and accrued interest balance on the unaudited condensed interim consolidated statement of financial position was comprised of a principal balance of \$749,674 and accrued interest of \$nil (December 31, 2019 – principal balance of \$832,521 and accrued interest of \$nil).

The minimum annual principal repayments of the loan payable over the next two years as of June 30, 2020 are as follows:

Within 1 year	2 years	Total
\$	\$	\$
374,837	374,837	749,674

**9. LEASE LIABILITIES**

	June 30, 2020	December 31, 2019
	\$	\$
<b>Balance - Beginning of period</b>	644,078	-
Leases recognized upon transition to IFRS 16	-	630,444
Additions	8,447,889	166,565
Repayments of lease obligations	(93,762)	(181,653)
Accreted interest	18,797	42,265
Modifications	-	34,118
Effects of movements in exchange rates	30,869	(47,661)
<b>Balance - End of period</b>	9,047,871	644,078
Less: Current portion	(737,565)	(148,061)
<b>Non-current portion</b>	8,310,306	496,017

# kneat.com, inc.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

### 10. DEFERRED SHARE UNITS

The maximum number of common shares which the Company is entitled to issue from treasury in connection with the redemption of DSUs granted under the DSU plan is 950,000 common shares. As at June 30, 2020, 418,017 remain available for grant under the terms of the DSU plan.

DSU activity for the six-month period ended June 30, 2020 and year ended December 31, 2019 is as follows:

	June 30, 2020	December 31, 2019
	#	#
<b>Outstanding - Beginning of period</b>	468,053	-
Granted	63,930	468,053
<b>Outstanding - End of period</b>	<u>531,983</u>	<u>468,053</u>

For the six-months ended 30 June 2020, the estimated value of DSUs earned and recorded in the unaudited interim consolidated statement of loss and comprehensive loss was \$104,124 and is included in general and administration expenses

### 11. 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
	#	\$
<b>Outstanding - January 1, 2019</b>	51,442,180	31,459,760
Shares issued pursuant to the public equity financing	6,037,500	6,339,376
Shares issued pursuant to the private placement	2,074,437	2,178,160
Shares issuance costs pursuant to the equity financing	-	(686,921)
Broker warrants	-	(150,870)
Shares issued pursuant to the stock option exercise	286,782	423,762
Shares issued pursuant to warrant exercises	344,441	445,460
<b>Outstanding - December 31, 2019</b>	<u>60,185,340</u>	<u>40,008,727</u>
Shares issued pursuant to the public equity financing	6,024,275	12,650,978
Shares issued pursuant to the private placement	871,677	1,830,522
Shares issuance costs pursuant to the equity financings	-	(1,048,966)
Broker warrants	-	(253,088)
Shares issued pursuant to the stock option exercise	93,877	114,211
Shares issued pursuant to warrant exercises	43,879	65,325
<b>Outstanding - June 30, 2020</b>	<u>67,219,048</u>	<u>53,367,709</u>

During the year ended December 31, 2019, employees exercised 86,782 options with a weighted average exercise price of \$0.83 per share, for proceeds of \$71,892; and a director exercised 200,000 options with an exercise price of \$0.90 for share for proceeds of \$180,000. During the year ended December 31, 2019, 344,441 broker warrants were exercised with an exercise price of \$0.90 per share for proceeds of \$309,997.

During the six-month period ended June 30, 2020, employees exercised 93,877 options with a weighted average exercise price of \$0.70 per share for proceeds of \$65,390. During the six-month period ended June 30, 2020, 43,879 broker warrants were exercised with an exercise price of \$1.05 per share for proceeds of \$46,073.

