

Unaudited Condensed Interim Consolidated Financial Statements of

KNEAT.COM, INC.

September 30, 2019

(Expressed in Canadian Dollars)

kneat.com, inc.

Unaudited Interim Consolidated Statements of Financial Position

Expressed in Canadian dollars

	September 30, 2019	December 31, 2018
	\$	\$
Assets		
Current assets		
Cash	6,961,424	2,765,507
Amounts receivable (note 3)	1,108,033	1,196,048
Deferred contract acquisition costs	91,519	55,618
	<u>8,160,976</u>	4,017,173
Amounts receivable (note 3)	791,170	787,044
Deferred contract acquisition costs	64,313	14,313
Property and equipment (note 4)	1,156,085	512,520
Intangible asset (note 5)	5,633,967	4,783,332
	<u>15,806,511</u>	10,114,382
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	806,007	901,135
Contract liabilities (note 7)	1,117,505	383,179
Loan payable and accrued interest (note 8)	235,358	1,026,752
Lease liabilities (note 9)	144,291	-
Lease incentives	-	9,618
	<u>2,303,161</u>	2,320,684
Contract liabilities (note 7)	324,876	8,731
Loan payable (note 8)	627,622	-
Lease liabilities (note 9)	528,223	-
Lease incentives	-	192,020
	<u>3,783,882</u>	2,521,435
Equity		
Shareholders' equity	12,022,629	7,592,947
	<u>15,806,511</u>	10,114,382

Going concern (note 1)

Commitments and contingencies (note 17)

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

Approved on behalf of the Board of Directors on November 26, 2019.

"Ian Ainsworth"
Director

"Wade Dawe"
Director

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

	Three-month period ended September 30, 2019	Three-month period ended September 30, 2018	Nine-month period ended September 30, 2019	Nine-month period ended September 30, 2018
	\$	\$	\$	\$
Revenue (note 11)	1,586,033	248,666	2,547,987	842,125
Cost of revenue (note 12)	(601,015)	(266,146)	(1,351,426)	(643,849)
Gross margin	985,018	(17,480)	1,196,561	198,276
Expenses (income)				
Research and development (note 12)	856,788	641,454	2,276,372	1,680,891
Sales and marketing (note 12)	397,560	458,434	1,196,430	1,234,805
General and administrative (note 12)	652,462	424,376	1,532,446	1,172,923
Interest expense	17,029	6,110	51,128	18,344
Interest income	(786)	(1,128)	(5,324)	(13,098)
Other recoveries	(67,031)	-	(67,031)	-
Foreign exchange loss	493,497	393,012	1,285,878	86,441
Loss before income taxes	(1,364,501)	(1,939,738)	(5,073,338)	(3,982,030)
Income taxes (note 13)	-	-	-	-
Net loss for the period	(1,364,501)	(1,939,738)	(5,073,338)	(3,982,030)
Other comprehensive income				
Foreign currency translation adjustment to presentation currency	161,455	164,277	564,580	35,574
Comprehensive loss for the period	(1,203,046)	(1,775,461)	(4,508,758)	(3,946,456)
Loss per share – basic and diluted	(0.02)	(0.04)	(0.09)	(0.08)
Weighted-average number of common shares outstanding - basic and diluted	59,782,125	51,439,763	58,235,964	48,935,791

