

kneat.com, inc.

Consolidated Financial Statements
December 31, 2022 and 2021
(expressed in Canadian dollars)

February 22, 2023

Management's Report

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

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

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

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

(signed) "*Hugh Kavanagh*"
Chief Financial Officer
Limerick, Ireland



KPMG LLP
600 de Maisonneuve Blvd. West
Suite 1500, Tour KPMG
Montréal (Québec) H3A 0A3
Canada

Telephone (514) 840-2100
Fax (514) 840-2187
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of kneat.com, inc.

Opinion

We have audited the consolidated financial statements of kneat.com, inc. (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of loss and other comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditors' report.

Capitalization of development expenditures related to internally generated intangible asset

Description of the matter

We draw attention to Notes 2d), 2j) and 5 of the financial statements. The Entity's intangible asset consists of the internally generated software platform, Kneat Gx. The development costs of the software platform, net of research and development tax credits, are capitalized when they can be measured reliably, the platform is technically and commercially feasible, future economic benefits are probable and the Entity intends to, and has sufficient resources to, complete development and to use or sell the product. Determining whether the development costs meet the Entity's capitalization criteria involves significant management judgment. Expenditures capitalized include the costs of direct labor and other costs that are directly attributable to preparing the asset for its intended use.

Why the matter is a key audit matter

We identified the capitalization of development expenditures related to the internally generated intangible asset as a key audit matter given the magnitude of the internally generated intangible asset and because this matter represented an area of higher assessed risk of material misstatement. In addition, significant auditor judgment was required in evaluating the results of our audit procedures due to the Entity's significant judgments involved in determining whether the development costs met the Entity's capitalization criteria.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter.

We obtained an understanding of the new features and functionalities under development or included in a new Kneat Gx software release by reviewing management's project documentation and inquiring of senior project managers and officers.

To evaluate the technical feasibility of the development costs capitalized, we assessed the status and progression of the new features and functionalities under development or included in a new Kneat Gx software release platform through discussion with management, senior project managers and officers and inspecting internal supporting information.

We evaluated the ability to generate future economic benefits from the intangible asset by comparing the Entity's business plan, as well as revenue and cash flow projections to historical actual results.

For a sample of expenditures capitalized, other than the cost of direct labor, we evaluated if those costs fulfilled the criteria for capitalization by inspecting the underlying documentation such as invoices and assessing whether they were directly attributable to the new features and functionalities under development or included in a new Kneat Gx software release.

For a sample of direct labor costs capitalized we compared the amounts to the underlying payroll records and reviewed the percentage of time allocated to the new features and functionalities under development or included in a new Kneat Gx software release by inspecting the employees' timesheets.



We involved our tax professionals with specialized skills and knowledge who assisted in evaluating the appropriateness of research and development tax credits related to the development expenditures for the internally generated intangible asset and which were applied against the related expenditures.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditors' report is Tracy Chehab.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Montréal, Canada

February 22, 2023

kneat.com, inc.

Consolidated Statements of Financial Position

As at December 31, 2022 and 2021

Expressed in Canadian Dollars

	2022	2021
	\$	\$
Assets		
Current assets		
Cash	12,282,478	21,562,968
Amounts receivable (note 3)	8,914,980	6,079,383
Prepayments	931,856	496,937
Deferred contract acquisition costs	–	3,836
	<u>22,129,314</u>	<u>28,143,124</u>
Non-current assets		
Amounts receivable (note 3)	1,104,624	1,215,227
Property and equipment (note 4)	7,807,042	8,479,957
Intangible asset (note 5)	19,364,904	13,442,578
	<u>50,405,884</u>	<u>51,280,886</u>
Total Assets		
	<u>50,405,884</u>	<u>51,280,886</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	5,768,054	3,384,937
Contract liabilities (note 7)	10,617,142	5,813,220
Loan payable and accrued interest (note 8)	–	113,242
Lease liabilities (note 9)	588,472	880,984
	<u>16,973,668</u>	<u>10,192,383</u>
Non-current liabilities		
Contract liabilities (note 7)	949,224	37,810
Lease liabilities (note 9)	6,503,041	6,863,848
	<u>24,425,933</u>	<u>17,094,041</u>
Total Liabilities		
	<u>24,425,933</u>	<u>17,094,041</u>
Equity		
Shareholders' equity	<u>25,979,951</u>	<u>34,186,845</u>
Total liabilities and equity	<u>50,405,884</u>	<u>51,280,886</u>

Approved on behalf of the Board of Directors on February 22, 2023

(signed) "Ian Ainsworth", Director

(signed) "Carol Leaman", Director

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

kneat.com, inc.**Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2022 and 2021**

(expressed in Canadian dollars)

	2022	2021
	\$	\$
Revenue (note 11)	23,749,201	15,501,350
Cost of revenue (note 12)	<u>(9,094,688)</u>	<u>(6,180,272)</u>
Gross profit	14,654,513	9,321,078
Expenses (income)		
Research and development (note 12)	(10,992,499)	(8,325,647)
Sales and marketing (note 12)	(8,516,347)	(3,775,826)
General and administrative (note 12)	<u>(4,920,103)</u>	<u>(3,573,496)</u>
Operating loss	(9,774,436)	(6,353,891)
Interest expense	(228,586)	(284,954)
Interest income	2,752	6,446
Foreign exchange gain/(loss)	<u>868,693</u>	<u>(3,205,218)</u>
Loss before income taxes	(9,131,577)	(9,837,617)
Income tax expense (note 13)	<u>(16,611)</u>	<u>(20,911)</u>
Net loss for the year	(9,148,188)	(9,858,528)
Other comprehensive (loss)/income		
Foreign currency translation adjustment to presentation currency (note 2 (c))	<u>(817,378)</u>	<u>1,559,139</u>
Comprehensive loss for the year	<u>(9,965,566)</u>	<u>(8,299,389)</u>
Loss per share – Basic and diluted (note 18)	(0.12)	(0.13)
Weighted-average number of common shares outstanding:		
Basic and diluted	77,444,009	74,114,534

