

kneat.com, inc.

Year ended December 31, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of the performance of kneat.com, inc. ("kneat.com" or the "Company") and should be read in conjunction with the audited consolidated financial statements of kneat.com (the "Financial Statements") for the years ended December 31, 2017 and December 31, 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The information presented in this MD&A is as of April 24, 2018. The reporting currency for kneat.com is the Canadian dollar. All of the financial information presented herein is expressed in Canadian dollars, unless otherwise stated. United States dollars are indicated by the symbol "US\$". Euros are indicated by the symbol "€". This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. The reader is cautioned not to place undue reliance on forward-looking statements.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION

This MD&A contains "forward-looking information", as such term is defined in applicable Canadian securities legislation. Forward-looking information is necessarily based on a number of estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies. All statements other than statements which are reporting results as well as statements of historical fact set forth or incorporated herein by reference, are forward looking information that may involve a number of known and unknown risks, uncertainties and other factors, many of which are beyond kneat.com's ability to control or predict. Forward-looking information can be identified by the use of words such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "continue," or the negative of such terms, or other comparable terminology.

This information includes, but is not limited to, comments regarding:

- the development plans for the Kneat Gx platform ("Kneat Gx");
- the Company's business strategy;
- the compliance of the Kneat Gx platform under regulatory audit and inspection;
- the Company's strategy for protecting its intellectual property;
- the Company's ability to obtain necessary funding on favorable terms or at all;
- the Company's plan and ability to secure additional customers and additional revenues;
- the ability to scale Kneat Gx within the customers' sites and processes;
- the risk of competitors entering the market;
- the Company's hiring and retention of skilled staff;
- the ability to obtain financing to fund future expenditures, including product development and capital requirements;
- the use of Kneat Gx within the customers' sites and processes; and
- the impact of adoption of new accounting standards.

Although kneat.com believes that the plans, intentions and expectations reflected in this forward-looking information are reasonable, kneat.com cannot be certain that these plans, intentions or expectations will be achieved. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking information contained in this report. Disclosure of important factors that could cause actual results to differ materially from kneat.com's plans, intentions or expectations is included in this report under the heading *Risk Factors*.

Forward-looking information inherently involves risks and uncertainties that could cause actual results to differ materially from the forward-looking information. Factors that could cause or contribute to such differences include, but are not limited to, unexpected changes in business and economic conditions, including the global financial and capital markets; changes in interest and currency exchange rates; changes in operating revenues and costs; political or economic instability, either globally or in the countries in which kneat.com operates; local and community impacts and issues; labour disputes; environmental costs and risks; competitive factors; availability of external

financing at reasonable rates or at all; and the other factors discussed in this MD&A under the heading *Risk Factors*. Many of these factors are beyond kneat.com's ability to control or predict. These factors are not intended to represent a complete list of the general or specific factors that may affect kneat.com. kneat.com may note additional factors elsewhere in this MD&A. All forward-looking statements and information speak only as of the date made. All subsequent written and oral forward-looking statements attributable to kneat.com, or persons acting on kneat.com's behalf, are expressly qualified in their entirety by these cautionary statements. Readers are cautioned not to put undue reliance on forward-looking information due to the inherent uncertainty therein. kneat.com disclaims any intent or obligation to update publicly any forward-looking statements, whether as a result of new information, future events or results or otherwise, except as required by securities legislation.

COMPANY OVERVIEW

kneat.com, inc. (the "Company" or "kneat.com") commenced trading on the TSX Venture Exchange ("TSX-V") on July 5, 2016 under the symbol KSI. The Company is incorporated and domiciled in Canada and its registered office is located at 1969 Upper Water Street, Suite 2001, Halifax, Nova Scotia. The Company's operations are centralized in Limerick, Ireland.

Transaction with Kneat Solutions Limited

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

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

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

The shareholders of Kneat Solutions Limited, through owning 68.7% of the outstanding kneat.com shares on completion of the Transaction, control kneat.com. As a consequence of the Transaction, the shareholders of Kneat Solutions Limited acquired control over the combined entity. After its reorganization, kneat.com does not meet the definition of a business, therefore the Transaction is outside the scope of IFRS 3, *Business Combinations*. The Transaction has therefore been accounted for under IFRS 2, *Share-based payment*. Under this basis of accounting, the consolidated entity is considered to be a continuation of Kneat Solutions Limited, with the net identifiable assets of kneat.com deemed to have been acquired by Kneat Solutions Limited. Refer to note 4 of the audited consolidated financial statements of the Company for the year ended December 31, 2017 for further details.

Operational overview

kneat.com designs, develops and supplies software for data and document management within regulated environments. The Company's current product is the Kneat Gx platform, a configurable, commercial, off-the-shelf application focused on validation lifecycle management and testing within the life sciences industry (i.e. biotechnology, pharmaceutical and medical device manufacturing). Complete and comprehensively documented validation of processes, products, equipment and software is a significant and impactful regulatory requirement in the life sciences industry. The Kneat Gx platform provides a compliant digital solution that enables companies in the life sciences industry to become efficient and compliant with an automated process that has traditionally been manual, in-efficient and paper-based.

Every manufacturing process, every piece of equipment and every computer system involved in the manufacturing of pharmaceutical, biotechnology and medical device products must be validated in accordance with current Good Manufacturing Practice ("cGMP") regulations. Validation necessitates extensive signed and time stamped documentary evidence that all aspects of these systems are designed and tested to ensure that they will repeatedly produce products to the approved specifications. This documentation is subject to audit by global regulatory

authorities such as the United States of America Food and Drug Administration and the European Medicines Agency.

Traditionally, validation and cGMP testing has been a manual, paper intensive activity. Test documents must be developed, printed, approved, executed, post approved and filed away ready for regulatory audit in the future. In many companies in the life sciences industry everything is done on paper using wet ink to record, apply proof of signature and date. It is a data and document minefield that leaves life sciences companies susceptible to production delays, high costs associated with document management and man power and risk of non-compliance. Non-compliance can lead to regulatory fines, recalls, threats to patient safety and delays to market. In addition, non-compliance can cost companies billions of dollars in penalties, lost revenues and remediation.

The solution that Kneat Gx provides to its customers is a complex one that has taken a dedicated professional team of industry experts years of intense research and development to overcome. kneat.com's customers cite Kneat Gx's innovation, ease of use, its central and dynamic data management, its configurability and its electronic records and signatures capabilities as the key differentiators that set it apart in the market. In addition, kneat.com's team of developers, training manuals and customer support are considered best in class by its customers.

kneat.com possesses a top tier quality management system and is certified to ISO 9001:2015. In addition, it adheres to all applicable life sciences regulations such as all current cGMPs, GAMP5, International Conference on Harmonization ICH Q8, Q9 and Q10, EU Annex 11, FDA CFR Title 21 Part 11 governing Electronic Records and Electronic Signatures. Adhering to these regulations and guidelines is a mandatory requirement in order to supply to this highly regulated market. Potential customers often perform extensive audits to verify compliance prior to purchasing kneat.com's products.

BUSINESS OBJECTIVES

kneat.com plans to use its financial resources for the following key business objectives:

- development of new features and functionality of the Kneat Gx platform based on customer and prospective customer feedback, including enhancements to the user experience and ease of use;
- further advancement of the Software as a Service ("SaaS") platform to serve small and medium size customers with a focus on fast deployment, scalability and security;
- increase the awareness of the Kneat Gx platform through marketing efforts including online marketing, website enhancements and trade show attendance with the goal of securing contracts with key targets and further expanding within the current customer base; and
- expansion of the team needed to support a growing list of customers through pre and post sales and account management.