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## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

### Equity financings

On March 12, 2020, the Company closed a public equity financing for gross proceeds of \$12,650,978 and a concurrent non-brokered private placement for gross proceeds of \$1,830,522. This resulted in the issuance of 6,895,952 common shares of the Company at an issue price of \$2.10 per common share. In connection with the financings, the Company issued 370,900 broker warrants, exercisable into common shares of the Company at an exercise price of \$2.10 per shares for a period of 24 months. Directors of the Company subscribed to 238,096 common shares for gross proceeds of \$500,001. In addition, Numus Capital Corp., a company in which a director of kneat.com is a shareholder, acted as selling agent in the financing and received 52,301 broker warrants and \$109,831 in cash finders' fees. The Company incurred share issuance costs of \$1,302,054, including commissions, professional and regulatory fees and broker warrants. The 871,677 common shares issued in connection with the non-brokered private placement are subject to a statutory four-month hold period in accordance with applicable securities laws.

On February 20, 2019, the Company completed a public equity financing for gross proceeds of \$6,339,376 and a concurrent non-brokered private placement for gross proceeds of \$2,178,160. This resulted in the issuance of 8,111,937 common shares of the Company at an issue price of \$1.05 per common share. In connection with the financings, the Company issued 343,860 broker warrants, exercisable into common shares of the Company at an exercise price of \$1.05 per share for a period of 24 months. The Company incurred share issuance costs of \$837,791, including commissions, professional and regulatory fees and broker warrants. The 2,074,437 common shares issued in connection with the non-brokered private placement are subject to a statutory four-month hold period in accordance with applicable securities laws, which expires on June 20, 2019.

### **b) Warrants**

The following are the weighted-average assumptions used in calculating the value of the warrants granted during the six-month period ended June 30, 2020 and the year ended December 31, 2019:

	June 30, 2020	December 31, 2019
Risk-free interest rate	0.51%	1.77%
Expected life	2.0 years	2.0 years
Expected volatility	69%	76%
Expected dividend per share	0.0%	0.0%
Weighted average exercise price	\$2.70	\$1.15

The following table reconciles the warrant activity during the six-month period ended June 30, 2020 and the year ended December 31, 2019:

	Number of warrants	Weighted-average exercise price
	#	\$
<b>Outstanding - January 1, 2019</b>	356,977	0.90
Granted	343,860	1.05
Exercised	(344,441)	0.90
Expired	(12,536)	0.90
<b>Outstanding - December 31, 2019</b>	343,860	1.05
Granted	370,900	2.10
Exercised	(43,879)	1.05
<b>Outstanding - June 30, 2020</b>	670,881	1.63

The following table summarizes information relating to outstanding warrants as at June 30, 2020:

Expiry date	Weighted-average remaining contractual life (in years)	Number of warrants outstanding	Weighted-average exercise price
February 20, 2021	0.6	299,981	\$ 1.05
March 12, 2022	1.7	370,900	\$ 2.10

**c) Share-based compensation**

The Company has adopted a stock option plan, providing the Board of Directors with the discretion to issue an equivalent number of options of up to 10% of the issued and outstanding share capital of the Company. Generally stock options are granted with an exercise price of not less than the closing share price on the date preceding the date of grant. As at June 30, 2020, 3,439,311 remain available for grant under the terms of the stock option plan.

The following are the weighted-average assumptions used in calculating the value of the stock options granted during the six-month period ended June 30, 2020 and the year ended December 31, 2019:

	June 30, 2020	December 31, 2019
Risk-free interest rate	1.27%	1.64%
Expected life	4.5 years	4.5 years
Expected volatility	91%	86%
Expected dividend per share	0.0%	0.0%
Weighted-average exercise price	\$2.70	\$1.15

The following table reconciles the stock option activity during the six-month period ended June 30, 2020 and the year ended December 31, 2019:

	Number of options	Weighted-average exercise price
	#	\$
<b>Outstanding - January 1, 2019</b>	2,657,505	0.83
Granted	943,000	1.15
Exercised	(286,782)	0.88
Forfeited	(57,352)	0.83
<b>Outstanding - December 31, 2019</b>	3,256,371	0.92
Granted	130,000	2.70
Exercised	(93,877)	0.70
Forfeited	(10,000)	1.22
<b>Outstanding - March 31, 2020</b>	3,282,494	0.99

For the six-month period ended June, 2020, the estimated value of options earned and recorded in the unaudited condensed interim consolidated statements of loss and comprehensive loss was \$220,403 (six-month period ended June 30, 2019 – \$156,718). The estimated value of options earned during the six-month period ended June 30, 2020 and recorded as an addition to the intangible asset was \$32,013 (six-month period ended June 30, 2019 – \$76,844).