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	Accumulated Deficit	Total
	#	\$	\$	\$	\$	\$	\$
Balance, January 1, 2018	44,563,684	25,919,856	-	1,325,457	185,222	(20,815,732)	6,614,803
Impact of adoption of IFRS 15	-	-	-	-	-	(7,687)	(7,687)
Adjusted balance, January 1, 2018	44,563,684	25,919,856	-	1,325,457	185,222	(20,823,419)	6,607,116
Net loss for the period	-	-	-	-	-	(3,982,030)	(3,982,030)
Other comprehensive income for the period	-	-	-	-	35,574	-	35,574
	-	-	-	-	35,574	(3,982,030)	(3,946,456)
Shares issued pursuant to the private placement	6,871,830	6,184,647	-	-	-	-	6,184,647
Share issuance costs pursuant to the private placement	-	(513,215)	-	-	-	-	(513,215)
Broker warrants share issuance costs	-	(140,394)	140,394	-	-	-	-
Shares issued pursuant to option exercise	6,666	8,866	-	(5,000)	-	-	3,866
Share-based compensation	-	-	-	191,283	-	-	191,283
Balance, September 30, 2018	51,442,180	31,459,760	140,394	1,511,740	220,796	(24,805,449)	8,527,241
Balance, January 1, 2019	51,442,180	31,459,760	140,394	1,565,325	(140,579)	(25,431,953)	7,592,947
Net loss for the period	-	-	-	-	-	(5,073,338)	(5,073,338)
Other comprehensive income for the period	-	-	-	-	564,580	-	564,580
	-	-	-	-	564,580	(5,073,338)	(4,508,758)
Shares issued pursuant to the public equity financing	6,037,500	6,339,376	-	-	-	-	6,339,376
Shares issued pursuant to the non-brokered private placement	2,074,437	2,178,160	-	-	-	-	2,178,160
Share issuance costs pursuant to the equity financings	-	(686,921)	-	-	-	-	(686,921)
Broker warrants share issuance costs	-	(150,870)	150,870	-	-	-	-
Shares issued pursuant to option exercises	220,115	317,463	-	(125,571)	-	-	191,892
Shares issued pursuant to warrant exercises	238,175	308,028	(93,671)	-	-	-	214,357
Share-based compensation	-	-	-	394,776	-	-	394,776
Deferred share units granted for director fees	-	-	-	306,800	-	-	306,800
Balance, September 30, 2019	60,012,407	39,764,996	197,593	2,141,330	424,001	(30,505,291)	12,022,629

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

kneat.com, inc.
Unaudited Interim Consolidated Statements of Cash Flows

Expressed in Canadian dollars

	Nine-month period ended September 30, 2019	Nine-month period ended September 30, 2018
	\$	\$
Operating activities		
Net loss for the period	(5,073,338)	(3,982,030)
Charges to loss not involving cash:		
Depreciation of property and equipment	217,588	106,335
Share-based compensation	287,884	100,990
Interest expense	51,128	18,344
Amortization of the intangible asset	1,232,736	988,014
Amortization of deferred contract acquisition costs	53,394	35,852
Amortization of lease incentives	-	(7,109)
Research and development tax credit recovery	(5,494)	(11,448)
Foreign exchange loss	1,285,878	86,441
Increase in non-current contract liabilities	317,627	11,349
Net change in non-cash working capital related to operations (note 14)	919,477	(1,453)
Net cash used in operating activities	(713,120)	(2,654,715)
Financing activities		
Proceeds received from public equity financing	6,339,376	-
Proceeds received from non-brokered private placements	2,178,160	6,184,647
Share issuance costs associated with equity financings	(686,921)	(513,215)
Proceeds from the exercise of stock options	191,892	3,866
Proceeds from the exercise of warrants	214,357	-
Payment of principal and interest on the loan payable	(111,569)	(24,526)
Repayment of lease liabilities	(103,169)	-
Net cash provided by financing activities	8,022,126	5,650,772
Investing activities		
Additions to the intangible asset	(3,143,827)	(2,367,445)
Additions to property and equipment	(322,454)	(111,276)
Collection of research and development tax credit	656,881	-
Net cash used in investing activities	(2,809,400)	(2,478,721)
Effects of exchange rates on cash	(303,689)	12,144
Increase in cash during the period	4,195,917	529,480
Cash, beginning of period	2,765,507	3,482,318
Cash, end of period	6,961,424	4,011,798

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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 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 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.

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 \$30,505,291 as at September 30, 2019.

These unaudited condensed interim 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 nine-month period ended September 30, 2019, the Company incurred a net loss of \$5,073,338 with negative cash flows from operations of \$713,120 and capitalized development cost spend of \$3,143,827 (year ended December 31, 2018 – \$4,608,534, \$3,619,041 and \$3,210,971, respectively). With limited revenue from customers and negative cash flow from operations, the Company has relied primarily on financing activities, similar to the equity financings that closed during the nine-month period ended September 30, 2019 (note 10 (a)), to meet its working capital and operating requirements, including funds needed to further develop its software application and expand its sales function. Such circumstances create material uncertainties that may cast significant doubt as to the ability of the Company to continue as a going concern 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. These unaudited condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues and expenses and statement of financial position classifications that would be necessary if the going concern assumption was determined to be inappropriate and these adjustments could be material.