Recent developments

On April 10, 2018, the Company closed a brokered private placement for aggregate gross proceeds of \$6,184,647, which was increased from the previously announced amount of \$5 million. Through a syndicate of agents led by Echelon Wealth Partners Inc., and including Bloom Burton Securities Inc. and Industrial Alliance Securities Inc. (together, the "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 (6%) of the gross proceeds of the Offering and issued warrants entitling the Agents to purchase that number of common shares equal to six percent (6%) 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 the 922,221 common shares issued under the President's List as part of the Offering).

On March 27, 2018, the Company announced the appointment of Mr. Camilo Ruan as Director of Sales for the western region of the United States. Mr. Ruan has considerable experience selling enterprise software and will focus his efforts on a region where Kneat sees strong market potential for its validation lifecycle management software.

On February 26, 2018, kneat.com announced that a leader in laboratory services to the life sciences industry selected the Kneat Gx platform to streamline and automate its equipment and instrumentation valuation processes. The

customer's goal is to convert to an end-to-end paperless process that enhances compliance, increases productivity and enables greater transparency and control. The initial deployment will be at one of its flagship laboratories in the United States which has more than 1,000 employees focused on biopharmaceutical laboratory services.

On February 15, 2018, the Company announced that a leading Tier 1 pharmaceutical company, headquartered in the United States and with over thirty manufacturing and laboratory sites globally, has selected Kneat Gx. kneat.com's software platform will replace the customer's paper-based commissioning and qualifications ("C&Q") process with one that is end-to-end paperless. This new client is seeking to improve data integrity and productivity by implementing a structured C&Q process that could be leveraged globally across all sites.

On January 19, 2018, kneat.com announced that one of its customers, a leading US molecular diagnostics company, has increased its number of licenses by fifty percent. This growth is in response to the customer's desire to scale the Kneat Gx platform to a wider global workforce and is confirmation of the value the software continues to deliver for this customer.

On September 18, 2017, kneat.com announced that it partnered with a key customer to publish a case study entitled "Newly Optimized Laboratory Asset Lifecycle Management System supports QC Laboratory of the Future" which is published in the Parent Drug Association ("PDA") Letter. The case study outlines the key features of the Kneat Gx platform that enabled the conversion of a manual, paper-based process to a globally centralized electronic system for all QC laboratory asset lifecycle management. The customer reengineered and streamlined their analytical instrument qualification process and then configured this new process on the Kneat platform.

On August 30, 2017, kneat.com announced that the case study entitled "Validation Process Innovation in Molecular Diagnostics" was published in the Journal of Validation Technology. This case study highlights substantial productivity and compliance improvements that a leading and pioneering molecular diagnostics customer gained by transitioning their overall validation process from paper-based to a compliant, fully electronic system which was made possible by Kneat's software. In addition, it demonstrates Kneat's ability to scale into other sectors within the life sciences industry; in this case laboratory and diagnostics.

On June 14, 2017, kneat.com provided a corporate update outlining the key accomplishments since becoming publicly listed on the TSX-V on July 5, 2016.

On May 31, 2017, the Company closed a non-brokered private placement for aggregate gross proceeds of \$3,000,000. The Company issued 5.0 million common shares at an issue price of \$0.60 per share.

On April 4, 2017, kneat.com announced the appointment of Mr. Derek Hughes as the United States Sales Director. Mr. Hughes will be responsible for sales of the Kneat Gx software platform throughout the United States.

On February 22, 2017, the Company announced that the Journal of Validation Technology published the article 'Case Study: Implementation of an Electronic Life Cycle Management System for Validationand Beyond' which outlines the value of the Kneat Gx software. The case study concludes that Kneat Solutions Limited's software assisted a multi-national company to create best practices across its global network, providing productivity gains in excess of 100% and cycle time improvements of more than 50% in validation, with the prospect of leveraging the technology across many other testing processes.

On January 4, 2017, kneat.com announced that a large multi-national company deployed the Kneat Gx platform to replace many of its paper-based validation and GxP testing processes within their highly-regulated manufacturing facilities worldwide. This initial contract is for a period of three years and is valued at a minimum of \$1.1 million.

On November 3, 2016, the Company announced the appointment of Mr. Mark Geldard as its European Sales Director. Mr. Geldard will lead the Company's sales and marketing activities throughout Europe.

SELECTED QUARTERLY INFORMATION

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

	Q4 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
	\$	\$	\$	\$	\$	\$	\$	\$
Total revenue	77	131	67	147	707	82	19	18
Total expenses	(1,107)	(1,272)	(1,054)	(989)	(1,100)	(814)	(5,230)	(725)
Total loss	(1,030)	(1,141)	(987)	(842)	(392)	(732)	(5,211)	(707)
Total loss per common share	(0.02)	(0.03)	(0.02)	(0.02)	(0.01)	(0.02)	(0.19)	(0.03)
Cash dividends per common share	N/A							

* Cumulative totals vary nominally as a result of foreign exchange differences between quarters.

Total revenues fluctuate quarter over quarter due mainly to the sale of on-premise licenses and the delivery of professional services which are generally recognized on delivery. As the Company pursues sales of the SaaS platform, revenues may become more stable quarter over quarter based on the subscription revenue model. Total expenses are driven primarily by the cost of labour which fluctuates quarter over quarter based on the hiring plan and the amount of qualifying labour capitalized to the intangible asset. Generally, there are no quarterly or seasonal trends associated with the Company's business.

kneat.com expects to record losses until such time as it secures additional customer contracts. See the *Risk Factors* section of this MD&A and note 1, *Nature of operations and going concern*, of the audited consolidated financial statements for the year ended December 31, 2017 for further details.

SELECTED ANNUAL INFORMATION

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

	2017	2016	2015
	\$	\$	\$
Total revenue	421	820	986
Total expenses	(4,416)	(7,836)	(1,995)
Total loss	(3,995)	(7,016)	(1,009)
Total loss per common share	(0.09)	(0.21)	(0.04)
Cash dividends per common share	N/A	N/A	N/A
Total assets	8,795	9,571	4,251
Total non-current financial liabilities	1,172	1,115	1,159

Selected historical annual information

Financial year ended December 31, 2017

During the year ended December 31, 2017, the focus of the Company was consistently on developing and adding key features to the Kneat Gx platform while engaging with current and new customers. Kneat also continued to build a strong customer pipeline throughout 2017 within the target market of the life sciences industry. In addition, Kneat successfully launched and deployed the SaaS version of the Kneat Gx platform and hired a number of individuals on the development and sales teams. Key accomplishments for the year ended December 31, 2017 are outlined in the *Recent developments* above.

Financial year ended December 31, 2016

The Company financed its operations in 2016 through the completion of the Transaction, as outlined above under the heading *Transaction with Kneat Solutions Limited*, and through revenues from customers of approximately \$0.8 million. Revenues generated in 2016 related primarily to the sale of licenses to a major life sciences company in the fourth quarter of 2016.

During the year ended December 31, 2016, the focus of the Company was to progress towards key improvements in the functionality of the Kneat Gx platform; hire additional software developers, testers and members of the operational team; progress development of the SaaS platform; advance discussions with key customers and targets; and the development of a sales and marketing plan with the hiring of the first sales team member, Mr. Mark Geldard as the European Sales Director in the fourth quarter of 2016.

Financial year ended December 31, 2015

Kneat Solutions Limited raised approximately \$2.5 million through the issuance of common shares. These funds were used to further develop the Kneat Gx platform, extend sales reach throughout Europe and the United States to complete primarily professional services work to onboard and pilot with new customers. Costs of approximately \$1.0 million were incurred and capitalized to further develop the Kneat Gx platform. Revenue totaling approximately \$1.0 million was recognized during the year.

