

*Unaudited Condensed Interim Consolidated Financial Statements of*

**KNEAT.COM, INC.**

June 30, 2019

(Expressed in Canadian Dollars)

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

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

**kneat.com, inc.**  
**Unaudited Interim Consolidated Statements of Financial Position**

*Expressed in Canadian dollars*

	<b>June 30, 2019</b>	December 31, 2018
	\$	\$
<b>Assets</b>		
Current assets		
Cash	7,690,104	2,765,507
Amounts receivable (note 3)	1,180,533	1,196,048
Deferred contract acquisition costs	74,224	55,618
	<b>8,944,861</b>	4,017,173
<b>Amounts receivable</b> (note 3)	<b>1,275,514</b>	787,044
<b>Deferred contract acquisition costs</b>	<b>59,048</b>	14,313
<b>Property and equipment</b> (note 4)	<b>1,127,896</b>	512,520
<b>Intangible asset</b> (note 5)	<b>5,395,708</b>	4,783,332
<b>Total assets</b>	<b>16,803,027</b>	10,114,382
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	841,665	901,135
Contract liabilities (note 7)	1,157,606	383,179
Loan payable and accrued interest (note 8)	201,511	1,026,752
Lease liabilities (note 9)	140,362	-
Lease incentives	-	9,618
	<b>2,341,144</b>	2,320,684
<b>Contract liabilities</b> (note 7)	<b>330,964</b>	8,731
<b>Loan payable</b> (note 8)	<b>725,441</b>	-
<b>Lease liabilities</b> (note 9)	<b>552,553</b>	-
<b>Lease incentives</b>	-	192,020
<b>Total liabilities</b>	<b>3,950,102</b>	2,521,435
<b>Equity</b>		
Shareholders' equity	<b>12,852,925</b>	7,592,947
<b>Total liabilities and equity</b>	<b>16,803,027</b>	10,114,382

Going concern (note 1)

Commitments and contingencies (note 17)

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

Approved on behalf of the Board of Directors on August 27, 2019.

"Ian Ainsworth"  
 Director

"Wade Dawe"  
 Director

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

	<b>Three-month period ended June 30, 2019</b>	Three-month period ended June 30, 2018	<b>Six-month period ended June 30, 2019</b>	Six-month period ended June 30, 2018
	\$	\$	\$	\$
<b>Revenue</b> (note 11)	<b>528,812</b>	132,471	<b>942,535</b>	594,900
<b>Cost of revenue</b> (note 12)	<b>(394,407)</b>	(197,671)	<b>(753,331)</b>	(375,264)
<b>Gross margin</b>	<b>134,405</b>	(65,200)	<b>189,204</b>	219,636
<b>Expenses (income)</b>				
Research and development (note 12)	<b>751,085</b>	532,339	<b>1,416,866</b>	1,036,332
Sales and marketing (note 12)	<b>444,787</b>	399,952	<b>784,711</b>	777,834
General and administrative (note 12)	<b>484,842</b>	365,850	<b>884,564</b>	750,136
Interest expense	<b>17,101</b>	6,124	<b>34,113</b>	12,234
Interest income	<b>(957)</b>	(8,874)	<b>(4,538)</b>	(11,970)
Foreign exchange loss (gain)	<b>187,836</b>	117,009	<b>793,587</b>	(306,365)
<b>Loss before income taxes</b>	<b>(1,750,289)</b>	(1,477,600)	<b>(3,720,099)</b>	(2,038,565)
Income taxes (note 13)	-	-	-	-
<b>Net loss for the period</b>	<b>(1,750,289)</b>	(1,477,600)	<b>(3,720,099)</b>	(2,038,565)
<b>Other comprehensive income (loss)</b>				
Foreign currency translation adjustment to presentation currency	<b>109,657</b>	49,453	<b>403,125</b>	(128,703)
<b>Comprehensive loss for the period</b>	<b>(1,640,632)</b>	(1,428,147)	<b>(3,316,974)</b>	(2,167,268)
<b>Loss per share</b> – basic and diluted	<b>(0.03)</b>	(0.03)	<b>(0.06)</b>	(0.04)
<b>Weighted-average number of common shares outstanding</b> - basic and diluted	<b>59,769,117</b>	50,748,331	<b>57,458,582</b>	47,656,008