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 November 26, 2019.

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

kneat.com, inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2018.

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS as of November 26, 2019, the date the Board of Directors approved the 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 December 31, 2018, with the exception of the changes as the result of the adoption of new accounting standards and policies as outlined in note 2(c) and 2(d). Refer to note 2, *Summary of Significant Accounting Policies*, of the kneat.com, inc. annual consolidated financial statements for the year ended December 31, 2018 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, 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 director fees or salaries and is recognized over the vesting period on the unaudited condensed interim consolidated statements of loss and comprehensive loss.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

d) New accounting standards adopted during the period

Effective January 1, 2019, the Company adopted the following new accounting standard. This change in accounting policy will also be reflected in the Company's subsequent quarters and annual financial statements as at and for the year ending December 31, 2019.

IFRS 16, Leases ("IFRS 16")

The Company adopted IFRS 16 effective January 1, 2019. IFRS 16 was applied using the modified retrospective approach whereby 2018 figures were not restated and the cumulative effect of initial application was recognized in retained earnings at January 1, 2019.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. IFRS 16 was applied only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were not reassessed for whether there is a lease. In addition, the Company applied section C8(b)(ii) of the standard and recognized leased assets at an amount equal to the lease liability, adjusted for prepayments recognized before initial application. As a result of the adoption of IFRS 16, \$423,625 of right-of-use assets and \$630,444 of lease liabilities were recognized at January 1, 2019 based on leases that were in place at December 31, 2018. The difference in amounts recognized with respect to right-of-use assets and lease liabilities relates to lease incentives that reduce the right-of-use asset value under IFRS 16. The right-of-use assets and lease liabilities recognized are for the Company's office spaces that were previously classified as operating leases.

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at the date of adoption. The incremental borrowing rate was estimated by assessing the amount of the total lease payments, the underlying assets and the term of each lease. The weighted average incremental borrowing rate for lease liabilities initially recognized as of January 1, 2019 was 5.7%.

The reconciliation of commitments disclosed in the December 31, 2018 financial statements to the lease liability recognized on transition to IFRS 16 is:

	\$
Commitments as at December 31, 2018	895,028
Recognition exemptions for:	
Leases of low value assets	(8,033)
Non-lease commitments	(79,997)
Extension option reasonably certain to be recognized	107,802
Modified lease effective January 1, 2019	(182,449)
Impact of discount using incremental borrowing rate at January 1, 2019	(101,907)
Lease liability recognized on transition at January 1, 2019	<u>630,444</u>

Effective January 1, 2019 in accordance with IFRS 16, the Company assesses whether a contract is or contains a lease based on the criteria outlined in the standard. When a contract meets the definition of a lease, the Company recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which includes the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any incentives received. The right-of-use asset is then depreciated on a straight-line basis from the commencement date to the end of the lease term. The carrying amount of the right-of-use asset may be reduced by impairment losses or adjusted for certain remeasurements of the lease liability, if any.

The lease liability is initially measured at the present value of future lease payments, discounted using the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

effective interest method. It is remeasured if the Company changes its assessment of whether it will exercise a purchase, extension or termination options.

The Company has elected not to recognize assets and lease liabilities for short-term leases with a term of 12 months or less, and leases of low value assets. The lease payments associated with these leases are recognized as an expense in the unaudited interim consolidated statement of loss and comprehensive loss over the lease term. Low value assets consist primarily of computers.