RESULTS OF OPERATIONS

Year ended December 31, 2017

Revenues for the year ended December 31,

	2017	2016	\$ change in 2017	% change in 2017
SaaS license and hosting fees	\$69,443	\$-	\$69,443	100.0%
Maintenance fees	214,285	63,498	150,787	237.5%
Professional services and other	137,538	65,970	71,568	108.5%
On-premise license fees	-	690,892	(690,892)	(100.0%)
Total revenues	\$421,266	\$820,360	(\$399,094)	(48.6%)

SaaS licenses and hosting fees entitle a specified number of users to utilize the Kneat Gx platform which is hosted by the Company on a secure cloud server. SaaS license and hosting fee revenue for the period ended December 31, 2017 was \$69,443 as compared to \$nil for the period ended December 31, 2016. The increase of \$69,443 in SaaS license and hosting fees was the result of the completion of the SaaS model in mid-2017 and the marketing efforts that were directed to sell the SaaS platform as it results in annual, recurring revenues.

Maintenance fees are established annually for on-premise licenses. Maintenance fees entitle the customer to front line support and software upgrades. Maintenance fee revenues for the year ended December 31, 2017 were \$214,285 as compared to \$63,498 for the year ended December 31, 2016. The increase of \$150,787 was due to newly signed and renegotiated contracts and the timing of maintenance contracts. Maintenance fees are related to on-premise license sales and are recurring annually.

Professional services and other revenue vary by customer depending on the customer specific needs. Service fees may include such services as special training, development of tailored reports, pilots for potential customers, implementation and deployment services. Professional service and other revenues for the year ended December 31, 2017 was \$137,538 as compared to \$65,970 for the year ended December 31, 2016. This increase of \$71,568 was primarily due to service milestones being met related to software upgrades and deployment services.

On-premise licenses entitle a customer to use the Kneat Gx platform for a set number of users. These fees are one-time-per license and paid upfront. In order to increase the number of licenses, the customer must pay additional license fees in advance of the license being granted. On-premise license fee revenue for the year ended December 31, 2017 was \$nil as compared to \$690,892 for the year ended December 31, 2016. The decrease in on-premise license fee revenue was primarily the result of a significant customer contract signed in the fourth quarter of 2016. With the launch of the SaaS platform, the marketing efforts during 2017 were directed to sell the SaaS platform as it results in annual, recurring revenues for license and hosting fees.

Amortization of the intangible asset for the year ended December 31,

	2017	2016	\$ change in 2017	% change in 2017
Amortization of the intangible asset	\$1,043,186	\$702,765	\$340,421	48.4%

The intangible asset, which represents the costs associated with the development of the Kneat Gx platform, is amortized straight-line over a five-year period. The expense for the year ended December 31, 2017 was \$1,043,186 compared to \$702,765 for the year ended December 31, 2016. The increase of \$340,421 was primarily due to additions to the intangible asset, consisting mainly of the salaries and benefits of the development team, made throughout the year ended December 31, 2017 which increased the carrying value of the intangible asset and thus the amortization charged to the statement of loss and comprehensive loss.

Administrative expenses for the year ended December 31,

	2017	2016	\$ change in 2017	% change in 2017
Administrative expenses	\$3,659,932	\$2,736,489	\$923,443	33.7%

Administrative expenses for the year ended December 31, 2017 totaled \$3,659,932 which was an increase of \$923,443 over the administrative expenses of \$2,736,489 for the year ended December 31, 2016. This increase can be attributed mainly to the following items:

- Employees' salaries and wages increased by \$1,013,246 due mainly to new hires in the administrative, quality, marketing and sales teams whose salaries are not directly attributable to the intangible asset.
- The directors and key management salaries increased by \$227,671 as 2017 was the first year that the full salaries of the Chief Executive Officer, Chief Financial Officer, Director of Quality and Director of Research and Development and directors' fees were incurred.
- Other administrative costs increased by \$147,602 primarily due to an increase in recruitment costs associated with the hiring of additional personnel.
- Sales, marketing and advertising increased by \$52,631 during the year ended December 31, 2017 due to an increase in marketing activities and attendance at trade shows as a result of the sales directors that were hired in Europe and the United States in late 2016 and early 2017 respectively.
- The increases in the expenses were partially offset by the decrease in professional fees of \$387,999 for the year ended December 31, 2017. The decrease was due primarily to legal fees incurred during the year ended December 31, 2016 relating to the Transaction.
- Audit and accounting fees also decreased by \$56,735 for the year ended December 31, 2017 as compared to the year ended December 31, 2016 due primarily to the costs associated with the completion of the Transaction which occurred during the year ended December 31, 2016.
- Share-based compensation decreased by \$91,377 primarily due to the incremental fair value associated with the modification to stock options held by Kneat Solutions Limited options holders recognized during the year ended December 31, 2016 and the forfeiture of options during the year ended December 31, 2017.
- The write-off of fixed assets decreased by \$58,762 due to the write-off of fixed assets during the year ended December 31, 2016 for capital assets that were no longer in use. A similar write-off was not required in 2017.

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

	2017	2016	\$ change in 2017	% change in 2017
Interest expense	\$23,404	\$50,932	(\$27,528)	(54.0%)
Interest income	(\$4,736)	(\$2,729)	\$2,007	7.4%
Foreign exchange loss (gain)	(\$305,603)	\$127,536	(\$433,139)	(339.6%)
Listing expense	\$-	\$3,795,887	(\$3,795,887)	(100.0%)
Disbursement connected to the Transaction	\$-	\$425,285	(\$425,285)	(100.0%)

The foreign currency gain of \$305,603 arose in the current year due primarily to the impact of changes in exchange rates on financial assets and financial liabilities denominated in currencies other than the functional currency of the entity in which they are held.

The listing expense relates to the Transaction. In accordance with IFRS 2, the Transaction is measured at the fair value of the shares deemed to have been issued by Kneat Solutions Limited. The fair value of the deemed shares of Kneat Solutions Limited issued to kneat.com shareholders is based on the fair value of Kneat Solutions Limited on the effective date of the Transaction and has been allocated as follows:

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

As at December 31, 2016, it was determined that the cost to be incurred in relation to certain former Kneat Solutions Limited shareholders who took part in the employment and investment incentive scheme (“EIIS”) proposal (“EIIS proposal”), as outlined in the Management Information Circular of Fortune Bay Corp. dated May 13, 2016, was \$425,285. During the year ended December 31, 2017, the EIIS payment was finalized and settled for \$453,359. The difference in the amount paid related to changes in foreign currency exchange rates.

Three-month period ended December 31, 2017

Revenues for the three-month periods ended December 31,

	2017	2016	\$ change in 2017	% change in 2017
SaaS license and hosting fees	\$24,382	\$-	\$24,382	364.1%
Maintenance fees	52,543	11,323	41,220	100.0%
On-premise license fees	-	695,720	(695,720)	(100.0%)
Total revenues	\$76,925	\$707,043	(\$630,117)	(89.1%)

SaaS license and hosting fees entitle a specified number of users to utilize the Kneat Gx platform which is hosted by the Company on a secure cloud server. SaaS license and hosting fee revenue for the three-month period ended December 31, 2017 was \$24,382 as compared to \$nil for the three-month period ended December 31, 2016. The increase of \$24,382 in SaaS license and hosting fees was the result of the completion of the SaaS model in mid-2017 and the marketing efforts that were directed to sell the SaaS platform as it results in annual, recurring revenues.

Maintenance fees are established annually for on-premise licenses. Maintenance fees entitle the customer to front line support and software upgrades. Maintenance fee revenues for the three-month period ended December 31, 2017 were \$52,543 as compared to \$11,323 for the three-month period ended December 31, 2016. The increase of \$41,220 was due to newly signed and renegotiated contracts and the timing of maintenance contracts. Maintenance fees are related to on-premise license sales and are recurring annually.

On-premise licenses entitle a customer to use the Kneat Gx platform for a set number of users. These fees are one-time-per license and paid upfront. In order to increase the number of licenses, the customer must pay additional license fees in advance of the license being granted. On-premise license fee revenue for the three-month period ended December 31, 2017 was \$nil as compared to \$695,720 for the three-month period ended December 31, 2016. The decrease in on-premise license fee revenue was primarily the result of a significant customer contract signed in the fourth quarter of 2016. With the launch of the SaaS platform, the marketing efforts during 2017 were directed to sell the SaaS platform as it results in annual, recurring revenues for license and hosting fees.