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

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## Unaudited Condensed Interim Consolidated Statements of Changes in Equity

Expressed in Canadian dollars

	Number of Common Shares	Common Shares	Warrants	Contributed Surplus	Translation Reserve	Retained Earnings (Deficit)	Total
	#	\$	\$	\$	\$	\$	\$
<b>Balance, January 1, 2018</b>	<b>44,563,684</b>	<b>25,919,856</b>	-	<b>1,325,457</b>	<b>185,222</b>	<b>(20,815,732)</b>	<b>6,614,803</b>
Impact of adoption of IFRS 15	-	-	-	-	-	(7,687)	(7,687)
<b>Adjusted balance, January 1, 2018</b>	<b>44,563,684</b>	<b>25,919,856</b>	-	<b>1,325,457</b>	<b>185,222</b>	<b>(20,823,419)</b>	<b>6,607,116</b>
Net loss for the period	-	-	-	-	-	(2,038,565)	(2,038,565)
Other comprehensive loss for the period	-	-	-	-	(128,703)	-	(128,703)
	-	-	-	-	(128,703)	(2,038,565)	(2,167,268)
Shares issued pursuant to the private placement	6,871,830	6,184,647	-	-	-	-	6,184,647
Share issuance costs pursuant to the private placement	-	(513,215)	-	-	-	-	(513,215)
Broker warrants share issuance costs	-	(140,394)	140,394	-	-	-	-
Share-based compensation	-	-	-	141,508	-	-	141,508
<b>Balance, June 30, 2018</b>	<b>51,435,514</b>	<b>31,450,894</b>	<b>140,394</b>	<b>1,466,965</b>	<b>56,519</b>	<b>(22,861,984)</b>	<b>10,252,788</b>
<b>Balance, January 1, 2019</b>	<b>51,442,180</b>	<b>31,459,760</b>	<b>140,394</b>	<b>1,565,325</b>	<b>(140,579)</b>	<b>(25,431,953)</b>	<b>7,592,947</b>
Net loss for the period	-	-	-	-	-	(3,720,099)	(3,720,099)
Other comprehensive income for the period	-	-	-	-	403,125	-	403,125
	-	-	-	-	403,125	(3,720,099)	(3,316,974)
Shares issued pursuant to the public equity financing	6,037,500	6,339,376	-	-	-	-	6,339,376
Shares issued pursuant to the non-brokered private placement	2,074,437	2,178,160	-	-	-	-	2,178,160
Share issuance costs pursuant to the equity financings	-	(686,921)	-	-	-	-	(686,921)
Broker warrants share issuance costs	-	(150,870)	150,870	-	-	-	-
Shares issued pursuant to option exercises	216,800	312,827	-	(123,587)	-	-	189,240
Share-based compensation	-	-	-	250,297	-	-	250,297
DSUs granted for director fees	-	-	-	306,800	-	-	306,800
<b>Balance, June 30, 2019</b>	<b>59,770,917</b>	<b>39,452,332</b>	<b>291,264</b>	<b>1,998,835</b>	<b>262,546</b>	<b>(29,152,052)</b>	<b>12,852,925</b>

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

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

*Expressed in Canadian dollars*

	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
	\$	\$
<b>Operating activities</b>		
Net loss for the period	(3,720,099)	(2,038,565)
Charges to loss not involving cash:		
Depreciation of property and equipment	138,181	69,526
Share-based compensation	173,454	72,822
Interest expense	34,113	12,234
Amortization of the intangible asset	781,842	620,484
Amortization of deferred contract acquisition costs	5,933	19,772
Amortization of lease incentives	-	(4,767)
Foreign exchange loss (gain)	793,587	(306,365)
Increase (decrease) in non-current contract liabilities	328,696	(7,964)
Net change in non-cash working capital related to operations (note 14)	866,024	(192,651)
<b>Net cash used in operating activities</b>	<b>(598,269)</b>	<b>(1,755,474)</b>
<b>Financing activities</b>		
Proceeds received from public equity financing	6,339,376	-
Proceeds received from non-brokered private placements	2,178,160	6,184,647
Share issuance costs associated with equity financings	(686,921)	(513,215)
Proceeds from the exercise of stock options	189,240	-
Payment of principal and interest on the loan payable	(64,933)	(24,671)
<b>Net cash provided by financing activities</b>	<b>7,954,922</b>	<b>5,646,761</b>
<b>Investing activities</b>		
Additions to the intangible asset	(2,066,701)	(1,506,470)
Additions to property and equipment	(216,149)	(93,813)
<b>Net cash used in investing activities</b>	<b>(2,282,850)</b>	<b>(1,600,283)</b>
Effects of exchange rates on cash	(149,206)	114,431
Increase in cash during the period	4,924,597	2,405,435
Cash, beginning of period	2,765,507	3,482,318
Cash, end of period	7,690,104	5,887,753