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

kneat.com, inc.**Consolidated Statements of Changes in Equity
For the years ended December 31, 2022 and 2021**

(expressed in Canadian dollars)

	Number of common shares #	Common shares \$	Warrants \$	Contributed surplus \$	Translation reserve \$	Deficit \$	Total \$
Balance – December 31, 2020	67,416,570	53,663,724	331,881	2,846,703	(308,439)	(37,319,749)	19,214,120
Net loss for the year	–	–	–	–	–	(9,858,528)	(9,858,528)
Other comprehensive loss for the year	–	–	–	–	1,559,139	–	1,559,139
	–	–	–	–	1,559,139	(9,858,528)	(8,299,389)
Share issued pursuant to public equity financing (note 10(a))	6,708,525	20,125,575	–	–	–	–	20,125,575
Shares issued pursuant to private placement (note 10(a))	666,668	2,000,004	–	–	–	–	2,000,004
Share issuance costs pursuant to the equity financings (note 10(a))	–	(1,647,054)	–	–	–	–	(1,647,054)
Shares issued pursuant to the option exercises (note 10(a))	1,882,563	2,332,543	–	(844,474)	–	–	1,488,069
Shares issued pursuant to warrant exercises (note 10 a))	303,750	592,017	(130,904)	–	–	–	461,113
Share-based compensation expense (note 10(c))	–	–	–	844,407	–	–	844,407
Balance – December 31, 2021	76,978,076	77,066,809	200,977	2,846,636	1,250,700	(47,178,277)	34,186,845
Net loss for the year	–	–	–	–	–	(9,148,188)	(9,148,188)
Other comprehensive loss for the year	–	–	–	–	(817,378)	–	(817,378)
Shares issued pursuant to the option exercises (note 10(a))	206,305	288,465	–	(133,707)	–	–	154,758
Shares issued pursuant to warrant exercises (note 10 a))	219,566	646,272	(185,182)	–	–	–	461,090
Warrants expired	–	15,795	(15,795)	–	–	–	–
Shares issued pursuant to DSU settlement	258,964	408,812	–	(408,812)	–	–	–
Share-based compensation expense (note 10(c))	–	–	–	1,142,824	–	–	1,142,824
Balance – December 31, 2022	77,662,911	78,426,153	–	3,446,941	433,322	(56,326,465)	25,979,951

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

kneat.com, inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

	2022	2021
	\$	\$
Operating activities		
Net loss for the year	(9,148,188)	(9,858,528)
Charges to loss not involving cash:		
Depreciation of property and equipment	900,295	845,209
Share-based compensation expense	1,142,824	844,407
Interest expense	228,586	284,954
Amortization of the intangible asset	4,795,508	3,558,714
Amortization of deferred contract acquisition costs	3,939	36,231
Write-off of property and equipment, excluding lease	359	–
Impact of lease termination	94,769	–
Other non-cash adjustments	(120,100)	–
Foreign exchange loss (gain)	(845,999)	3,205,218
Increase/(Decrease) in non-current contract liabilities	878,945	(28,408)
Net change in non-cash operating working capital related to operation (note 14)	5,063,150	3,419,756
Net cash provided by operating activities	2,994,088	2,307,553
Financing activities		
Proceeds received from public equity financing	–	20,125,575
Proceeds received from non-brokered private placements	–	2,000,004
Share issuance costs associated with equity financings	–	(1,647,054)
Payment of principal and interest on the loan payable	(110,237)	(458,824)
Proceeds from the exercise of stock options	154,758	1,488,069
Proceeds from the exercise of warrants	461,090	461,113
Repayment of lease liabilities	(889,525)	(768,746)
Net cash (used)/provided by financing activities	(383,914)	21,200,137
Investing activities		
Additions to the intangible asset	(12,484,492)	(9,397,009)
Collection of research and development tax credits	904,566	–
Additions to property and equipment	(331,715)	(646,256)
Net cash used in investing activities	(11,911,641)	(10,043,265)
Effects of exchange rates on cash	20,977	(560,542)
Net change in cash during the year	(9,280,490)	12,903,883
Cash – Beginning of year	21,562,968	8,659,085
Cash – End of year	12,282,478	21,562,968

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

kneat.com, inc.

Notes to the Consolidated Financial Statements

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

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 (“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. The Company graduated to, and began trading on, the main Toronto Stock Exchange (TSX) on November 15, 2021. kneat.com’s head office is located at Hawthorn House, Plassey Business Campus, Castletroy, Limerick, Ireland. The registered office of kneat.com is located at Suite 2001, 1969 Upper Water Street, Halifax, Nova Scotia, Canada B3J 3R7.

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 consolidated financial statements, except as discussed below.

a) Statement of compliance and basis of consolidation

The consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The Board of Directors approved these consolidated financial statements for issue on February 22, 2023. These consolidated financial statements include assets, liabilities and results of operations of the Company, including the following subsidiaries:

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

The Company consolidates the wholly-owned subsidiaries on the basis that it controls these subsidiaries through its ability to govern their financial and operating policies.

b) Basis of presentation

These consolidated financial statements of the Company have been prepared on a historical cost basis except for share-based payment arrangements which are initially accounted for at fair value at date of grant in accordance with IFRS 2 *Share-based Payment*, and lease liabilities, which are initially accounted for at the present value of minimum lease payments at inception of the lease in accordance with IFRS 16 *Leases*.

c) 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”).

kneat.com, inc.

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

c) Foreign currency translation (continued)

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 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 consolidated statement of financial position date. Revenue and expenses are translated at the average rate in effect during the year. 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.