Amortization of the intangible asset for the three-month periods ended December 31,

	2017	2016	\$ change in 2017	% change in 2017
Amortization of the intangible asset	\$300,963	\$219,632	\$81,331	37.0%

The intangible asset, which represents the costs associated with the development of the Kneat Gx platform, is amortized straight-line over a five-year period. The expense for the three-month period ended December 31, 2017 was \$300,963 compared to \$219,632 for the three-month period ended December 31, 2016. The increase of \$81,331 was primarily due to additions to the intangible asset, consisting mainly of the salaries and benefits of the development team, made throughout the twelve-month period ended December 31, 2017 which increased the carrying value of the intangible asset and thus the amortization charged to the statement of loss and comprehensive loss.

Administrative expenses for the three-month periods ended December 31,

	2017	2016	\$ change in 2017	% change in 2017
Administrative expenses	\$987,573	\$677,467	\$310,106	45.8%

Administrative expenses for the three-month period ended December 31, 2017 totaled \$987,573 which was an increase of \$310,106 over the administrative expenses of \$677,467 for the three-month period ended December 31, 2016. This increase can be attributed mainly to the following items:

- Employees' salaries and wages increased by \$365,066. This was due mainly to new hires in the administrative, quality, marketing and sales teams whose salaries are not directly attributable to the development of the intangible asset.
- The directors and key management salaries increased by \$35,620 due to a change in employee benefits.
- Other administrative costs increased by \$67,025 primarily due to an increase in recruitment costs associated with the hiring of additional personnel.
- Professional fees decreased by \$45,737 for the three-month period ended December 31, 2017. This is due primarily to legal fees associated with the completion of the Transaction incurred during 2016.
- Audit and accounting fees decreased by \$21,395 for the three-month period ended December 31, 2017. This is due to the costs associated with the completion of the Transaction incurred during the three-month period ended December 31, 2016.
- The recovery in the statement of loss and comprehensive loss from the research and development tax credits has increased by \$26,811. This is the result of the finalization of the 2016 research and development tax credit calculations during the fourth quarter of 2016.
- The write-off of fixed assets decreased by \$56,214 due to the write-off of fixed assets during the three-month period ended December 31, 2016 for capital assets no longer in use. A similar write-off was not required in 2017.
- Rent and rates increased by \$33,056 for the three-month period ended December 31, 2017. This was due primarily to the costs allocated to development activities which were capitalized to intangible assets.

Other expenses (recoveries) for the three-month periods ended December 31,

	2017	2016	\$ change in 2017	% change in 2017
Interest expense	\$6,048	\$1,362	\$4,686	344.1%
Interest income	(\$2,975)	(\$1,213)	(\$1,762)	(145.3%)
Foreign exchange loss (gain)	(\$184,613)	\$184,514	(\$369,127)	(200.1%)
Listing expense	\$-	\$16,077	(\$16,077)	(100.0%)
Disbursement connected to the Transaction	\$-	\$1,693	(\$1,693)	(100.0%)

The foreign currency gain of \$184,613 arose in the current quarter due to the impact of changes in exchange rates on financial assets and financial liabilities denominated in currencies other than the functional currency of the entity in which they are held.

As noted above, the listing expense relates to the Transaction. In accordance with IFRS 2, the Transaction is measured at the fair value of the shares deemed to have been issued by Kneat Solutions Limited such that the kneat.com shareholders held 31.3% of the combined entity. Refer to the calculation of the listing expense outlined above.

As at December 31, 2016, it was determined that the cost that to be incurred in relation to certain former Kneat Solutions Limited shareholders who took part in the employment and investment incentive scheme (“EIIS”) proposal (“EIIS proposal”), as outlined in the Management Information Circular of Fortune Bay Corp. dated May 13, 2016, was \$425,285. During the year ended December 31, 2017, the EIIS payment was finalized and settled for \$453,359. The difference in the amount paid related to changes in foreign currency exchange rates.

LIQUIDITY AND CAPITAL RESOURCES

kneat.com’s liquidity depends on existing cash reserves, supplemented as necessary by equity and/or debt financings and revenue generated from customers. As of December 31, 2017, kneat.com had cash of \$3,482,318 compared to \$4,988,601 as at December 31, 2016. kneat.com’s long term debt relates to the loan payable held by Enterprise Ireland which is due on June 27, 2019. The working capital balance at December 31, 2017 was \$3,211,433 as compared to \$5,113,947 at December 31, 2016. Changes during the year relate primarily to the cash received from the private placement completed in May 2017, revenue from customers, collections of the R&D tax credit less the operating and investing costs incurred through the normal course of operations.

During the year ended December 31, 2017, kneat.com used net cash of \$2,517,396 to fund operating activities. In addition, kneat.com raised net funds through financing activities of \$2,954,884 during the year ended December 31, 2017 through the issuance of shares. Investing activities focused mainly on development of the intangible asset resulting in net cash outflow from investing activities of \$2,115,137 for the year ended December 31, 2017.

Subsequent to year end, on April 10, 2018, the Company closed a brokered private placement for aggregate gross proceeds of \$6,184,647. The gross proceeds raised will be used to expand the Company’s sales and marketing function to service its new customers and to further expand the customer pipeline, accelerate the development of the Kneat Gx platform to increase functionality and to fund ongoing operating costs and working capital requirements.

kneat.com’s business to date has been the development of the Kneat Gx platform which has generated limited revenues. kneat.com has historically relied primarily on funding through the issuance of common shares and debt and the receipt of the R&D tax credit.

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.

The Company is currently negotiating proposals, pricing and contracts with a number of customers and potential customers and is pursuing financing alternatives. However, 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. Refer to note 1, *Nature of operations and going concern*, in the audited consolidated financial statements for the year ended December 31, 2017 for further details.

COMMITMENTS AND CONTINGENCIES

In the normal course of business, kneat.com enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the financial liabilities. The amounts included in this table may not result in an actual obligation of kneat.com as the requirement to settle certain of these amounts is contingent on the occurrence of certain events that may or may not transpire:

	Payments due by period as of December 31, 2017					Total
	Within 1 year	2-3 years	4-5 years	Over 5 years	Total	
Accounts payable and accrued liabilities	\$ 602,682	\$ -	\$ -	\$ -	\$ -	\$ 602,682
Loan payable	-	977,587	-	-	-	977,587
Operating leases and other	95,031	81,885	40,638	-	-	217,554
	<u>697,713</u>	<u>1,059,472</u>	<u>40,638</u>	<u>-</u>	<u>-</u>	<u>1,797,823</u>

The Company has employment arrangements with the Chief Executive Officer, Chief Financial Officer, Director of Quality and the Director of Research and Development of the Company which provide that, should a change in control event occur, the Chief Executive Officer, Chief Financial Officer, Director of Quality and the Director of Research and Development will receive lump sum payments equal to 24 months of their then current base salary.

The Company has committed to sponsor several conferences in 2018 which will result in the Company paying \$62,686 throughout 2018.

OFF-BALANCE SHEET ARRANGEMENTS

kneat.com has no off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to kneat.com.

OUTSTANDING SHARE INFORMATION

The Company has authorized an unlimited number of common shares without par value. As of December 31, 2017, and April 24, 2018, the Company had 44,563,684 common shares and 51,435,514 common shares outstanding respectively. Of the common shares issued and outstanding, none are subject to an escrow agreement as at April 24, 2018 (December 31, 2017 – 17,048,720).

As of April 24, 2018, the Company has 2,489,282 (December 31, 2017 – 2,298,776) stock options outstanding at an average exercise price of \$0.80 per common share with varying expiry dates. As at April 24, 2018, there were 356,977 (nil at December 31, 2017) common share purchase warrants outstanding with an exercise price of \$0.90 per common share and an expiry date of October 10, 2019.