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

**1. NATURE OF OPERATIONS AND GOING CONCERN**

kneat.com, inc. (the “Company” or “kneat.com” or “Kneat”), was incorporated on December 12, 2013 under the laws of the Canada Business Corporations Act. On June 27, 2016, the Company completed a transaction with Kneat Solutions Limited whereby kneat.com acquired 100% of the issued and outstanding ordinary shares of Kneat Solutions Limited by way of a scheme of arrangement in Ireland. The Company commenced trading on the TSX Venture Exchange as kneat.com on July 5, 2016 under the symbol KSI. kneat.com’s head office is located at Unit 7, Castletroy Park Business Centre, Castletroy, Limerick, Ireland. The registered office of kneat.com is located at Suite 2001, 1969 Upper Water Street, Halifax, Nova Scotia, Canada, B3J 3R7.

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

The Company’s operations have been financed through the sale of shares, issuance of debt, revenue generated from customers and research and development tax credits. The Company has incurred significant operating losses and negative cash flows from operations since inception and has an accumulated deficit of \$29,152,052 as at June 30, 2019.

These unaudited condensed interim consolidated financial statements have been prepared on a going-concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. For the six-month period ended June 30, 2019, the Company incurred a net loss of \$3,720,099 with negative cash flows from operations of \$598,269 and capitalized development cost spend of \$2,066,701 (year ended December 31, 2018 – \$4,608,534, \$3,619,041 and \$3,210,971, respectively). With limited revenue from customers and negative cash flow from operations, the Company has relied primarily on financing activities, similar to the equity financings that closed during the six-month period ended June 30, 2019 (note 10 (a)), to meet its working capital and operating requirements, including funds needed to further develop its software application and expand its sales function. Such circumstances create material uncertainties that may cast significant doubt as to the ability of the Company to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. Nevertheless, there can be no assurance that these initiatives will be successful or sufficient. These unaudited condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues and expenses and statement of financial position classifications that would be necessary if the going concern assumption was determined to be inappropriate and these adjustments could be material.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

The unaudited condensed interim consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). The Board of Directors approved these unaudited condensed interim consolidated financial statements for issue on August 27, 2019.

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”), as issued by the IASB. Accordingly, certain information normally included in annual financial statements prepared in accordance with IFRS, as issued by the IASB, has been omitted or condensed. The unaudited condensed interim consolidated

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

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

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS as of August 27, 2019, the date the Board of Directors approved the unaudited condensed interim consolidated financial statements. Any subsequent changes to IFRS that are given effect in the Company's annual consolidated financial statements for the year ended December 31, 2019 could result in the restatement of these unaudited condensed interim consolidated financial statements.

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

<u>Subsidiary</u>	<u>Principal Activity</u>	<u>Country of Incorporation</u>
Kneat Solutions Limited	Operations	Ireland
Kneat Solutions Inc.	Operations	United States

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

These unaudited condensed interim consolidated financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of the Company for the year ended December 31, 2018, with the exception of the changes as the result of the adoption of new accounting standards and policies as outlined in note 2(c) and 2(d). Refer to note 2, *Summary of Significant Accounting Policies*, of the kneat.com, inc. annual consolidated financial statements for the year ended December 31, 2018 for information on the other accounting policies, critical accounting judgments and estimates.