Transactions in each entity in currencies other than the entity’s functional currency 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 consolidated statement of financial position date; and (ii) non-monetary assets and liabilities denominated in foreign currencies and measured in terms of historic costs are translated using rates of exchange at the transaction dates.

d) Critical accounting judgements and estimates

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

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

Recognition of revenue

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

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)**d) Critical accounting judgements and estimates** (continued)

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

Internally generated intangible asset

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

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

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

e) Revenue recognition*Revenue from contracts*

The Company derives its revenues under license agreements from the sale of proprietary software subscriptions and licenses and provides software-related services including training, installation, upgrades, consulting and maintenance, which include product support services.

Revenues are recognized when control of these licenses and services are transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services.

Revenue recognition is determined through the following five steps:

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

kneat.com, inc.

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

e) Revenue recognition (continued)

Revenues generated by the Company include the following:

i) *Software as a service (“SaaS”) license fees*

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

ii) *On-premise license fees*

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

iii) *Maintenance fees*

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

iv) *Professional services*

The Company provides consulting, training, process mapping, project management and other services to its customers that are distinct from the sale of licenses. Revenues from such services are generally recognized at the point in time when performance obligations are satisfied. The Company also performs services related to implementation. Services related to implementation are not a distinct performance obligation and thus are recognized consistent with the licenses to which they relate but are classified as professional services in the consolidated statements of loss and comprehensive loss.

Contracts with multiple performance obligations

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

kneat.com, inc.

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

e) Revenue recognition (continued)

Deferred contract acquisition costs

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

Contract liabilities

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

Contract assets

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

f) Income taxes and other taxes

Current income taxes

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

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

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

Deferred income taxes

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

kneat.com, inc.

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

f) Income taxes and other taxes (continued)

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

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

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

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

Research and development tax credits

Tax credits for research and development are recognized based on amounts expected to be recoverable from the tax authorities in current and future years when there is reasonable assurance that the Company has complied with the related government program. A credit is recognized in the consolidated statements of loss and comprehensive loss against the related expense or in the consolidated statements of financial position against the related asset.

Research and development tax credits claimed in the current and prior years are subject to government review which could result in adjustments to the carrying value of the related assets or to comprehensive loss.

In Ireland, a company can claim to have these tax credits paid in installments by the Irish tax authorities in each year (50% in year one, 30% in year two and 20% in year three), or a company can elect to treat part or all of each instalment in each year as an overpayment of tax to offset tax liabilities for that year, instead of having it paid out in cash.

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Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

g) Leases

The Company assesses whether a contract is or contains a lease based on the criteria outlined in IFRS 16. 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 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 consolidated statement of loss and comprehensive loss over the lease term. Low value assets consist primarily of computer equipment.

h) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises the purchase price and any directly attributable costs of bringing the asset to the working condition and location of its intended use net of any tax credits.

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

The estimated useful lives, residual values and depreciation method are reviewed annually, with the effect of any changes in estimate accounted for on a prospective basis. No changes to estimates were made in 2022 or 2021. The Company depreciates the cost of property and equipment on a straight-line basis over their estimated useful lives at the following rates or terms:

Computers and servers	33.3% per annum
Leasehold improvements	Shorter of 12.5% per annum or remaining lease term
Right-of-use-asset	Lease term
Furniture and fixtures	12.5% per annum

kneat.com, inc.

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

i) Cash

Cash comprises cash on hand, current operating bank accounts and demand deposits.

j) Intangible asset

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

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

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

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

k) Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which they are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date. During the years ended December 31, 2022, and December 31, 2021, there were no impairments or reversals of impairments recorded.

l) Employee benefits

Defined contribution plans

The Company operates a defined contribution pension plan for employees. A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

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Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

l) Employee benefits (continued)

Obligations for contributions to defined contribution pension plans are recognized as an expense through the consolidated statements of loss and comprehensive loss as incurred or capitalized to the intangible asset.

Short-term benefits

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

m) Share-based payments

The Company has a share-based compensation plan. Awards of options under this plan are recognized based on the estimated fair value of the options at the grant date, with a corresponding credit to contributed surplus in equity. Fair value is estimated using the Black-Scholes pricing model. If the options are subject to a vesting period, the estimated fair value is recognized over this period on a graded vesting basis, based on the Company's estimate of the options that will eventually vest. Option pricing models require the use of assumptions, including the expected volatility. The Company uses historical price data of comparable entities in the estimate of future volatilities. Cash consideration received on the exercise of options is credited to share capital together with the amounts originally recorded as share-based compensation related to the exercised options.

Awards of Restricted Stock Units (RSUs) under the share-based compensation plan are measured at their fair value as of the date of grant with no subsequent revaluation. The fair value is recognised over the vesting period on a graded vesting basis.

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 or four year period, will be settled through the issuance of common shares, 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 in the consolidated statement of loss and comprehensive loss.

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Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

m) Share-based payments (continued)

The Company calculates the fair value of warrants issued as part of fundraising activities at the date of issue taking the amount directly to equity where no cash settlement option exists and where a fixed number of warrants are issued at a fixed rate. The fair value is calculated using the Black Scholes model. Fair value, which is assessed at the grant date, is calculated on the basis of the contractual term of the warrants.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

n) Loss per share

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

Diluted loss per share for the years presented is the same as basic loss per share. The Company's potential ordinary shares, which include stock options and warrants to purchase shares of common stock, RSUs and DSUs, have been excluded from the computation of diluted net loss per share as the effect would be anti-dilutive.

o) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. There were no material provisions recorded within the consolidated financial statements as at December 31, 2022 and 2021.

p) Interest income and interest expense

Interest income is recognized as it accrues using the effective interest method. Interest expense relates to financial liabilities measured at amortized cost.

kneat.com, inc.