RELATED PARTY TRANSACTIONS

During the year ended December 31, 2017, the Company received \$9,201 from a director of the Company in repayment of a director's receivable balance. Amounts receivable from officers and directors were \$nil as at December 31, 2017 (December 31, 2016 - \$8,513). During the year ended December 31, 2017, the Company repaid directors' current account balances of \$nil (December 31, 2016 - \$250,855).

During the year ended December 31, 2017, the Company incurred costs for management services from a related party, Numus Financial Inc. ("Numus"), a company controlled by a director of kneat.com, in the amount of \$39,850 (December 31, 2016 - \$18,000) and incurred rent and office costs from Numus in the amount of \$27,720 (December 31, 2016 - \$14,848).

During the year ended December 31, 2016, the Company paid professional fees on behalf of a related party, Beek Investments Limited ("Beek"), a company controlled by directors and officers of kneat.com, in the amount of \$16,104. As at December 31, 2017, the amount due from Beek was \$17,063 (December 31, 2016 - \$16,104).

During the year ended December 31, 2017, the Company accrued directors' fees of \$140,729 for the independent directors (year ended December 31, 2016 – \$70,942). As at December 31, 2017, the amount owing to directors was \$211,671 (December 31, 2016 – \$70,942).

On May 31, 2017, directors of the Company subscribed to an aggregate of 1,175,066 of the common shares issued pursuant to the non-brokered private placement for gross proceeds of \$705,040.

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

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Market Risk

Currency risk

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

The Company is exposed to currency risk on its cash balances, loan payable, intercompany balances, and accounts payable and accrued liabilities that are held in currencies that are not in the transacting entity's functional currency. As at December 31, 2017, a 5% decrease in the exchange rate between the functional currency and foreign currencies would decrease the net loss by approximately \$363,000; a 5% increase would increase the net loss by approximately \$363,000. The Company currently does not hedge its currency risk.

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 consolidated statement of financial position. The Company holds a loan payable with a fixed interest rate. The loan is privately issued, with no secondary market. It is measured at amortized cost and bears a fixed interest rate and as a result kneat.com is not exposed to cash flow interest rate risk on the loan payable.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with kneat.com. The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date. At December 31, 2017 and December 31, 2016, kneat.com's financial assets exposed to credit risk amounted to the following:

	December 31, 2017	December 31, 2016
	\$	\$
Cash	3,482,318	4,988,601
Accounts receivable and other	204,245	874,878

During the year ended December 31, 2017 and the year ended December 31, 2016, the Company did not hold any financial assets that were past due or impaired. Trade debtors of \$49,226 are included in accounts receivable as at December 31, 2017 (December 31, 2016 – \$726,745) and are monitored on a regular basis in order to minimize material aging and to ensure adequate collection.

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

RISK FACTORS

kneat.com has a limited operating history and its future profitability is uncertain

kneat.com has a limited operating history and its business is subject to all of the risks inherent in the establishment of a new business enterprise. The Company's likelihood of success must be considered in light of the problems, expenses, difficulties, complications and delays frequently encountered in connection with establishing a new software development company. If kneat.com continues to incur operating losses and fails to become a profitable company, it may be unable to continue its operations. kneat.com may continue to operate at a net loss for the next several years, as it continues its software development efforts and continues to further develop its sales, marketing and distribution capabilities.

kneat.com needs to raise additional capital to operate its business

kneat.com is an early commercial-stage company focused on product development and commercialization and has generated only limited product revenues to date. For the foreseeable future, kneat.com will have to fund all of its operations and capital expenditures primarily from the net proceeds of future offerings and grants of securities. kneat.com's actual capital requirements will depend on many factors. If kneat.com experiences unanticipated cash requirements, it may need to seek additional sources of financing, which may not be available on favorable terms, if at all. If kneat.com does not succeed in raising additional funds on acceptable terms, it may be forced to discontinue product development and/or commercialization, reduce or forego sales and marketing efforts and attractive business opportunities or discontinue operations.

kneat.com has a history of losses and may never achieve or sustain profitability

kneat.com has incurred substantial losses since its inception, and it may not achieve profitability in the foreseeable future, if at all. kneat.com expects to incur net losses and negative cash flows due in part to increasing research and development expenses, marketing expenses and hiring additional personnel. As a result, kneat.com will need to generate significant revenues in order to achieve and maintain profitability. kneat.com may not be able to generate these revenues or achieve profitability in the future. Even if kneat.com does achieve profitability, it may not be able to sustain or increase profitability.

kneat.com has limited access to the capital markets, and, even if it can raise additional funding, it may be required to do so on terms that are dilutive to shareholders

kneat.com has limited access to the capital markets to raise capital. The capital markets have been unpredictable in the recent past for other software development companies and unprofitable companies such as kneat.com. In addition, it is generally difficult for early commercial-stage companies to raise capital. The amount of capital that a company such as kneat.com is able to raise often depends on variables that are beyond its control. As a result, kneat.com may not be able to secure financing on terms attractive to it, or at all. If kneat.com is able to consummate a financing arrangement, the amount raised may not be sufficient to meet its future needs. If adequate funds are not available on acceptable terms, or at all, kneat.com's business, results of operations, financial condition and its continued viability may be materially adversely affected.

The length of kneat.com's sales cycle can fluctuate significantly which could result in significant fluctuations in license and other revenues being recognized from quarter to quarter

The decision by a customer to purchase licenses for kneat.com's software products or purchase its services often involves a comprehensive implementation process across the customer's network or networks. As a result, the licensing and implementation of kneat.com's software products and any related services may entail a significant commitment of resources by prospective customers, accompanied by the attendant risks and delays frequently associated with significant technology implementation projects. Given the significant investment and commitment of resources required by an organization to implement kneat.com's software products, its sales cycle may be longer compared to other companies within kneat.com's own industry, as well as companies in other industries. Also because of changes in customer spending habits, it may be difficult for kneat.com to budget, forecast and allocate its resources properly. In weak economic environments, it is not uncommon to see reduced information technology spending. It may take several months, or even several quarters, for marketing opportunities to materialize. If a customer's decision to license kneat.com's software is delayed or if the implementation of these software products takes longer than originally anticipated, the date on which kneat.com may recognize revenues from these licenses

would be delayed. Such delays and fluctuations could cause kneat.com's revenues to be lower than expected in a particular period and kneat.com may not be able to adjust its costs quickly enough to offset such lower revenues, potentially negatively impacting its business, operating results and financial condition.

If kneat.com does not continue to develop technologically advanced products, future revenues and its operating results may be negatively affected

kneat.com's success depends upon its ability to design, develop, test, market, license and support new software products, services and enhancements of current products and services on a timely basis in response to both competitive threats and marketplace demands. Examples of significant trends in the software industry include cloud computing, mobility, social media and other SaaS. In addition, kneat.com's software products, services and enhancements must remain compatible with standard platforms and file formats. Moreover, if new industry standards emerge that kneat.com does not anticipate or adapt to, or with rapid technological change occurring, if alternatives to its services and solutions are developed by its competitors, kneat.com's software products and services could be rendered obsolete, causing kneat.com to lose market share and, as a result, harm its business and operating results and its ability to compete in the marketplace.