3. AMOUNTS RECEIVABLE

	September 30, 2019	December 31, 2018
	\$	\$
Current		
Research and development tax credits receivable	722,785	686,068
Trade debtors	78,396	227,538
Contract assets	18,166	21,586
Other debtors	50,048	58,834
Sales tax recoverable	40,919	39,186
Prepayments	197,719	162,836
	<u>1,108,033</u>	<u>1,196,048</u>
Non-current		
Research and development tax credits receivable	791,170	787,044
	<u>1,899,203</u>	<u>1,983,092</u>

4. PROPERTY AND EQUIPMENT

Cost	Computers and servers	Furniture and fixtures	Right-of-use assets	Leasehold improvements	Total
	\$	\$	\$	\$	\$
As at January 1, 2018	225,787	74,542	-	402,636	702,965
Additions	125,156	-	-	-	125,156
Write-offs	(56,613)	(9,422)	-	-	(66,035)
Effect of movements in exchange rates	9,736	2,594	-	14,998	27,328
As at December 31, 2018	304,066	67,714	-	417,634	789,414
Additions	178,490	36,980	612,915	90,714	919,099
Effect of movements in exchange rates	(27,139)	(5,973)	(18,580)	(32,638)	(84,330)
As at September 30, 2019	<u>455,417</u>	<u>98,721</u>	<u>594,335</u>	<u>475,710</u>	<u>1,624,183</u>
Accumulated depreciation					
	\$	\$	\$	\$	\$
As at January 1, 2018	106,977	25,570	-	57,016	189,563
Depreciation charge	80,761	9,412	-	51,201	141,374
Write-offs	(56,613)	(6,021)	-	-	(62,634)
Effect of movements in exchange rates	4,444	1,021	-	3,126	8,591
As at December 31, 2018	135,569	29,982	-	111,343	276,894
Depreciation charge	72,608	8,288	94,597	42,095	217,588
Effect of movements in exchange rates	(11,872)	(2,401)	(2,868)	(9,243)	(26,384)
As at September 30, 2019	<u>196,305</u>	<u>35,869</u>	<u>91,729</u>	<u>144,195</u>	<u>468,098</u>

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

Carrying amount	Computers and servers	Furniture and fixtures	Right-of-use assets	Leasehold improvements	Total
	\$	\$	\$	\$	\$
Balance - December 31, 2018	168,497	37,732	-	306,291	512,520
Balance - September 30, 2019	259,112	62,852	502,606	331,515	1,156,085

Depreciation of property and equipment of \$217,588 is included in the unaudited condensed interim consolidated statements of loss and comprehensive loss in cost of revenue, research and development, sales and marketing and general administration costs for \$32,796, \$152,246, \$10,961 and \$21,585, respectively (nine-month period ended September 30, 2018 – \$106,335 included in cost of revenues \$12,269, research and development \$75,661, sales and marketing \$7,668, and general administration \$10,737).

5. INTANGIBLE ASSET

Cost	\$
As at January 1, 2018	6,290,552
Additions, net of research and development tax credits of \$802,743	2,579,678
Effect of movements in exchange rates	284,833
As at December 31, 2018	9,155,063
Additions, net of research and development tax credits of \$785,957	2,462,990
Effect of movements in exchange rates	(729,856)
As at September 30, 2019	10,888,197
Accumulated amortization	\$
As at January 1, 2018	2,852,389
Amortization charge	1,385,953
Effect of movements in exchange rates	133,389
As at December 31, 2018	4,371,731
Amortization charge	1,232,736
Effect of movements in exchange rates	(350,237)
As at September 30, 2019	5,254,230
Carrying amount	\$
Balance - December 31, 2018	4,783,332
Balance - September 30, 2019	5,633,967

Amortization of the intangible asset of \$1,232,736 (nine-month period ended September 30, 2018 - \$988,014) is included in research and development costs on the unaudited condensed interim consolidated statements of loss and comprehensive loss.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2019	December 31, 2018
	\$	\$
Trade payables	242,215	110,774
Accruals	312,010	225,308
Accrued directors' fees (note 15)	-	336,510
Employee remittances	212,861	154,277
Sales tax payable	4,066	10,751
Other payables	34,855	63,515
	806,007	901,135

7. CONTRACT LIABILITIES

	September 30, 2019	December 31, 2018
	\$	\$
Balance - Beginning of period	391,910	396,302
IFRS 15 opening adjustment	-	22,587
Cash receipts from customers	2,104,428	720,303
Recognition of revenue	(1,031,014)	(778,240)
Effect of movement in exchange rate	(22,943)	30,958
Balance - End of period	1,442,381	391,910
Less: current portion of contract liabilities	(1,117,505)	(383,179)
Non-current portion of contract liabilities	324,876	8,731