**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**

The following table summarizes information relating to outstanding and exercisable stock options as at June 30, 2020:

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price
November 10, 2020	0.4	33,333	33,333	\$ 0.90
July 4, 2021	1.0	1,235,584	1,122,428	\$ 0.90
September 26, 2021	1.3	10,587	10,587	\$ 0.90
October 3, 2021	1.3	196,700	131,133	\$ 0.55
January 11, 2022	1.5	159,334	106,223	\$ 0.58
February 1, 2022	1.6	40,700	27,133	\$ 0.57
April 4, 2022	1.8	100,000	66,667	\$ 0.57
May 29, 2022	1.9	15,000	10,000	\$ 0.68
November 1, 2022	2.3	100,000	33,333	\$ 0.70
February 1, 2023	2.6	167,900	55,967	\$ 0.80
April 25, 2023	2.8	5,000	3,334	\$ 0.85
November 1, 2023	3.3	100,000	33,333	\$ 1.02
December 18, 2023	3.5	100,000	33,333	\$ 0.97
January 3, 2024	3.5	358,000	119,333	\$ 1.00
March 7, 2024	3.7	270,356	90,119	\$ 1.06
April 4, 2024	3.8	20,000	6,667	\$ 1.22
May 13, 2024	3.9	30,000	10,000	\$ 1.30
July 9, 2024	4.0	10,000	-	\$ 1.18
September 23, 2024	4.2	200,000	-	\$ 1.52
February 6, 2025	4.6	110,000	38,292	\$ 2.84
April 22, 2025	4.8	20,000	-	\$ 1.94

**12. REVENUE**

Revenue has been earned from the following sources:

	Three-month period ended June 30, 2020	Three-month period ended June 30, 2019	Six-month period ended June 30, 2020	Six-month period ended June 30, 2019
	\$	\$	\$	\$
SaaS license fees	638,584	208,588	1,048,887	273,540
On-premise licenses fees	214,536	82,306	399,392	175,399
Maintenance fees	185,339	93,921	363,314	191,172
Professional services and other	507,943	143,997	689,339	302,424
	<u>1,546,402</u>	<u>528,812</u>	<u>2,500,932</u>	<u>942,535</u>

**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****13. EXPENSES BY NATURE**

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

	Three-month period ended June 30, 2020	Three-month period ended June 30, 2019	Six-month period ended June 30, 2020	Six-month period ended June 30, 2019
	\$	\$	\$	\$
Amortization of the intangible asset	561,746	412,363	1,049,542	781,842
Depreciation of plant and equipment	114,483	72,048	189,040	138,181
Salaries, wages and benefits	1,708,099	943,461	3,179,922	1,855,533
Share-based compensation	162,409	100,244	324,527	173,454

**14. INCOME TAXES**

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

	Six-month period ended June 30, 2020	Six-month period ended June 30, 2019
	\$	\$
Loss before income taxes	(2,769,996)	(3,720,099)
Statutory rate	31%	18.54%
Tax recovery at statutory rate	(858,699)	(689,706)
Recovery for losses and deductible temporary differences not recognized in current and prior years	328,132	404,888
Permanent differences and other	(87,419)	284,818
Foreign tax rate variance	617,986	-
Income tax recovery	-	-