If kneat.com's software products and services do not gain market acceptance, its operating results may be negatively affected

kneat.com intends to pursue the goal for Kneat Gx to be the global standard for regulated data and documentation management across all industries, where sound data management, documentation practices and regulatory compliance are keys to success. kneat.com intends to pursue its strategy through, among other things, its proprietary research and the development of new software product and service offerings, as well as through acquisitions. In response to customer demand, it is important to kneat.com's success that it continues to enhance its software products and services and to seek to set the standard for Kneat Gx capabilities. The primary market for its software products and services is rapidly evolving, which means that the level of acceptance of products and services that have been released recently or that are planned for future release by the marketplace is not certain. If the markets for kneat.com's software products and services fail to develop, develop more slowly than expected or become subject to increased competition, its business may suffer. As a result, kneat.com may be unable to: (i) successfully market its current products and services; (ii) develop new software products and services and enhancements to current software products and services; (iii) complete customer implementations on a timely basis; or (iv) complete software products and services currently under development. In addition, increased competition could put significant pricing pressures on kneat.com's products which could negatively impact its margins and profitability. If kneat.com's software products and services are not accepted by its customers or by other businesses in the marketplace, kneat.com's business, operating results and financial condition will be materially affected.

kneat.com's investment in its current research and development efforts may not provide a sufficient, timely return

The development of Kneat Gx is a costly, complex and time-consuming process and the investment in kneat.com's software product development often involves a long wait until a return is achieved on such an investment. kneat.com is making, and will continue to make, significant investments in software research and development and related product opportunities. Investments in new technology and processes are inherently speculative. Commercial success depends on many factors, including the degree of innovation of the software products and services developed through kneat.com's research and development efforts, sufficient support from its strategic partners and effective distribution and marketing. Accelerated software product introductions and short product life cycles require high levels of expenditures for research and development. These expenditures may adversely affect kneat.com's operating results if they are not offset by revenue increases. kneat.com believes that it must continue to dedicate a significant amount of resources to its research and development efforts in order to maintain its competitive position. However, significant revenues from new software product and service investments may not be achieved for a number of years, if at all. Moreover, new software products and services may not be profitable, and even if they are profitable, operating margins for new software products and services may not be as high as projected.

Failure to protect kneat.com's intellectual property could harm its ability to compete effectively

kneat.com is highly dependent on its ability to protect its proprietary technology. kneat.com relies on a combination of trade secret laws, as well as non-disclosure agreements and other contractual provisions to establish and maintain its proprietary rights. kneat.com currently does not own any patents or have any patents pending. kneat.com intends

to protect its intellectual property rights vigorously; however, there can be no assurance that these measures will, in all cases, be successful. Software piracy has been, and is expected to be, a persistent problem for the software industry and piracy of its software products may represent a loss of revenue to kneat.com. Where applicable, certain of kneat.com's license arrangements have required it to make limited confidential disclosure of portions of the source code for its software products or to place such source code into escrow for the protection of another party. Despite the precautions kneat.com has taken, unauthorized third parties, including its competitors, may be able to copy certain portions of kneat.com's software products or reverse engineer or obtain and use information that kneat.com regards as proprietary. Also, kneat.com's competitors could independently develop technologies that are perceived to be substantially equivalent or superior to its technologies. kneat.com's competitive position may be adversely affected by its possible inability to effectively protect kneat.com's intellectual property. In addition, certain of its products contain open source software. Licensees of open source software may be required to make public certain source code or to make certain derivative works available to others. While kneat.com monitors and controls the use of open source software in its products and in any third party software that is incorporated into its products, and kneat.com tries to ensure that no open source software is used in such a way as to require it to disclose the source code to the related product or service, there can be no guarantee that such use could not inadvertently occur. If this happened it could harm kneat.com's intellectual property position and have a material adverse effect on its business, results of operations and financial condition.

Other companies may claim that kneat.com infringes their intellectual property, which could materially increase costs and materially harm its ability to generate future revenues and profits

Claims of infringement are becoming increasingly common as the software industry develops and as related legal protections, including patents, are applied to software products. Although kneat.com does not believe that its products infringe on the rights of third parties, third parties may assert infringement claims against it in the future. Although most of kneat.com's technology is proprietary in nature, kneat.com does include certain third party and open source software in its software products. In the case of third party software, kneat.com believes this software is licensed from the entity holding the intellectual property rights. Although kneat.com believes that it has secured proper licenses for all third-party intellectual property that is integrated into its products, third parties may assert infringement claims against kneat.com in the future, including the sometimes aggressive and opportunistic actions of non-practicing entities whose business model is to obtain patent-licensing revenues from operating companies such as kneat.com. Any such assertion, regardless of merit, may result in litigation or may require kneat.com to obtain a license for the intellectual property rights of third parties. Such licenses may not be available or they may not be available on commercially reasonable terms. In addition, as kneat.com continues to develop software products and expand its portfolio using new technology and innovation, kneat.com's exposure to threats of infringement may increase. Any infringement claims and related litigation could be time-consuming, disruptive to kneat.com's ability to generate revenues or enter into new market opportunities and may result in significantly increased costs as a result of kneat.com's defense against those claims or its attempt to license the intellectual property rights or rework kneat.com's products to avoid infringement of third party rights. Typically kneat.com's agreements with its partners and customers contain provisions which require kneat.com to indemnify them for damages sustained by them as a result of any infringement claims involving kneat.com's products. Any of the foregoing infringement claims and related litigation could have a significant adverse impact on kneat.com's business and operating results as well as its ability to generate future revenues and profits.

Impact of laws

kneat.com operates offices in Canada and Ireland, and continues to offer its products and services in the European Union, Canada, the United States and eventually in other countries. kneat.com is and will be subject to a variety of laws in the European Union, Canada, the United States and abroad, including laws regarding consumer protection, privacy, intellectual property, taxation and content suitability, distribution and antitrust, that are continuously evolving and developing. The scope, enforcement and interpretation of the laws that are or may be applicable to kneat.com and its subsidiaries are often uncertain and may be conflicting, particularly laws outside of Ireland, Canada and the United States. It is also likely that as business grows and evolves to a greater number of countries, kneat.com will become subject to laws and regulations in additional jurisdictions. Compliance with applicable laws or regulations could be very difficult or liability could arise under these laws or regulations due to amendments to or evolving interpretation and enforcement of such laws and regulations. As a result, kneat.com could be directly harmed, and may be forced to implement new measures to reduce the exposure to this liability. This may require

substantial resources to be expended or a modification of its products and services, which would harm the business, financial condition and results of operations of kneat.com.

Foreign currency and exchange rate risk

kneat.com currently reports its results in the Canadian dollar. Fluctuations in the exchange rates between the European Euro, United States dollar and Canadian dollar may have a material adverse effect on the business, financial condition and operating results of the Company. To date, kneat.com has not engaged in exchange rate hedging activities and may not do so in the foreseeable future.

Current and future competitors could have a significant impact on kneat.com's ability to generate future revenues and profits

The markets for kneat.com's software products and services are intensely competitive and are subject to rapid technological change and other pressures created by changes in its industry. The convergence of many technologies has resulted in unforeseen competitors arising from companies that were traditionally not viewed as threats to kneat.com's marketplace. kneat.com expects competition to increase and intensify in the future as the pace of technological change and adaptation quickens and as additional companies enter its markets, including those competitors who offer similar solutions as kneat.com does, but offer it through a different form of delivery. kneat.com could lose market share if its current or prospective competitors: (i) introduce new competitive products or services, (ii) add new functionality to existing products and services, (iii) acquire competitive products and services, (iv) reduce prices, or (v) form strategic alliances with other companies. If other businesses were to engage in aggressive pricing policies with respect to competing products, or if the dynamics in kneat.com's marketplace resulted in increasing bargaining power by the consumers of kneat.com's software products and services, kneat.com would need to lower the prices it charges for the products and services kneat.com offers. This could result in lower revenues or reduced margins, either of which may materially and adversely affect kneat.com's business and operating results. Additionally, if prospective consumers choose other methods of data and document management within regulated environments, different from that which we offer, kneat.com business and operating results could also be materially and adversely affected.

kneat.com must continue to manage its internal resources during periods of company growth or its operating results could be adversely affected

kneat.com's growth, coupled with the rapid evolution of its markets, may place, significant strains on kneat.com's administrative and operational resources and increased demands on its internal systems, procedures and controls. kneat.com's administrative infrastructure, systems, procedures and controls may not adequately support its operations. In addition, kneat.com's management may not be able to achieve the rapid, effective execution of the product and business initiatives necessary to successfully implement kneat.com's operational and competitive strategy. If kneat.com is unable to manage growth effectively, its operating results will likely suffer which may, in turn, adversely affect its business.