8. LOAN PAYABLE AND ACCRUED INTEREST

	September 30, 2019	December 31, 2018
	\$	\$
Balance - Beginning of period	1,026,752	989,880
Interest accrual	18,918	24,410
Payments of principal and interest	(111,569)	(24,410)
Effects of movements in exchange rates	(71,121)	36,872
Balance - End of period	862,980	1,026,752
Less: Current portion	(235,358)	(1,026,752)
Non-current portion	627,622	-

As at December 31, 2018, the loan payable and accrued interest balance on the consolidated statements of financial position was comprised of a principal balance of \$829,595 and accrued interest of \$197,157, with the total balance being due in June 2019. 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 September 30, 2019, the loan payable and accrued interest balance on the unaudited condensed interim consolidated statement of financial position was comprised of a principal balance of \$862,980 and accrued interest of \$nil. The interest rate on the loan is 3.0% at September 30, 2019 and December 31, 2018.

The minimum annual principal repayments of the loan payable over the next three years as of September 30, 2019 are as follows:

	Within 1 year	2 years	3 years	Total
	\$	\$	\$	\$
	235,358	392,264	235,358	862,980

9. LEASE LIABILITY

	September 30, 2019	December 31, 2018
	\$	\$
Balance - Beginning of period	-	-
Leases recognized upon transition to IFRS 16	630,444	-
Additions	220,866	-
Repayments of lease obligations	(136,033)	-
Accreted interest	32,209	-
Effects of movements in exchange rates	(54,972)	-
Balance - End of period	672,514	-
Less: Current portion	(144,291)	-
Non-current portion	528,223	-

10. SHARE CAPITAL**a) Common shares**

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

	Number of shares	Amount
	#	\$
Outstanding - January 1, 2018	44,563,684	25,919,856
Shares issued pursuant to the private placement	6,871,830	6,184,647
Shares issuance costs pursuant to the private placement	-	(513,215)
Broker warrants share issuance costs	-	(140,394)
Shares issued pursuant to the stock option exercise	6,666	8,866
Outstanding - December 31, 2018	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 non-brokered private placement	2,074,437	2,178,160
Shares issuance costs pursuant to the equity financings	-	(686,921)
Broker warrants share issuance costs	-	(150,870)
Shares issued pursuant to stock option exercises	220,115	317,463
Shares issued pursuant to warrant exercises	238,175	308,028
Outstanding - September 30, 2019	60,012,407	39,764,996

During the year ended December 31, 2018, an employee exercised 6,666 options with an exercise price of \$0.58 per share, for proceeds of \$3,866.

During the nine-month period ended September 30, 2019, employees exercised 20,115 options with a weighted average exercise price of \$0.59 per share for proceeds of \$11,892; and a director exercised 200,000 options with an exercise price of \$0.90 per share for proceeds of \$180,000.

During the nine-month period ended September 30, 2019, 238,175 broker warrants were exercised with an exercise price of \$0.90 per share for proceeds of \$214,357.

Equity financings

On April 10, 2018, the Company completed a brokered private placement for gross proceeds of \$6,184,647. Through a syndicate of agents, the Company issued 6,871,830 common shares at an issue price of \$0.90 per common share. The Company paid the agents a cash commission equal to six percent of the gross proceeds of the offering and issued warrants entitling the agents to purchase that number of common shares equal to six percent of the common shares sold as part of the offering at an exercise price of \$0.90 per common share for a period of 18 months (excluding 922,221 common shares issued under the president's list as part of the offering). The Company incurred share issuance costs of \$653,609, including commissions, professional and regulatory fees and broker warrants. All securities issued pursuant to the financing were subject to a statutory four-month holding period in accordance with Canadian securities legislation which expired on August 10, 2018.