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

q) Segment information

The Company's chief operating decision makers ("CODMs") are the executives, specifically the Chief Executive Officer, Chief Financial Officer, Chief Product Officer, Chief Information Officer, Chief Technology Officer, Senior VP Sales and Chief People and Culture Officer. This is the highest level of management responsible for assessing the Company's overall performance and making operational decisions such as resource allocations related to operations, development prioritization and delegations of authority. Management has determined that the Company operates in a single operating and reportable segment.

r) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of a financial instrument. Financial assets and financial liabilities are initially measured at fair value.

Financial assets are classified into one of the following specified categories: amortized cost, fair value through profit or loss ("FVTPL") or fair value through other comprehensive income ("FVOCI"). Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities classified as FVTPL) are added to, or deducted from, the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in the consolidated statements of loss and comprehensive loss.

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

Financial instrument	Classification
Cash	Amortized cost
Trade debtors and contract assets	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Loan payable	Amortized cost

kneat.com, inc.

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

r) Financial instruments (continued)

Impairment of financial assets at amortized cost

The Company recognizes an allowance using the expected credit loss (“ECL”) model on financial assets classified as amortized cost. The Company has no experience of material credit losses and no assets are credit impaired. As a result, the Company has elected to use the simplified approach for measuring ECL by using a 12-month expected loss allowance for all accounts receivable.

Under this model, impairment provisions are based on credit risk characteristics and days past due. When there is no reasonable expectation of collection, financial assets classified as amortized cost are written off. Indications of credit risk arise based on failure to pay and other factors. Should objective events occur after an impairment loss is recognized, a reversal of impairment is recognized in the consolidated statements of loss and comprehensive loss.

s) Going Concern

The 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 obligations during the normal course of operations. See note 17 (e) for certain judgements in making this assessment.

t) New accounting standards and amendments to accounting standards adopted during the year

The following newly effective IFRS standards and amendments to IFRS standards became effective for Company for the first time during the financial year ended December 31, 2022.

- COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16) – Effective on or after April 1, 2021
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37) – Effective on or after January 1, 2022
- Annual Improvements to IFRS Standards 2018-2020 – Effective on or after January 1, 2022
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16) – Effective on or after January 1, 2022
- Reference to the Conceptual Framework (Amendments to IFRS 3) – Effective on or after January 1, 2022

The adoption of these new IFRS standards and amendments to IFRS standards did not have a material impact on reported financial results for the year ended December 31, 2022.

kneat.com, inc.

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

u) New accounting standards and amendments to accounting standards which are not yet effective

The following new or revised IFRS standards and amendments to IFRS standards will be adopted for the purposes of the preparation of future financial statements, where applicable. While under review, we do not anticipate that the adoption of these new or revised standards will have a material impact on our reported financial results.

- IFRS 17 Insurance Contracts – Effective on or after January 1, 2023
- Amendments to IFRS 17 – Effective on or after January 1, 2023
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) – Effective on or after January 1, 2023
- Definition of Accounting Estimate (Amendments to IAS 8) – Effective on or after January 1, 2023
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes – Effective on or after January 1, 2023
- Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments to IFRS 17) – Effective on or after January 1, 2023
- Classification of liabilities as current or non-current (Amendments to IAS 1) – Effective on or after January 1, 2024
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) – Effective on or after January 1, 2024
- Non-current Liabilities with Covenants (Amendments to IAS 1) – Effective on or after January 1, 2024

3 Amounts receivable

	2022	2021
	\$	\$
Current		
Trade debtors	4,938,869	3,273,345
Contract assets	44,866	481,659
Research and development tax credits receivable	3,564,875	2,114,035
Other debtors	7,786	5,402
Sales tax receivable	358,584	204,942
	<hr/>	<hr/>
	8,914,980	6,079,383
Non-current		
Research and development tax credits receivable	1,104,624	1,215,227
	<hr/>	<hr/>
	10,019,604	7,294,610

kneat.com, inc.

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

4 Property and equipment

	Computers and servers	Furniture and fixtures	Right-of-use assets	Leasehold improvements	Total
	\$	\$	\$	\$	\$
Cost					
As at January 1, 2021	635,481	116,456	9,060,707	754,258	10,566,902
Additions	404,661	196,333	–	–	600,994
Effect of movements in exchange rates	(56,077)	(9,207)	(716,380)	(59,634)	(841,298)
As at December 31, 2021	984,065	303,582	8,344,327	694,624	10,326,598
Additions	375,217	10,096	–	–	385,313
Disposals	(114,360)	–	(380,500)	(253,496)	(748,356)
Effect of movements in exchange rates	6,655	1,858	51,071	4,251	63,835
As at December 31, 2022	1,251,577	315,536	8,014,898	445,379	10,027,390
Accumulated depreciation					
As at January 1, 2021	321,002	56,687	480,697	254,560	1,112,946
Depreciation charges	202,458	24,651	528,708	89,392	845,209
Effect of movements in exchange rates	(30,621)	(5,033)	(53,170)	(22,690)	(111,514)
As at December 31, 2021	492,839	76,305	956,235	321,262	1,846,641
Depreciation charge	277,415	37,120	475,639	110,121	900,295
Disposals	(113,981)	–	(335,234)	(138,937)	(588,152)
Effect of movements in exchange rates	18,623	2,587	33,624	6,730	61,564
As at December 31, 2022	674,896	116,012	1,130,264	299,176	2,220,348
Carrying amount					
Balance, December 31, 2021	491,226	227,277	7,388,092	373,362	8,479,957
Balance, December 31, 2022	576,681	199,524	6,884,634	146,204	7,807,042

Depreciation of property and equipment is included in the consolidated statements of loss and comprehensive loss for \$900,295 (2021 - \$845,209).