If kneat.com loses the services of its executive officers or other key employees or if it is not able to attract or retain top employees, kneat.com's business could be significantly harmed

kneat.com's performance is substantially dependent on the performance of its executive officers and key employees. kneat.com does not maintain "key person" life insurance policies on any of its employees. kneat.com's success is also highly dependent on its continuing ability to identify, hire, train, retain and motivate highly qualified management, technical, sales and marketing personnel. In particular, the recruitment of top developers and experienced salespeople remains critical to its success. Competition for such people is intense, substantial and continuous, and kneat.com may not be able to attract, integrate or retain highly qualified technical, sales or managerial personnel in the future. In addition, in its effort to attract and retain critical personnel, kneat.com may experience increased compensation costs that are not offset by either improved productivity or higher prices for its software products or services.

Unexpected events may materially harm kneat.com's ability to align incurred expenses with recognized revenues

kneat.com incurs operating expenses based upon anticipated revenue trends. Since a high percentage of these expenses may be relatively fixed, a delay in recognizing revenues from transactions related to these expenses (such as a delay may be due to the factors described elsewhere in this risk factor section or it may be due to other factors)

could cause significant variations in operating results from quarter to quarter, and such a delay could materially reduce operating income. If these expenses are not subsequently matched by revenues, kneat.com's business, financial condition, or results of operations could be materially and adversely affected.

kneat.com may fail to achieve its financial forecasts due to inaccurate sales forecasts or other factors

kneat.com's revenues and particularly its software license revenues are difficult to forecast, and, as a result its quarterly operating results can fluctuate substantially. kneat.com uses a "pipeline" system, a common industry practice, to forecast sales and trends in its business. By reviewing the status of outstanding sales proposals to its customers and potential customers, kneat.com makes an estimate as to when a customer will make a purchasing decision involving its software products. These estimates are aggregated periodically to make an estimate of kneat.com's sales pipeline, which kneat.com uses as a guide to plan its activities and make financial forecasts. kneat.com's sales pipeline is only an estimate and may be an unreliable predictor of actual sales activity, both in a particular quarter and over a longer period of time. Many factors may affect actual sales activity, such as weakened economic conditions, which may cause kneat.com's customers and potential customers to delay, reduce or cancel software and service related purchasing decisions and the tendency of some of kneat.com's customers to wait until the end of a fiscal period in the hope of obtaining more favourable terms from kneat.com. If actual sales activity differs from kneat.com's pipeline estimate, then kneat.com may have planned its activities and budgeted incorrectly and this may adversely affect its business, operating results and financial condition.

kneat.com's software products and services may contain defects that could harm its reputation, be costly to correct, delay revenues, and expose kneat.com to litigation

kneat.com's software products and services are highly complex and sophisticated and, from time to time, may contain design defects, software errors, hardware failures or other computer system failures that are difficult to detect and correct. Errors may be found in new software products or services or improvements to existing products or services after delivery to kneat.com's customers. If these defects are discovered, kneat.com may not be able to successfully correct such errors in a timely manner. In addition, despite the extensive tests kneat.com conducts on all its software products or services, kneat.com may not be able to fully simulate the environment in which its products or services will operate and, as a result, kneat.com may be unable to adequately detect the design defects or software or hardware errors which may become apparent only after the products are installed in an end-user's network, and users have transitioned to kneat.com's services. The occurrence of errors and failures in kneat.com's software products or services could result in the delay or the denial of market acceptance of its products and alleviating such errors and failures may require kneat.com to make significant expenditure of its resources. Customers often use kneat.com services and solutions for critical business processes and as a result, any defect or disruption in kneat.com's solutions, any data breaches or misappropriation of proprietary information, or any error in execution, including human error or intentional third-party activity such as denial of service attacks or hacking, may cause customers to reconsider renewing their contract with kneat.com. The errors in or failure of kneat.com's software products and services could also result in kneat.com losing customer transaction documents and other customer files, causing significant customer dissatisfaction and possibly giving rise to claims for monetary damages. The harm to kneat.com's reputation resulting from product and service errors and failures may be materially damaging. Since kneat.com regularly provides a warranty with its software products, the financial impact of fulfilling warranty obligations may be significant in the future. kneat.com's agreements with its strategic partners and end-users typically contain provisions designed to limit its exposure to claims. These agreements regularly contain terms such as the exclusion of all implied warranties and the limitation of the availability of consequential or incidental damages. However, such provisions may not effectively protect kneat.com against claims and the attendant liabilities and costs associated with such claims. Any claims for actual or alleged losses to kneat.com's customers' businesses may require kneat.com to spend significant time and money in litigation or arbitration or to pay significant settlements or damages. Defending a lawsuit, regardless of merit, can be costly and would divert management's attention and resources. Although kneat.com maintains insurance coverage, such coverage may not be adequate to cover all such claims. Accordingly, any such claim could negatively affect its business, operating results or financial condition.

Unauthorized disclosures and breaches of security data may adversely affect kneat.com's operations

kneat.com relies heavily on its information technology systems including, without limitation, its networks, equipment, hardware, software, telecommunications, and other information technology (collectively, "IT systems"),

and the IT systems of its vendors and third-party service providers, to operate its business as a whole. kneat.com has strict measures to protect its information systems against unauthorized access and disclosure of personal information and of kneat.com's confidential information and confidential information belonging to its customers. kneat.com has policies and procedures in place dealing with data security and records retention. However, there is no assurance that the security measures kneat.com has put in place will be effective in every case. Breaches in security could result in a negative impact for kneat.com and for its customers, affecting kneat.com's and its customers' businesses, assets, revenues, brands and reputations and resulting in penalties, fines, litigation and other potential liabilities, in each case depending on the nature of the information disclosed. Security breaches could also affect kneat.com's relations with its customers, injure kneat.com's reputation and harm its ability to keep existing customers and to attract new customers. These risks to kneat.com's business may increase as it expands the number of web-based and cloud-based products and services kneat.com offers.

kneat.com may become involved in litigation that may materially adversely affect it

From time to time in the ordinary course of kneat.com's business, it may become involved in various legal proceedings, including commercial, product liability, employment, class action and other litigation and claims, as well as governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources and cause kneat.com to incur significant expenses. Furthermore, because litigation is inherently unpredictable, the results of any such actions may have a material adverse effect on kneat.com's business, operating results or financial condition.

kneat.com's operating results could be adversely affected by any weakening of economic conditions

kneat.com's overall performance depends in part on worldwide economic conditions. Certain economies have experienced periods of downturn as a result of a multitude of factors, including, but not limited to, turmoil in the credit and financial markets, concerns regarding the stability and viability of major financial institutions, declines in gross domestic product, increases in unemployment and volatility in commodity prices and worldwide stock markets, and excessive government debt. The severity and length of time that a downturn in economic and financial market conditions may persist, as well as the timing, strength and sustainability of any recovery, are unknown and are beyond kneat.com's control. Moreover, any instability in the global economy affects countries in different ways, at different times and with varying severity, which makes the impact to kneat.com's business complex and unpredictable. During such downturns, many customers may delay or reduce technology purchases. Contract negotiations may become more protracted or conditions could result in reductions in the licensing of kneat.com's software products and the sale of cloud and other services, longer sales cycles, pressure on kneat.com's margins, difficulties in collection of accounts receivable or delayed payments, increased default risks associated with kneat.com's accounts receivables, slower adoption of new technologies and increased price competition. In addition, deterioration of the global credit markets could adversely impact kneat.com's ability to complete licensing transactions and services transactions, including maintenance and support renewals. Any of these events, as well as a general weakening of, or declining corporate confidence in, the global economy, or a curtailment in government or corporate spending could delay or decrease kneat.com's revenues, and therefore have a material adverse effect on its business, operating results and financial condition.