**b) Foreign currency translation**

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

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

**c) Share-based payments**

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

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

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

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

#### IFRS 16, Leases ("IFRS 16")

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

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

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

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

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

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

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

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



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## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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

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

### 3. AMOUNTS RECEIVABLE

	June 30, 2019	December 31, 2018
	\$	\$
<b>Current</b>		
Research and development tax credits receivable	654,440	686,068
Trade debtors	215,714	227,538
Contract assets	4,885	21,586
Other debtors	48,329	58,834
Sales tax recoverable	71,728	39,186
Prepayments	185,437	162,836
	<u>1,180,533</u>	<u>1,196,048</u>
<b>Non-current</b>		
Research and development tax credits receivable	1,275,514	787,044
	<u>2,456,047</u>	<u>1,983,092</u>

### 4. PROPERTY AND EQUIPMENT

Cost	Computers and servers	Furniture and fixtures	Right-of-use assets	Leasehold improvements	Total
	\$	\$	\$	\$	\$
<b>As at January 1, 2018</b>	225,787	74,542	-	402,636	702,965
Additions	125,156	-	-	-	125,156
Write-offs	(56,613)	(9,422)	-	-	(66,035)
Effect of movements in exchange rates	9,736	2,594	-	14,998	27,328
<b>As at December 31, 2018</b>	304,066	67,714	-	417,634	789,414
Additions	91,807	30,796	583,674	78,901	785,178
Effect of movements in exchange rates	(15,131)	(3,506)	(7,212)	(20,228)	(46,077)
<b>As at June 30, 2019</b>	<u>380,742</u>	<u>95,004</u>	<u>576,462</u>	<u>476,307</u>	<u>1,528,515</u>
<b>Accumulated depreciation</b>					
	\$	\$	\$	\$	\$
<b>As at January 1, 2018</b>	106,977	25,570	-	57,016	189,563
Depreciation charge	80,761	9,412	-	51,201	141,374
Write-offs	(56,613)	(6,021)	-	-	(62,634)
Effect of movements in exchange rates	4,444	1,021	-	3,126	8,591
<b>As at December 31, 2018</b>	135,569	29,982	-	111,343	276,894
Depreciation charge	43,287	5,160	62,463	27,271	138,181
Effect of movements in exchange rates	(6,766)	(1,448)	(772)	(5,470)	(14,456)
<b>As at June 30, 2019</b>	<u>172,090</u>	<u>33,694</u>	<u>61,691</u>	<u>133,144</u>	<u>400,619</u>

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## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

Carrying amount	Computers and	Furniture and	Right-of-use	Leasehold	Total
	servers	fixtures	assets	improvements	
	\$	\$	\$	\$	\$
<b>Balance - December 31, 2018</b>	168,497	37,732	-	306,291	512,520
<b>Balance - June 30, 2019</b>	208,652	61,310	514,771	343,163	1,127,896

Depreciation of property and equipment of \$138,181 is included in the unaudited condensed interim consolidated statements of loss and comprehensive loss in cost of revenue, research and development, sales and marketing and general administration costs for \$17,091, \$99,862, \$7,510 and \$13,718, respectively (six-month period ended June 30, 2018 – \$69,526 included in cost of revenues \$7,098; research and development \$49,662; sales and marketing \$5,321; and general administration \$7,445).

### 5. INTANGIBLE ASSET

<b>Cost</b>	\$
<b>As at January 1, 2018</b>	6,290,552
Additions, net of research and development tax credits of \$802,743	2,579,678
Effect of movements in exchange rates	284,833
<b>As at December 31, 2018</b>	9,155,063
Additions, net of research and development tax credits of \$516,676	1,625,156
Effect of movements in exchange rates	(442,141)
<b>As at June 30, 2019</b>	10,338,078
<b>Accumulated amortization</b>	\$
<b>As at January 1, 2018</b>	2,852,389
Amortization charge	1,385,953
Effect of movements in exchange rates	133,389
<b>As at December 31, 2018</b>	4,371,731
Amortization charge	781,842
Effect of movements in exchange rates	(211,203)
<b>As at June 30, 2019</b>	4,942,370
<b>Carrying amount</b>	\$
<b>Balance - December 31, 2018</b>	4,783,332
<b>Balance - June 30, 2019</b>	5,395,708

Amortization of the intangible asset of \$781,842 (six-month period ended June 30, 2018 - \$620,484) is included in research and development costs on the unaudited condensed interim consolidated statements of loss and comprehensive loss.