On November 21, 2022, the Company terminated a lease agreement relating to office property situated at units 5 and 6 Castletroy Business Park, Castletroy, Limerick, Ireland.

kneat.com, inc.

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

5 Intangible asset

Cost	\$
As at January 1, 2021	18,053,755
Additions, net of research and development tax credits of \$1,279,767	8,306,670
Effect of movements in exchange rates	<u>(1,427,410)</u>
As at December 31, 2021	24,933,015
Additions, net of research and development tax credits of \$2,285,304	10,897,877
Effect of movements in exchange rates	<u>152,600</u>
As at December 31, 2022	<u>35,983,492</u>
Accumulated amortization	\$
As at January 1, 2021	8,715,151
Amortization charge	3,558,714
Effect of movements in exchange rates	<u>(783,428)</u>
As at December 31, 2021	11,490,437
Amortization charge	4,795,508
Effect of movements in exchange rates	<u>332,643</u>
As at December 31, 2022	<u>16,618,588</u>
Carrying amount	\$
Balance, December 31, 2021	<u>13,442,578</u>
Balance, December 31, 2022	<u>19,364,904</u>

Amortization of the intangible asset is included in research and development costs on the consolidated statements of loss and comprehensive loss. In addition to the capitalized development costs, the Company incurred research costs of \$147,908 (2021 - \$118,415) which were expensed through the consolidated statements of loss and comprehensive loss as they did not meet the criteria for capitalization. Research costs consist primarily of employee salaries, wages and benefits.

6 Accounts payable and accrued liabilities

	2022	2021
	\$	\$
Current		
Trade payables	1,000,425	619,201
Accruals	3,740,185	2,133,411
Employee remittances	885,996	540,257
Sales tax payable	15,627	21,201
Other payables	125,821	70,867
	<u>5,768,054</u>	<u>3,384,937</u>

kneat.com, inc.

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

7 Contract liabilities

	2022	2021
	\$	\$
As at January 1	5,851,030	3,520,643
Deferral of revenue	28,234,225	17,947,044
Recognition of deferred revenue	(22,803,479)	(15,501,350)
Effect of movements in exchange rate	284,590	(115,307)
	<hr/>	<hr/>
As at December 31	11,566,366	5,851,030
Less: current portion of contract liabilities	<hr/> (10,617,142)	<hr/> (5,813,220)
Non-current portion of contract liabilities	<hr/> 949,224	<hr/> 37,810

An amount of \$5,683,331 relating to the contract liability balance at 31 December 2021 has been recognized in revenue in 2022 (2021 - \$3,500,838).

8 Loan payable and accrued interest

	2022	2021
	\$	\$
As at January 1	113,242	580,087
Interest accrual	851	12,423
Principal and interest payment	(110,237)	(458,824)
Effect of movements in exchange rate	(3,856)	(20,444)
	<hr/>	<hr/>
As at December 31	–	113,242
Less: current portion	<hr/> –	<hr/> (113,242)
Non-current portion of loan payable and accrued interest	<hr/> –	<hr/> –

The loan payable was discharged in full by March 31, 2022. The interest rate on the loan was 3.0% at March 31, 2022 and December 31, 2021.

kneat.com, inc.

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

9 Lease liabilities

	2022	2021
	\$	\$
Balance - Beginning of year	7,744,832	8,939,919
Repayments of lease obligations	(889,525)	(760,817)
Accreted interest	222,968	264,888
Termination of lease (note 4)	(61,360)	–
Effects of movements in exchange rates	74,598	(699,158)
Balance - End of year	7,091,513	7,744,832
Less: Current portion	(588,472)	(880,984)
Non-current portion	6,503,041	6,863,848

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, 2021	67,416,570	53,663,724
Shares issued pursuant to the public equity financing	6,708,525	20,125,575
Shares issued pursuant to the private placement	666,668	2,000,004
Share issuance costs pursuant to the equity financing	–	(1,647,054)
Shares issued pursuant to the stock option exercise	1,882,563	2,332,543
Shares issued pursuant to warrant exercises	303,750	592,017
Outstanding – December 31, 2021	76,978,076	77,066,809
Shares issued pursuant to the stock option exercise	206,305	288,465
Shares issued pursuant to warrant exercises	219,566	646,272
Broker warrants expired	–	15,795
Shares issued pursuant to DSU redemptions	258,964	408,812
Outstanding – December 31, 2022	77,662,911	78,426,153

During the year ended December 31, 2022, 219,566 broker warrants were exercised with an exercise price of \$2.10 per share for cash proceeds of \$461,090 plus an ascribed value of \$185,182. 258,964 DSUs were settled at an ascribed value of \$408,812 and employees exercised 206,305 options with a weighted average exercise price of \$0.91 per shares for cash proceeds of \$154,758 plus an ascribed value of \$133,707.

During the year ended December 31, 2021, employees exercised 1,320,515 options with a weighted average exercise price of \$0.78 per share for proceeds of \$982,225; and directors exercised 562,049 options with a weighted average exercise price of \$0.90 per share for proceeds of \$505,844. During the year ended December 31, 2021, 303,750 broker warrants were exercised with a weighted-average exercise price of \$1.52 per share for proceeds of \$461,113.

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Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

10 Share capital (continued)

a) Common shares (continued)

Equity financings

On April 28, 2021, the Company closed a public equity financing for gross proceeds of \$20,125,575 and a concurrent non-brokered private placement for gross proceeds of \$2,000,000. This resulted in the issuance of 7,375,193 common shares of the Company at an exercise price of \$3.00 per common share. Directors of the Company subscribed to 333,334 common shares for gross proceeds of \$1,000,002. In addition, Numus Capital Corp., a company in which a director of kneat.com is a shareholder, acted as selling agent in the financing and received \$120,000 in cash finders' fees.