Stress in the global financial system may adversely affect kneat.com's finances and operations in ways that may be hard to predict or to defend against

Financial developments seemingly unrelated to kneat.com or to its industry may adversely affect kneat.com over the course of time. For example, material increases in any applicable interest rate benchmarks may increase the debt payment costs for kneat.com's credit facilities. Credit contraction in financial markets may hurt its ability to access credit in the event that kneat.com identifies an acquisition opportunity or require significant access to credit for other reasons. A reduction in credit, combined with reduced economic activity, may adversely affect businesses and industries that collectively constitute a significant portion of kneat.com's customer base. As a result, these customers may need to reduce their licensing of kneat.com's software products or their purchases of kneat.com's services, or kneat.com may experience greater difficulty in receiving payment for the licenses and services that these customers purchase from it. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on kneat.com's business, operating results, and financial condition.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure Controls and Procedures

Disclosure controls and procedures (as such term is defined in Multilateral Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*) have been designed by the Company to provide reasonable assurance that:

- (a) material information relating to the Company is made known to the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) by others, particularly during the period in which the annual filings are being prepared; and
- (b) information required to be disclosed by the Company in its annual filings, interim filings or other reports that it files or submits under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation and is accumulated and communicated to management, including the CEO and CFO, to allow timely decisions regarding required disclosures.

The CEO and CFO have concluded that, as of December 31, 2017, the design and operation of the disclosure controls and procedures are effective to ensure that information required to be disclosed in reports that it files or submits to regulatory authorities is recorded, processed, summarized and reported within the time periods specified by regulation and is accumulated and communicated to management, including the CEO and CFO, to allow timely decisions regarding required disclosures.

Internal Control over Financial Reporting

The Company’s management, with the participation of its CEO and CFO, has designed, established and is maintaining a system of internal control over financial reporting. Under the supervision of the CFO, as at December 31, 2017, the Company’s internal control over financial reporting is a process designed to provide reasonable assurance that the financial information prepared by the Company for external purposes is reliable and has been recorded, processed and reported in an accurate and timely manner and in accordance with IFRS.

Management, with the participation of its CEO and CFO, has used the Internal Control—Integrated Framework to evaluate the effectiveness of internal control over financial reporting, which is a recognized and suitable framework issued by the Committee of Sponsoring Organizations (“COSO Framework”) published by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). The Company’s controls include policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the annual financial statements or interim financial statements.

There have been no changes to the controls during the period that materially affected or are reasonably likely to materially affect the Company’s internal control over financial reporting.

Limitations of Controls and Procedures

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

of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

CRITICAL ACCOUNTING POLICIES

kneat.com's significant accounting policies are disclosed in note 3, *Summary of Significant Accounting Policies*, of the annual consolidated financial statements for the year ended December 31, 2017. kneat.com has identified certain accounting policies that it believes are most critical in understanding the judgments that are involved in producing the consolidated financial statements and the estimates made that could impact results of the operations, which are discussed below.

Revenue recognition

The Company derives its revenues under license agreements from the sale of proprietary software licenses and provides software-related services including training, installation, upgrades, consulting and maintenance, which include product support services. Software licenses sold by the Company are generally perpetual in nature and the arrangements generally comprise various services. Revenues generated by the Company include the following:

(i) On-premise license fees

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

(ii) SaaS license and hosting fees

SaaS license and hosting agreements entitle the customer to utilize the Kneat Gx platform, which is hosted on a cloud server, for a specified number of users. SaaS license and hosting fee revenue is recognized rateably over the term of the SaaS license and hosting agreement.

(iii) Maintenance agreements

Maintenance agreements for proprietary software licenses generally call for the Company to provide technical support and unspecified software updates to customers. Maintenance revenues for technical support and unspecified software update rights are recognized rateably over the term of the maintenance agreement.

(iv) Consulting and training services

The Company provides consulting and training services to its customers. Revenues from such services are recognized as the services are performed.

(v) Multiple-element arrangements

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

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

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

If there is objective and reliable evidence of fair value for all products and services in a sale, the total price of the arrangements is allocated to each product and service based on relative fair value. Otherwise, the Company first

allocates a portion of the total price to any undelivered products and services based on their fair value and the remainder to the products and services that have been delivered.

Intangible asset

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

The intangible asset consists of the internally generated software product, Kneat Gx. The development costs of the software product, net of research and development tax credit, are capitalized as they can be measured reliably, the product is technically and commercially feasible, future economic benefits are probable and the Company intends to, and has sufficient resources to, complete development and to use or sell the product. Expenditures capitalized include the cost of labour and other costs that are directly attributable to preparing the asset for its intended use. The estimated useful lives, residual value and amortization rates are reviewed on a regular basis.

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%.

SIGNIFICANT ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the audited consolidated financial statements in conformity with IFRS requires management to make judgments and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results could differ from these estimates. Estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about critical accounting judgments and estimates in applying accounting policies that have the most significant impact on the amounts recognized in the audited consolidated financial statements are outlined below.

Valuation and amortization of internally generated intangible assets

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

Recovery of research and development tax credits

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

Valuation of stock options

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

Recognition of revenue

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

NEW ACCOUNTING STANDARDS ADOPTED DURING THE YEAR

The IASB issued amendments to IAS 7, statements of cash flows to improve financial information provided to users of financial statements about an entity's financing activities. These amendments are effective for annual periods beginning on or after January 1, 2017. As a result, additional disclosure has been included in the Company's audited consolidated financial statements.

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9, issued on July 24, 2014, is the IASB's replacement of IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 includes requirements for recognition and measurement, impairment, de-recognition and general hedge accounting of financial instruments. IFRS 9 is mandatorily effective for periods beginning on or after January 1, 2018 with early adoption permitted. Management has concluded that the impact of the adoption of IFRS 9 will not have a material impact on its consolidated financial statements.

IFRS 15, Revenue from contracts with customers ("IFRS 15")

The IASB issued IFRS 15, effective for annual period beginning on or after January 1, 2018. IFRS 15 establishes a new control-based revenue recognition model and replaces IAS 18, *Revenue* ("IAS 18"), IAS 11, *Construction Contracts* and some revenue related interpretations. The new standard is intended to enhance disclosures about revenue, provide more comprehensive guidance for transactions that were not previously addressed and improve guidance for multiple-element arrangements. IFRS 15 permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with cumulative effect of initially apply the guidance recognized at the date of initial application (cumulative effect method). The Company will adopt the standard using the cumulative effect method on January 1, 2018.

The Company has completed its analysis and has reached conclusions on key accounting impacts related to all revenue streams. The Company determined that the most significant impact relates to accounting for its installation services which had previously been recognized as a separately identifiable service under IAS 18 and under IFRS 15 will now form part of the related on-premise on SaaS license delivery and thus will be recognized consistent with the form of license sold to the customer. This is expected to result in an adjustment to opening retained earnings of approximately \$25,000. In addition, the Company has completed its assessment of disclosures required under IFRS 15 and has a process in place to capture the required data and disclosures.

IFRS 16, Leases ("IFRS 16")

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

IFRS 2, Share-based Payment (“IFRS 2”)

IASB issued amendment to IFRS 2 to clarify the classification and measurement of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions, with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled. The amendments are effective for annual period being on or after January 1, 2018. The Company has concluded that the adoptions of the standard will not have a material impact on the consolidated financial statements.

DIRECTOR CHANGES AND OTHER INFORMATION

On August 21, 2017 Kneat sadly announced that Mr. James Osborne, a director of the Company, passed away. Mr. Osborne has been a key member of the Kneat team and played an instrumental role in the transaction resulting in the public listing of Kneat Solutions Limited in 2016.

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