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 expired on June 20, 2019.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

b) Warrants

The following are the weighted-average assumptions used in calculating the value of the warrants granted during the nine-month period ended September 30, 2019 and the year ended December 31, 2018:

	September 30, 2019	December 31, 2018
Risk-free interest rate	1.77%	1.81%
Expected life	2.0 years	1.5 years
Expected volatility	76%	103%
Expected dividend per share	0.0%	0.0%
Weighted-average exercise price	\$1.05	\$0.90

The following table reconciles the warrant activity during the nine-month period ended September 30, 2019 and the year ended December 31, 2018:

	Number of warrants	Weighted-average exercise price
	#	\$
Outstanding - January 1, 2018	-	-
Granted	356,977	0.90
Outstanding - December 31, 2018	356,977	0.90
Granted	343,860	1.05
Exercised	(238,175)	0.90
Outstanding - September 30, 2019	462,662	1.01

The following table summarizes information relating to outstanding warrants as at September 30, 2019:

Expiry date	Weighted-average remaining contractual life (in years)	Number of warrants outstanding	Weighted-average exercise price
October 10, 2019	0.1	118,802	\$ 0.90
February 20, 2021	1.4	343,860	\$ 1.05

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 the date preceding the date of grant. As at September 30, 2019, 2,654,202 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 nine-month period ended September 30, 2019 and the year ended December 31, 2018:

	September 30, 2019	December 31, 2018
Risk-free interest rate	1.64%	2.12%
Expected life	4.5 years	4.5 years
Expected volatility	86%	96%
Expected dividend per share	0.0%	0.0%
Weighted-average exercise price	\$1.16	\$0.91

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The following table reconciles the stock option activity during the nine-month period ended September 30, 2019 and the year ended December 31, 2018:

	Number of options #	Weighted-average exercise price \$
Outstanding - January 1, 2018	2,298,776	0.80
Granted	438,000	0.91
Exercised	(6,666)	0.58
Forfeited	(72,605)	0.54
Outstanding - December 31, 2018	2,657,505	0.83
Granted	943,000	1.15
Forfeited	(33,351)	0.88
Exercised	(220,115)	0.87
Outstanding - September 30, 2019	3,347,039	0.92

For the nine-month period ended September 30, 2019, the estimated value of options earned and recorded in the unaudited condensed interim consolidated statements of loss and comprehensive loss was \$239,532 and is included in cost of revenues for \$44,675, research and development for \$28,637, sales and marketing for \$105,517 and general and administration for \$60,703 (nine-month period ended September 30, 2018 – \$100,990 included in cost of revenues for \$18,804, research and development for (\$4,946), sales and marketing for \$58,361 and general and administration for \$28,771). The estimated value of options earned during the nine-month period ended September 30, 2019 and recorded as an addition to the intangible asset was \$106,892 (nine-month period ended September 30, 2018 – \$90,293).

The following table summarizes information relating to outstanding and exercisable stock options as at September 30, 2019:

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price
January 2, 2020	0.3	66,667	66,667	\$ 0.90
November 10, 2020	1.1	33,333	33,333	\$ 0.90
July 4, 2021	1.8	1,235,584	1,122,428	\$ 0.90
September 26, 2021	2.0	10,587	10,587	\$ 0.90
October 3, 2021	2.0	199,200	132,800	\$ 0.55
January 11, 2022	2.3	174,334	116,223	\$ 0.58
February 1, 2022	2.3	100,000	66,667	\$ 0.57
April 4, 2022	2.5	100,000	66,667	\$ 0.57
May 29, 2022	2.7	15,000	10,000	\$ 0.68
November 1, 2022	3.1	100,000	33,333	\$ 0.70
February 1, 2023	3.3	181,334	61,550	\$ 0.80
April 25, 2023	3.6	5,000	1,667	\$ 0.85
November 1, 2023	4.1	100,000	-	\$ 1.02
December 18, 2023	4.2	100,000	-	\$ 0.97
January 3, 2024	4.3	363,000	-	\$ 1.00
March 7, 2024	4.4	293,000	-	\$ 1.06
April 4, 2024	4.5	30,000	-	\$ 1.22
May 13, 2024	4.6	30,000	-	\$ 1.30
July 9, 2024	4.8	10,000	-	\$ 1.18
September 23, 2024	5.0	200,000	-	\$ 1.52

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

d) Deferred Shares 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 666,667 common shares. As at September 30, 2019, 218,222 remain available for grant under the terms of the DSU plan.