### 6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2019	December 31, 2018
	\$	\$
Trade payables	223,858	110,774
Accruals	293,392	225,308
Accrued directors' fees (note 15)	42,090	336,510
Employee remittances	198,779	154,277
Sales tax payable	8,791	10,751
Other payables	74,755	63,515
	841,665	901,135

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

## 7. CONTRACT LIABILITIES

	June 30, 2019	December 31, 2018
	\$	\$
<b>Balance - Beginning of period</b>	391,910	396,302
IFRS 15 opening adjustment	-	22,587
Cash receipts from customers	1,719,499	720,303
Recognition of deferred revenue	(586,630)	(778,240)
Effect of movement in exchange rate	(36,209)	30,958
<b>Balance - End of period</b>	1,488,570	391,910
Less: current portion of contract liabilities	(1,157,606)	(383,179)
<b>Non-current portion of contract liabilities</b>	330,964	8,731

## 8. LOAN PAYABLE AND ACCRUED INTEREST

	June 30, 2019	December 31, 2018
	\$	\$
<b>Balance - Beginning of period</b>	1,026,752	989,880
Interest accrual	11,986	24,410
Interest repayment	(64,933)	(24,410)
Effects of movements in exchange rates	(46,853)	36,872
<b>Balance - End of period</b>	926,952	1,026,752
Less: Current portion	(201,511)	(1,026,752)
<b>Non-current portion</b>	725,441	-

As at December 31, 2018, the loan payable and accrued interest balance on the consolidated statements of financial position was comprised of a principal balance of \$829,595 and accrued interest of \$197,157, with the total balance being due in June 2019. On February 28, 2019, Enterprise Ireland and the Company agreed to a revised loan payment schedule. The revised schedule results in payments being made over a three-year period on a quarterly basis. Management has determined that the revised terms of the loan payable do not differ substantially from the terms of the original loan. As such, the loan was accounted for as a non-substantial modification of the original loan. As at June 30, 2019, the loan payable and accrued interest balance on the unaudited condensed interim consolidated statement of financial position was comprised of a principal balance of \$926,952 and accrued interest of \$nil.

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

Within 1 year	2 years	3 years	Total
\$	\$	\$	\$
201,511	362,720	362,721	926,952

## 9. LEASE LIABILITY

	June 30, 2019	December 31, 2018
	\$	\$
<b>Balance - Beginning of period</b>	-	-
Leases recognized upon transition to IFRS 16	630,444	-
Additions	166,565	-
Repayments of lease obligations	(90,264)	-
Accreted interest	22,114	-
Effects of movements in exchange rates	(35,944)	-
<b>Balance - End of period</b>	692,915	-
Less: Current portion	(140,362)	-
<b>Non-current portion</b>	552,553	-

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

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

	Number of shares	Amount
	#	\$
<b>Outstanding - January 1, 2018</b>	44,563,684	25,919,856
Shares issued pursuant to the private placement	6,871,830	6,184,647
Shares issuance costs pursuant to the private placement	-	(513,215)
Broker warrants share issuance costs	-	(140,394)
Shares issued pursuant to the stock option exercise	6,666	8,866
<b>Outstanding - December 31, 2018</b>	51,442,180	31,459,760
Shares issued pursuant to the public equity financing	6,037,500	6,339,376
Shares issued pursuant to the non-brokered private placement	2,074,437	2,178,160
Shares issuance costs pursuant to the equity financings	-	(686,921)
Broker warrants share issuance costs	-	(150,870)
Shares issued pursuant to stock option exercises	216,800	312,827
<b>Outstanding - June 30, 2019</b>	59,770,917	39,452,332

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

During the six-month period ended June 30, 2019, employees exercised 16,800 options with an exercise price of \$0.55 per share for proceeds of \$9,240; and a director exercised 200,000 options with an exercise price of \$0.90 per share for proceeds of \$180,000.