The Company incurred share issuance costs of \$1,647,054, including commissions, professional and regulatory fees. kneat.com, inc. The 666,668 common shares issued in connection with the non-brokered private placement were subject to a statutory four month hold period in accordance with applicable securities laws.

b) Warrants

No warrants were granted during the year ended December 31, 2022, or the year ended December 31, 2021.

The following table reconciles the warrant activity during the years ended December 31, 2022 and December 31, 2021:

	Number of warrants #	Weighted-average exercise price \$
Outstanding – January 1, 2021	539,245	1.77
Granted	–	–
Exercised	(303,750)	1.52
Outstanding – December 31, 2021	235,495	2.10
Granted	–	–
Exercised	(219,566)	2.10
Forfeited	(15,929)	–
Outstanding – December 31, 2022	–	–

kneat.com, inc.

Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

10 Share capital (continued)

c) Share-based compensation – Stock Options

The Company has adopted an Omnibus Incentive Plan, providing the Board of Directors with the discretion to grant and issue an equivalent number of stock options of up to 15% of the issued and outstanding share capital of the Company, less the number of shares reserved for issuance under all other share compensation arrangements.

Stock options are granted with an exercise price of not less than the closing share price of the date preceding the date of grant. As at December 31, 2022, 7,319,883 stock options remain available for grant under the terms of the Omnibus Equity Incentive Plan.

The following are the weighted-average assumptions used in calculating the value of the stock options granted during the years ended December 31, 2022 and 2021:

	2022	2021
Risk-free interest rate	1.87%	0.80%
Expected life	4.5 years	4.5 years
Expected volatility	65.26%	69.95%
Expected dividend per share	0.0 %	0.0%
Weighted-average share price	\$3.38	\$3.42
Weighted-average fair value	\$1.80	\$1.87

	Number of options #	Weighted-average exercise price \$
Outstanding – January 1, 2021	3,682,918	1.20
Granted	1,219,103	3.42
Exercised	(1,882,564)	0.82
Forfeited	(202,320)	2.59
Outstanding – December 31, 2021	2,817,137	2.31
Granted	443,500	3.38
Exercised	(206,305)	0.91
Forfeited	(164,192)	2.64
Outstanding – December 31, 2022	2,890,140	2.57

For the year ended December 31, 2022, the estimated value of options earned and recorded in the consolidated statements of loss and comprehensive loss was \$784,508 (2021: \$602,255).

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Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

10 Share capital (continued)

c) Share-based compensation – Stock Options (continued)

The following table summarizes information related to outstanding and exercisable stock options as at December 31, 2022

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price
February 1, 2023	0.1	30,000	30,000	\$ 0.80
November 1, 2023	0.8	50,000	50,000	\$ 1.02
December 18, 2023	1.0	67,784	67,784	\$ 0.97
January 3, 2024	1.0	235,670	235,670	\$ 1.00
March 7, 2024	1.2	225,000	225,000	\$ 1.06
April 4, 2024	1.3	10,000	10,000	\$ 1.22
May 13, 2024	1.4	30,000	30,000	\$ 1.30
September 23, 2024	1.7	200,000	200,000	\$ 1.52
January 1, 2025	2.0	70,000	46,667	\$ 2.84
February 6, 2025	2.1	40,000	36,667	\$ 2.84
April, 22, 2025	2.3	20,000	10,000	\$ 1.94
August 26, 2025	2.7	268,295	145,576	\$ 2.50
October 1, 2025	2.8	3,500	1,750	\$ 2.55
November 26, 2025	2.9	200,000	100,000	\$ 2.20
May 27, 2026	3.4	122,000	45,750	\$ 2.98
August 12, 2026	3.6	789,391	246,171	\$ 3.45
September 23, 2026	3.7	85,000	26,563	\$ 4.10
January 7, 2027	4.0	280,000	–	\$ 3.60
February 24, 2027	4.2	42,000	–	\$ 2.93
August 12, 2027	4.6	116,500	–	\$ 3.05
November 11, 2027	4.9	5,000	–	\$ 2.77
		<u>2,890,140</u>	<u>1,507,598</u>	

d) Share Based Compensation - Deferred Share Units (DSUs) & Restricted Share Units (RSUs)

The maximum number of common shares which the Company is entitled to issue from treasury in connection with the redemption of DSUs and RSUs granted under the Company's Omnibus Equity Incentive Plan is 4,000,000 common shares. As at December 31, 2022, 2,560,586 remain available for grant under the terms of the Omnibus Equity Incentive Plan.

DSU activity for the years ended December 31, 2022 and year ended December 31, 2021 is as follows:

	2022	2021
	#	#
Outstanding - Beginning of year	693,560	583,001
Granted (note 15)	108,182	110,559
Redeemed	(258,964)	–
Forfeited	(30,227)	–
Outstanding - End of year	<u>512,551</u>	<u>693,560</u>

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Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

10 Share capital (continued)

d) Share Based Compensation - Deferred Share Units (DSUs) & Restricted Share Units (RSUs) (continued)

For the year ended December 31, 2022, the estimated value of DSUs earned and recorded in the consolidated statements of loss and comprehensive loss was \$152,217 and is included in general and administration expenses. During the period 258,964 DSUs with a carrying value of \$408,812 were settled with directors upon resignation from the board of directors.

RSU activity for the years ended December 31, 2022 and year ended December 31, 2021 is as follows:

	2022	2021
	#	#
Outstanding - Beginning of year	–	–
Granted (note 15)	926,863	–
Outstanding - End of year	<u>926,863</u>	<u>–</u>

For the year ended December 31, 2022, the estimated value of RSUs earned and recorded in the consolidated statements of loss and comprehensive loss was \$206,099 and is included in general and administration expenses. RSUs typically vest over a three-year period and will be settled through the issuance of common shares. RSUs 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.