**15. SUPPLEMENTAL CASH FLOW INFORMATION**

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

	Six-month period ended June 30, 2020	Six-month period ended June 30, 2019
	\$	\$
Increase in amounts receivable and other	(201,897)	(46,670)
Decrease (Increase) in accounts payable and accrued liabilities	43,397	(68,129)
Increase in contract liabilities	1,008,266	176,649
Decrease in lease liabilities	-	804,174
	849,766	866,024

**16. RELATED PARTY TRANSACTIONS**

During the six-month period ended June 30, 2020, the Company did not incur costs for accounting services or reimbursed rent and office costs from a related party, Numus Financial Inc. (“Numus”), a company in which a director of kneat.com is also a shareholder, (period ended June 30, 2019 – \$15,356 and \$12,750 respectively). As at June 30, 2020 and December 31, 2019 the amount owing to Numus was \$nil.

As at June 30, 2020, the Company had \$20,351 receivable from Beek Investment Limited (“Beek”), a company controlled by directors and officers of kneat.com, relating to professional fees paid on behalf of Beek during the year ended December 31, 2016 (year ended December 31, 2019 – \$16,607).

During the six-month period ended June 30, 2020, the Company accrued directors’ fees of \$nil for the directors who are not employees or officers of the Company (six-month period ended June 30, 2019 – \$27,914). During the year ended December 31, 2019, outstanding directors’ fees of \$306,800 were settled through the issuance of 255,666 DSUs and \$42,247 were paid in cash. As at June 30, 2020 and December 31, 2019 no amounts owing to directors were included in accounts payable and accrued liabilities.

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 (note 11 (a)).

On February 20, 2019, directors of the Company subscribed to 761,905 common shares for gross proceeds of \$799,999. In addition, Numus Capital Corp. acted as selling agent in the non-brokered private placement and received 124,466 broker warrants and \$130,689 in cash finders’ fees (note 11 (a)).

During the six months ended June 30, 2020, the Company issued 63,930 DSUs to members of the Board of Directors who are not employees or officers of the Company (note 10) (six months ended June 30, 2019 – 408,445).

**17. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT****a) Capital Management**

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

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

	June 30, 2020	December 31, 2019
	\$	\$
Equity	21,636,774	11,180,580
Less: cash	(12,864,874)	(4,216,846)
	<u>8,771,900</u>	<u>6,963,734</u>

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may issue equity or return capital to shareholders. No changes were made to the objectives, policies or processes for managing capital during the six-month period ended June 30, 2020 or the year ended December 31, 2019.



**b) Fair Values of Financial Instruments**

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

**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.

**d) Credit Risk**

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date. At June 30, 2020 and December 31, 2019, the Company's financial assets exposed to credit risk amounted to the following:

	June 30, 2020	December 31, 2019
	\$	\$
Cash	12,864,874	4,216,846
Amounts receivable and other	1,197,611	1,183,667

During the six-month period ended June 30, 2020 and the year ended December 31, 2019, the Company did not hold any financial assets that were past due or impaired. Trade debtors of \$850,954 are included in amounts receivable as at June 30, 2020 (December 31, 2019 – \$610,789). Trade debtors are monitored on a regular basis, with reference to the expected credit loss impairment model, in order to minimize material aging and to ensure adequate collection. Historically there have been no significant trade debtor collection issues and the Company does not believe it is subject to significant concentration of credit risk.