Equity financings

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

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

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

#### b) Warrants

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

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

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

	Number of warrants	Weighted-average exercise price
	#	\$
<b>Outstanding - January 1, 2018</b>	-	-
Granted	356,977	0.90
<b>Outstanding - December 31, 2018</b>	356,977	0.90
Granted	343,860	1.05
<b>Outstanding - June 30, 2019</b>	700,837	0.97

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

Expiry date	Weighted-average remaining contractual life (in years)	Number of warrants outstanding	Weighted-average exercise price
October 10, 2019	0.3	356,977	\$ 0.90
February 20, 2021	1.6	343,860	\$ 1.05

#### c) Share-based compensation

The Company has adopted a stock option plan, providing the Board of Directors with the discretion to issue an equivalent number of options of up to 10% of the issued and outstanding share capital of the Company. Generally stock options are granted with an exercise price of not less than the closing share price the date preceding the date of grant. As at June 30, 2019, 2,822,054 remain available for grant under the terms of the stock option plan.

The following are the weighted-average assumptions used in calculating the value of the stock options granted during the six-month period ended June 30, 2019 and the year ended December 31, 2018:

	June 30, 2019	December 31, 2018
Risk-free interest rate	1.69%	2.12%
Expected life	4.5 years	4.5 years
Expected volatility	85%	96%
Expected dividend per share	0.0%	0.0%
Weighted-average exercise price	\$1.06	\$0.91

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

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

	Number of options #	Weighted-average exercise price \$
<b>Outstanding - January 1, 2018</b>	2,298,776	0.80
Granted	438,000	0.91
Exercised	(6,666)	0.58
Forfeited	(72,605)	0.54
<b>Outstanding - December 31, 2018</b>	2,657,505	0.83
Granted	733,000	1.05
Forfeited	(18,667)	0.93
Exercised	(216,800)	0.87
<b>Outstanding - June 30, 2019</b>	3,155,038	0.87

For the six-month period ended June 30, 2019, the estimated value of options earned and recorded in the unaudited condensed interim consolidated statements of loss and comprehensive loss was \$156,718 and is included in cost of revenues for \$30,371, research and development for \$16,334, sales and marketing for \$69,742 and general and administration for \$40,271 (six-month period ended June 30, 2018 – \$72,822 included in cost of revenues for \$13,154, research and development for (\$2,827), sales and marketing for \$40,601 and general and administration for \$21,894). The estimated value of options earned during the six-month period ended June 30, 2019 and recorded as an addition to the intangible asset was \$76,844 (six-month period ended June 30, 2018 – \$68,686).

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

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price
January 2, 2020	0.5	66,667	66,667	\$ 0.90
November 10, 2020	1.4	33,333	33,333	\$ 0.90
July 4, 2021	2.0	1,235,584	1,122,428	\$ 0.90
September 26, 2021	2.2	10,587	10,587	\$ 0.90
October 3, 2021	2.3	199,200	132,800	\$ 0.55
January 11, 2022	2.5	177,334	118,223	\$ 0.58
February 1, 2022	2.6	100,000	66,666	\$ 0.57
April 4, 2022	2.8	100,000	66,666	\$ 0.57
May 29, 2022	2.9	15,000	10,000	\$ 0.68
November 1, 2022	3.3	100,000	33,333	\$ 0.70
February 1, 2023	3.6	191,333	66,000	\$ 0.80
April 25, 2023	3.8	5,000	1,667	\$ 0.85
November 1, 2023	4.3	100,000	-	\$ 1.02
December 18, 2023	4.5	100,000	-	\$ 0.97
January 3, 2024	4.5	368,000	-	\$ 1.00
March 7, 2024	4.7	293,000	-	\$ 1.06
April 4, 2024	4.8	30,000	-	\$ 1.22
May 13, 2024	4.9	30,000	-	\$ 1.30

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

**d) Deferred Shares Units**

The maximum number of common shares which the Company is entitled to issue from treasury in connection with the redemption of DSUs granted under the DSU plan is 666,667 common shares. As at June 30, 2019, 258,222 remain available for grant under the terms of the DSU plan.