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Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

11 Revenue

Revenue consists of the following:

	2022	2021
	\$	\$
SaaS license fees	17,340,601	8,675,145
On-premise license fees	868,797	1,800,443
Maintenance fees	804,043	843,357
Professional services	4,735,760	4,182,405
	<u>23,749,201</u>	<u>15,501,350</u>

The following table presents total external revenues by geographic location, based on the location of the Company's customers:

	2022	2021
	\$	\$
North America	17,455,177	10,655,783
Europe	6,033,541	4,778,484
Asia	260,483	67,083
	<u>23,749,201</u>	<u>15,501,350</u>

In the year ended December 31, 2022, revenue from 1 customer amounts to 10% or more of the Company's total revenue. (December 31, 2021 – 1).

For the year ended December 31, 2022, the Company's top 10 customers made up 55% of the Company's revenues. (December 31, 2021 - 67%).

12 Expenses by nature

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

	2022	2021
	\$	\$
Amortization of the intangible asset	4,795,508	3,558,714
Depreciation of plant and equipment	900,295	845,209
Salaries, wages and benefits	15,608,945	10,175,829
Share-based compensation	1,142,824	844,407
	<u>1,142,824</u>	<u>844,407</u>

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Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

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 taxes due to the following:

	2022	2021
	\$	\$
Loss before income taxes	(9,131,577)	(9,837,617)
Statutory rate	29.00%	29.00%
Tax recovery at statutory rate	(2,648,157)	(2,852,909)
Recovery for losses and deductible differences not recognized in current and prior years	1,340,955	1,340,532
Permanent differences and other	92,150	601,490
Foreign tax rate variance	1,231,663	931,798
Income tax expense	<u>16,611</u>	<u>20,911</u>

At December 31, 2022, the Company has unused non-capital losses in Canada of \$7.1 million (2021 - \$4.7 million) available for carry-forward purposes which expire from 2036 to 2042.

At December 31, 2022, the Company has unused non-capital losses in the USA of \$1.9 million that expire from 2036 – 2037 and unused non-capital losses in the USA of \$2.3 million that can be used indefinitely with an 80% limitation in the year of utilization (2021 - \$1.4 million that expire from 2036 – 2037 and \$2.2 million that can be used indefinitely).

The Company also has unused non-capital loss carry-forwards in Ireland of \$44 million (2021 - \$35 million) that have no expiration date, however, the use of these carry-forwards is restricted to taxable income from operations.

At December 31, 2022, the Company has no unrecognized deferred tax liabilities (2021 - \$nil) for taxes that would be payable on unremitted earnings as it is probable that any temporary differences will not reverse in the foreseeable future. At December 31, 2022 the Company has \$10.4 million of unrecognized deferred tax assets (2021 - \$7.1 million).

	2022	2021
	\$	\$
Property and equipment	77,296	84,516
Intangible asset	1,294,285	19,013
Unrealized FX losses	184,516	215,787
Share issuance costs	456,859	596,058
Deferred amounts	254,039	31,047
Non-capital loss carry-forward	8,164,401	6,174,819
	<u>10,431,396</u>	<u>7,121,240</u>

There are no income tax consequences attached to the payment of dividends in 2022 or 2021 by the Company to its shareholders as the Company did not pay dividends during these years.

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Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

14 Supplemental cash flow information

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

	2022	2021
	\$	\$
Increase in amounts receivable and prepayments	(1,613,841)	(1,175,683)
Increase in accounts payable and accrued liabilities	2,322,242	2,204,063
Increase in contract liabilities	4,354,749	2,391,376
	<u>5,063,150</u>	<u>3,419,756</u>

15 Related party transactions

During the year ended December 31, 2022, the Company granted 108,182 DSUs to members of the Board of Directors who are not employees or officers of the Company (note 10) (December 31, 2021 – 110,559). Directors of the Company also resigned from the Board during the period ended December 31, 2022. A total of 258,964 DSUs were settled with these directors. In addition, one director forfeited 30,227 DSUs.

During the year ended December 31, 2022, the Company granted 112,887 RSUs to members of the Board of Directors (note 10) (December 31, 2021 – nil) and 309,976 RSUs to Key Management (December 31, 2021 – nil).

On April 28, 2021, directors of the Company subscribed to 333,334 common shares for gross proceeds of \$1,000,002. In addition, Numus Capital Corp. a company in which a director of kneat.com is a shareholder, acted as selling agent in the financing and received \$120,000 in cash finders' fees (note 10 (a)).

On February 1, 2021, a director of the company exercised 33,333 stock options at an exercise price of \$0.90 per common share for gross proceeds of \$30,000.

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

16 Key management compensation

Key management includes the Company's directors, Chief Executive Officer, Chief Financial Officer, Chief Information Officer, Chief Product Officer, Chief Technology Officer, Senior VP Sales, and Chief People and Culture Officer. Compensation awarded to key management is summarized as follows:

	2022	2021
	\$	\$
Salaries and other benefits (expensed)	2,026,056	1,435,026
Salaries and other benefits (capitalized)	318,205	311,498
Share-based compensation (expensed)	231,423	170,403
	<u>2,575,684</u>	<u>1,916,928</u>

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Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

17 Financial instruments and risk management

a) Capital management

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

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

	2022	2021
	\$	\$
Equity	25,979,951	34,186,845
Less: Cash	(12,282,478)	(21,562,968)
	<u>13,697,473</u>	<u>12,623,877</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 in the objectives, policies or processes for managing capital during the years ended December 31, 2022 or 2021.

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 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.