DSU activity for the nine-month period ended September 30, 2019 and year ended December 31, 2018 is as follows:

	September 30, 2019	December 31, 2018
	#	#
Outstanding - Beginning of period	-	-
Granted	448,445	-
Outstanding - End of period	448,445	-

For the nine-month period ended September 30, 2019, the estimated value of DSU's earned and recorded in the unaudited condensed interim consolidated statements of loss and comprehensive loss was \$48,352 and is included in general and administration expenses.

11. REVENUE

Revenue has been earned from the following sources:

	Three-month period ended September 30, 2019	Three-month period ended September 30, 2018	Nine-month period ended September 30, 2019	Nine-month period ended September 30, 2018
	\$	\$	\$	\$
SaaS license fees	225,486	35,051	499,595	83,392
On-premise licenses fees	805,534	89,170	994,435	245,431
Maintenance fees	129,579	67,805	321,332	188,551
Professional services and other	425,434	56,640	732,625	324,751
	1,586,033	248,666	2,547,987	842,125

12. EXPENSES BY NATURE

	Three-month period ended September 30, 2019	Three-month period ended September 30, 2018	Nine-month period ended September 30, 2019	Nine-month period ended September 30, 2018
	\$	\$	\$	\$
Amortization of the intangible asset	449,802	366,860	1,232,736	988,014
Cloud hosting and other services	126,611	85,418	326,276	218,478
Consultancy fees	30,014	43,119	117,917	127,424
Depreciation of property and equipment	79,219	36,783	217,588	106,335
Other administrative cost	246,728	152,333	538,249	356,990
Professional and audit fees	72,782	91,712	161,145	191,209
Research and development tax credit recovery	(32,929)	(3,490)	(91,690)	(5,372)
Rent and related costs	9,879	12,331	26,453	36,470
Salaries, wages and benefits	1,234,720	827,570	3,095,220	2,150,635
Sales, marketing and advertising	92,255	87,300	219,712	230,036
Securities and regulatory fees	29,505	14,583	61,434	50,001
Share-based compensation	114,364	28,230	287,884	100,990
Travel	54,875	47,661	163,750	181,258
	2,507,825	1,790,410	6,356,674	4,732,468

Notes to the Unaudited Condensed Interim Consolidated Financial Statements**13. 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 tax provision due to the following:

	Nine-month period ended September 30, 2019	Nine-month period ended September 30, 2018
	\$	\$
Loss before income taxes	(5,073,338)	(3,982,030)
Statutory rate	19.57%	16.21%
Tax recovery at statutory rate	(992,852)	(645,487)
Recovery for losses and deductible temporary differences not recognized in current and prior years	726,808	586,380
Permanent differences and other	266,044	59,107
Income tax recovery	-	-

14. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Nine-month period ended September 30, 2019	Nine-month period ended September 30, 2018
	\$	\$
Decrease (increase) in amounts receivable and other	89,595	(161,417)
Increase in accounts payable and accrued liabilities	74,092	288,275
Increase (decrease) in contract liabilities	755,790	(128,311)
	919,477	(1,453)

15. RELATED PARTY TRANSACTIONS

During the nine-month period ended September 30, 2019, the Company incurred costs for accounting services from a related party, Numus Financial Inc. (“Numus”), a company controlled by a director of kneat.com, in the amount of \$23,034 (nine-month period ended September 30, 2018 – \$23,034) and reimbursed rent and office costs to Numus in the amount of \$19,125 (nine-month period ended September 30, 2018 – \$20,790). As at September 30, 2019, the amount owing to Numus was \$6,123 (December 31, 2018 – \$12,021).

As at September 30, 2019, the Company had \$16,432 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 (as at December 31, 2018 – \$17,699).

During the nine-month period ended September 30, 2019, the Company accrued directors’ fees of \$27,914 for the directors who are not employees or officers of the Company (nine-month period ended September 30, 2018 – \$86,448). During the nine-month period ended September 30, 2019, outstanding directors’ fee of \$306,800 were settled through the issuance of 255,666 DSUs and \$42,247 were paid in cash. As at September 30, 2019, the amount owing to directors included in accounts payable and accrued liabilities was \$nil (December 31, 2018 – \$336,510).