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

	June 30, 2019	December 31, 2018
	#	#
<b>Outstanding - Beginning of period</b>	-	-
Granted	408,445	-
<b>Outstanding - End of period</b>	408,445	-

For the six-month period ended June 30, 2019, the estimated value of options earned and recorded in the unaudited condensed interim consolidated statements of loss and comprehensive loss was \$16,736 and is included in general and administration expenses.

**11. REVENUE**

Revenue has been earned from the following sources:

	Three-month period ended June 30, 2019	Three-month period ended June 30, 2018	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
	\$	\$	\$	\$
SaaS license fees	208,588	24,718	273,540	48,488
On-premise licenses fees	82,306	-	175,399	157,112
Maintenance fees	93,921	62,737	191,172	120,793
Professional services and other	143,997	45,016	302,424	268,507
	528,812	132,471	942,535	594,900

**12. EXPENSES BY NATURE**

	Three-month period ended June 30, 2019	Three-month period ended June 30, 2018	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
	\$	\$	\$	\$
Amortization of the intangible asset	412,363	327,421	781,842	620,484
Cloud hosting and other services	101,527	76,296	199,177	132,835
Consultancy fees	44,137	42,582	88,008	84,295
Depreciation of plant and equipment	72,048	35,266	138,181	69,526
Salaries, wages and benefits	943,461	673,842	1,855,533	1,322,128
Other administrative cost	167,131	98,432	289,782	204,606
Professional and audit fees	44,006	52,626	87,907	99,283
Research and development tax credit recovery	(28,956)	(1,843)	(58,693)	(1,852)
Rent and rates	9,548	10,999	16,546	24,136
Sales, marketing and advertising	112,606	61,452	126,894	142,890
Securities and regulatory fees	18,889	19,141	31,929	35,418
Share-based compensation	100,244	38,592	173,454	72,822
Travel	78,117	61,006	108,912	132,995
	2,075,121	1,495,812	3,839,472	2,939,566

**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****13. INCOME TAXES**

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

	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
	\$	\$
Loss before income taxes	(3,720,099)	(2,038,565)
Statutory rate	18.54%	13.82%
Tax recovery at statutory rate	(689,706)	(281,729)
Recovery for losses and deductible temporary differences not recognized in current and prior years	404,888	359,625
Permanent differences and other	284,818	(77,896)
Income tax recovery	-	-

**14. SUPPLEMENTAL CASH FLOW INFORMATION**

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

	Six-month period ended June 30, 2019	Six-month period ended June 30, 2018
	\$	\$
Increase in amounts receivable and other	(46,670)	(182,155)
Increase (decrease) in accounts payable and accrued liabilities	(68,129)	139,074
Increase (decrease) in contract liabilities	176,649	(149,570)
Increase in lease liabilities	804,174	-
	866,024	(192,651)

**15. RELATED PARTY TRANSACTIONS**

During the six-month period ended June 30, 2019, the Company incurred costs for accounting services from a related party, Numus Financial Inc. (“Numus”), a company controlled by a director of kneat.com, in the amount of \$15,356 (six-month period ended June 30, 2018 – \$15,356) and reimbursed rent and office costs to Numus in the amount of \$12,750 (six-month period ended June 30, 2018 – \$13,860). As at June 30, 2019, the amount owing to Numus was \$5,697 (December 31, 2018 – \$12,021).

As at June 30, 2019, the Company had \$16,883 receivable from Beek Investment Limited (“Beek”), a company controlled by directors and officers of kneat.com, relating to professional fees paid on behalf of Beek during the year ended December 31, 2016 (year ended December 31, 2018 – \$17,699).

During the six-month period ended June 30, 2019, the Company accrued directors’ fees of \$27,914 for the directors who are not employees or officers of the Company (six-month period ended June 30, 2018 – \$41,589). On June 27, 2019, outstanding directors’ fee of \$306,800 were settled through the issuance of 255,666 DSUs. As at June 30, 2019, the amount owing to directors included in accounts payable and accrued liabilities was \$42,090 (December 31, 2018 – \$336,510).

During the period ended June 30, 2019, the Company issued a total of 408,445 DSUs to members of the Board of Directors who are not employees or officers of the Company (note 10 (d)).

On April 10, 2018, directors of the Company subscribed to an aggregate of 599,999 of the common shares for gross proceeds of \$539,999. In addition, Numus Capital Corp., 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 (note 10 (a)).