The table below presents the classification of the Company's financial assets and liabilities as at December 31, 2022 and December 31, 2021:

	Financial assets and liabilities at amortized cost	Financial assets and liabilities at amortized cost
	\$	\$
	2022	2021
Financial assets:		
Cash	12,282,478	21,562,968
Trade & Other Debtors & Contract Assets	4,991,521	3,760,406
Financial liabilities:		
Accounts payables and accrued liabilities	5,768,054	3,384,937
Loan payable	–	113,242

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Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

17 Financial instruments and risk management (continued)

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

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

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

During the years ended December 31, 2022 and 2021, the Company did not hold any significant financial assets that were past due or impaired. Trade debtors of \$4,938,869 are included in amounts receivable as at December 31, 2022 (2021 - \$3,273,345).

Trade debtors are monitored on a regular basis, with reference to the ECL impairment model, in order to minimize material aging and to ensure adequate collection. Historically there have been no trade debtor collection issues. There were no material impairment losses recorded during the year and the provision for expected credit losses recorded at both December 31, 2022 and December 31, 2021 was also immaterial. The Company does not believe it is subject to significant concentration of credit risk. The below table provides an analysis of aging of trade debtors as at December 31, 2022 and December 31, 2021:

December 31, 2022

	Current	1-30 days	31-60 days	60-90 days	>90 days	Total
	\$	\$	\$	\$	\$	\$
Trade debtors	3,345,157	1,563,062	30,355	295	-	4,938,869

December 31, 2021

	Current	1-30 days	31-60 days	60-90 days	>90 days	Total
	\$	\$	\$	\$	\$	\$
Trade debtors	2,668,610	601,872	-	2,863	-	3,273,345

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

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Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

17 Financial instruments and risk management (continued)

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 December 31, 2022:

	Within 1 year	2-3 years	4-5 years	Over 5 years	Total	Carrying Value
Accounts payable and accrued liabilities	5,768,054	—	—	—	5,768,054	5,768,054
Lease payments	800,400	1,375,788	939,988	5,868,484	8,984,660	7,091,513
	<u>6,586,454</u>	<u>1,375,788</u>	<u>939,988</u>	<u>5,868,484</u>	<u>14,752,714</u>	<u>12,859,567</u>

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 \$56,326,465 as at December 31, 2022. For the year ended December 31, 2022, the Company incurred a net loss of \$9,148,188 and capitalized development cost spend of \$13,183,181 (2021 - \$9,858,528 and \$9,397,009 respectively). As the Company incurs losses 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 April 28, 2021, the Company closed a public equity financing for gross proceeds of \$20,125,575 and a concurrent non-brokered private placement for gross proceeds of \$2,000,000 (note 10(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 2022 and 2021, financial markets have been negatively impacted by the economic instability due to factors including the impacts of Russia's invasion of Ukraine, unexpected impacts from the COVID-19 pandemic, rising inflation and interest rates. The factors 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.

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Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

17 Financial instruments and risk management (continued)

e) Liquidity risk (continued)

The Directors believe that the Company's cash resources when combined with the proceeds from customer receipts, will be sufficient to fund operations for at least twelve months from the reporting date of the financial statements. However, judgement is required to forecast cash flows over future periods. Management has the ability to reduce or delay certain cash outflows were it to be necessary.

f) Currency risk

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

The Company is exposed to currency risk on its cash balances, amounts receivable, loan payable, intercompany balances and accounts payable and accrued liabilities that are held in currencies that are not in the transacting entity's functional currencies.

For the year ended December 31, 2022, the impact on monetary assets and liabilities of a 5% decrease in the exchange rate between the functional currencies and foreign currencies (weakening of the Euro/USD versus CAD) would increase the net loss by approximately \$2.5 million; a 5% increase would decrease the net loss by approximately \$2.5 million (strengthening of the Euro/USD versus CAD). The Company currently does not hedge its currency risk.

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

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

(1) A 5% weakening of the Euro and USD 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.

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Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

17 Financial instruments and risk management (continued)

g) Interest risk

Interest risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. An immaterial amount of interest rate exposure exists in respect of cash balances on the consolidated statements of financial position. The Company does not hold a loan payable, the loan was cleared during the year ended December 31, 2022. As a result, the Company is not exposed to cash flow interest rate risk on loan payables.

h) Fair value hierarchy

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

At December 31, 2022 and 2021, the Company had no financial instruments that were measured and recognized on the consolidated statements of financial position at fair value. In addition, there were no transfers between levels during the years.

18 Loss per share

Basic and diluted net loss per share was calculated as follows:

	2022	2021
	\$	\$
<i>Numerator:</i>		
Net loss for the year attributable to ordinary shareholders	(9,148,188)	(9,858,528)
<i>Denominator:</i>		
Weighted average number of ordinary shares in issue	77,444,009	74,114,534
Loss per share (basic and diluted)	<u>(0.12)</u>	<u>(0.13)</u>

The Company's potential ordinary shares, which include stock options, RSUs, warrants to purchase shares of common stock and DSUs, have been excluded from the computation of diluted net loss per share as the effect would be to reduce the net loss per share. Therefore, the calculation of basic and diluted net loss per share is the same. The Company excluded the following potential ordinary shares, presented based on amounts outstanding at each year end, from the computation of diluted net loss per share because including them would have had an anti-dilutive effect.

	2022	2021
Options to purchase common shares	2,890,140	2,817,135
Restricted share units (RSUs)	926,863	–
Warrants to purchase common shares	–	235,495
Deferred share units (DSUs)	512,551	693,560

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Notes to the Consolidated Financial Statements (continued)

For the years ended December 31, 2022 and 2021

(expressed in Canadian dollars)

19 Commitments and contingencies

The Company may from time to time be involved in various claims, legal proceedings and complaints arising in the ordinary course of business.

The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial conditions or future results of operations of the Company.

The Company has committed to purchase certain services which will result in the Company paying \$1,731,741 within 1 year and \$909,716 in two to three years thereafter.

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

20 Subsequent events

The Company performed a review of events subsequent to the consolidated statement of financial position date through to the date the financial statements were issued and determined that there were no such events requiring recognition or disclosure in the financial statements.