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

**e) Liquidity Risk**

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

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities as at June 30, 2020:

**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**

	Within 1 year	2-3 years	4-5 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,008,274	-	-	-	1,008,274
Lease payments	387,025	1,896,259	1,645,044	2,873,468	6,801,796
Loan payable	374,837	374,837	-	-	749,674
	1,770,136	2,271,096	1,645,044	2,873,468	8,559,744

The Company's operations to date have been financed through the sale of shares, issuance of debt, revenue generated from customers and research and development tax credits. The Company has incurred significant operating losses and negative cash flows from operations since inception and has an accumulated deficit of \$34,398,575 as at June 30, 2020. For the six-month period ended June 30, 2020, the Company incurred a net loss of \$2,769,996 with negative cash flows from operations of \$1,262,279 and capitalized development cost spend of \$2,866,821 (2019 - \$3,720,099, \$598,269 and \$2,066,701, respectively). As the Company incurs losses and negative cash flow from operations, the Company has relied on financing activities to meet its working capital and operating requirements, including funds needed to further develop its software and expand its sales function. The Company has a history of being able to raise funds on the capital markets to meet its ongoing requirements and on March 12, 2020, the Company closed a public equity financing for gross proceeds of \$12,650,978 and a concurrent non-brokered private placement for gross proceeds of \$1,830,522 (note 11(a)). However, there can be no assurance that, in the future, the Company will be able to raise funding on favorable terms, if at all.

During the six months ended June 30, 2020, financial markets have been negatively impacted by a novel strain of coronavirus ("COVID-19"), which was declared a pandemic by the World Health Organization ("WHO") on March 11, 2020. The continued spread of COVID-19 and the actions being taken by governments, businesses and individuals to limit this pandemic may adversely impact our operations, credit risk, our ability to serve our customers and our ability to raise new funding. This has resulted in significant economic uncertainty, and even though the Company has to date experienced no significant impact to its operations, any potential impact on our future financial results is difficult to reliably measure. The Company is regularly assessing the situation and remains in contact with its partners, customers and suppliers to assess any impacts and risk.

Management believes that its cash resources, including the proceeds from the March 12, 2020 financing and future cash collections from customers, will be sufficient to fund operations for at least twelve months from the issuance date of the unaudited condensed interim consolidated financial statements.

**f) Currency Risk**

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

The Company is exposed to currency risk on cash, intercompany balances, accounts payable and accrued liabilities balances, and the loan payable balance that are held in currencies that are not in the transacting entities functional currencies. As at June 30, 2020, a 5% decrease in the exchange rate between the functional currencies and foreign currencies would increase the net loss by approximately \$1.8 million for the six-month period ended June 30, 2020; a 5% increase would decrease the net loss by approximately \$1.8 million for the six-month period ended June 30, 2020. 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 <sup>(1)</sup>:

**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**

	Six-month period ended June 30, 2020			Six-month period ended June 30, 2019		
	As reported	Exchange rate effect	5% Stronger	As reported	Exchange rate effect	5% Stronger
	\$	\$	\$	\$	\$	\$
Revenues	2,500,932	77,320	2,578,252	942,535	47,127	989,662
Expenses	(5,270,928)	(160,954)	(5,431,882)	(4,662,634)	(178,766)	(4,841,400)
Net loss	(2,769,996)	(83,634)	(2,853,630)	(3,720,099)	(131,639)	(3,851,738)

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

**g) Interest 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 unaudited condensed interim 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.

**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 June 30, 2020 and December 31, 2019, the Company had no financial instruments that were measured and recognized on the unaudited condensed interim consolidated statement of financial position at fair value. In addition, there were no transfers between levels during the period.

**18. COMMITMENTS AND CONTINGENCIES**

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

The Company has committed to attend several conferences and purchase other services which will result in the Company paying \$68,064 throughout the remainder of 2020, \$396,872 in two to three years and \$41,511 in four to five years.

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

**19. SUBSEQUENT EVENTS**

Financial markets have been negatively impacted by a novel strain of coronavirus (COVID-19), which was declared a pandemic by the WHO on March 11, 2020. The continued spread of COVID-19 since the period ended June 30, 2020 and the actions being taken by governments, businesses and individuals to limit this pandemic may adversely impact our operations, credit risk and our ability to serve our customers. This has resulted in significant economic uncertainty, and even though the Company has to date experienced no significant impact to its operations, any potential impact on our future financial results is difficult to reliably measure.