During the period ended September 30, 2019, the Company issued a total of 448,445 DSUs to members of the Board of Directors who are not employees or officers of the Company (note 10 (d)).

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., a company controlled by a director of the Company, acted as selling agent in the non-brokered private placement and received 124,466 broker warrants and \$130,689 in cash finders’ fees (note 10 (a)).

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

On April 10, 2018, directors of the Company subscribed to an aggregate of 599,999 of the common shares for gross proceeds of \$539,999. In addition, Numus Capital Corp. acted as a selling agent in the brokered private placement and received 106,266 broker warrants and \$95,640 in cash commissions (note 10 (a)).

Amounts receivable from officers and directors were \$nil as at September 30, 2019 (December 31, 2018 – \$115).

16. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Capital Management

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

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

	September 30, 2019	December 31, 2018
	\$	\$
Equity	12,022,629	7,592,947
Less: cash	(6,961,424)	(2,765,507)
	<u>5,061,205</u>	<u>4,827,440</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 nine-month period ended September 30, 2019 or the year ended December 31, 2018.

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 September 30, 2019 and December 31, 2018, the Company's financial assets exposed to credit risk amounted to the following:

	September 30, 2019	December 31, 2018
	\$	\$
Cash	6,961,424	2,765,507
Amounts receivable and other	344,329	470,794

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

During the nine-month period ended September 30, 2019 and the year ended December 31, 2018, the Company did not hold any significant financial assets that were more than 30 days past their payment terms or impaired. Trade debtors of \$78,396 are included in amounts receivable as at September 30, 2019 (December 31, 2018 – \$227,538). 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 Ireland, the United States and Canada. The long-term credit rating, as determined by Standard and Poor's was BBB+, A 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 ability to raise funds on the 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 evaluates financing alternatives in line with the goals of the business. 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.

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 September 30, 2019:

	Within 1 year	2-3 years	4-5 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	801,941	-	-	-	801,941
Lease payments	180,704	361,409	221,278	-	763,391
Loan payable	235,358	627,622	-	-	862,980
	<u>1,218,003</u>	<u>989,031</u>	<u>221,278</u>	<u>-</u>	<u>2,428,312</u>

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, and the loan payable balance that are held in currencies that are not in the transacting entities functional currencies. As at September 30, 2019, a 5% decrease in the exchange rate between the functional currencies and foreign currencies would increase the net loss by approximately \$1.1 million for the nine-month period ended September 30, 2019; a 5% increase would decrease the net loss by approximately \$1.1 million for the nine-month period ended September 30, 2019. The Company currently does not hedge its currency risk.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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

	Nine-month period ended September 30, 2019			Nine-month period ended September 30, 2018		
	As reported	Exchange rate effect	5% Stronger	As reported	Exchange rate effect	5% Stronger
	\$	\$	\$	\$	\$	\$
Revenues	2,547,987	127,399	2,675,386	842,125	42,106	884,231
Expenses	(7,621,325)	(290,472)	(7,911,797)	(4,824,155)	(213,961)	(5,038,116)
Net loss	(5,073,338)	(163,073)	(5,236,411)	(3,982,030)	(171,855)	(4,153,885)

(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 rate 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 September 30, 2019 and December 31, 2018, 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.

17. 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 conferences and other services which will result in the Company paying \$82,135 within in one year, \$78,114 in two to three years and \$21,374 in four to five years.

The Company has employment arrangements with the Chief Executive Officer, Director of Quality and Director of Research and Development 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.

18. COMPARATIVE FIGURES

Certain comparative figures in the unaudited condensed interim consolidated financial statements have been reclassified in order to conform with current period presentation.

19. SUBSEQUENT EVENTS

On October 9, 2019, Numus Capital exercised 106,266 broker warrants at \$0.90 per common share, for gross proceeds of \$95,639.

Subsequent to September 30, 2019, 12,536 broker warrants expired unexercised with an exercise price of \$0.90 per common share and 14,667 stock options were forfeited with a weighted average exercise price of \$1.00 per commons share.