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

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On February 20, 2019, directors of the Company subscribed to 761,905 common shares for gross proceeds of \$799,999. In addition, Numus Capital Corp. acted as selling agent in the non-brokered private placement and received 124,466 broker warrants and \$130,689 in cash finders' fees (note 10 (a)).

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

#### 16. FAIR VALUE OF FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

##### a) Capital Management

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

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

	June 30, 2019	December 31, 2018
	\$	\$
Equity	12,852,925	7,592,947
Less: cash	(7,690,104)	(2,765,507)
	<u>5,162,821</u>	<u>4,827,440</u>

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may issue equity or return capital to shareholders. No changes were made to the objectives, policies or processes for managing capital during the six-month period ended June 30, 2019 or the year ended December 31, 2018.

##### b) Fair Values of Financial Instruments

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

##### c) Financial Risk Management Objectives

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

##### d) Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date. At June 30, 2019 and December 31, 2018, the Company's financial assets exposed to credit risk amounted to the following:

	June 30, 2019	December 31, 2018
	\$	\$
Cash	7,690,104	2,765,507
Amounts receivable and other	454,365	470,794

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

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During the six-month period ended June 30, 2019 and the year ended December 31, 2018, the Company did not hold any financial assets that were more than 30 days past their payment terms or impaired. Trade debtors of \$215,714 are included in amounts receivable as at June 30, 2019 (December 31, 2018 – \$227,538). Trade debtors are monitored on a regular basis, with reference to the expected credit loss impairment model, in order to minimize material aging and to ensure adequate collection. Historically there have been no significant trade debtor collection issues and the Company does not believe it is subject to significant concentration of credit risk.

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

#### e) Liquidity Risk

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

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

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

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities as at June 30, 2019:

	Within 1 year	2-3 years	4-5 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	832,874	-	-	-	832,874
Loan payable	201,511	725,441	-	-	926,952
	<u>1,034,384</u>	<u>725,441</u>	<u>-</u>	<u>-</u>	<u>1,759,826</u>

#### f) Currency Risk

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

The Company is exposed to currency risk on cash, intercompany balances, accounts payable and accrued liabilities balances, and the loan payable balance that are held in currencies that are not in the transacting entities functional currencies. As at June 30, 2019, a 5% decrease in the exchange rate between the functional currencies and foreign currencies would increase the net loss by approximately \$1.2 million for the six-month period ended June 30, 2019; a 5% increase would decrease the net loss by approximately \$1.2 million for the six-month period ended June 30, 2019. The Company currently does not hedge its currency risk.

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

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

	Six-month period ended June 30, 2019			Six-month period ended June 30, 2018		
	As reported	Exchange rate effect	5% Stronger	As reported	Exchange rate effect	5% Stronger
	\$	\$	\$	\$	\$	\$
Revenues	942,535	47,127	989,662	594,900	29,745	624,645
Expenses	(4,662,634)	(178,766)	(4,841,400)	(2,633,465)	(130,862)	(2,764,327)
Net loss	(3,720,099)	(131,639)	(3,851,738)	(2,038,565)	(101,117)	(2,139,682)

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

**g) Interest Rate Risk**

Interest risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. An immaterial amount of interest rate exposure exists in respect of cash balances and the loan payable on the unaudited condensed interim consolidated statements of financial position. The Company holds a loan payable with a fixed interest rate. This is privately-issued, with no secondary market. It is measured at amortized cost. As a result, the Company is not exposed to cash flow interest rate risk on its loan payable.

**h) Fair Value Measurements Recognized in the Statement of Financial Position**

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

At June 30, 2019 and December 31, 2018, the Company had no financial instruments that were measured and recognized on the unaudited condensed interim consolidated statement of financial position at fair value. In addition, there were no transfers between levels during the period.

**17. COMMITMENTS AND CONTINGENCIES**

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

The Company has committed to conferences and other services which will result in the Company paying \$102,610 within in one year, \$80,256 in two to three years and \$28,548 in four to five years.

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

**18. COMPARATIVE FIGURES**

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

**19. SUBSEQUENT EVENTS**

On July 9, 2019, 10,000 stock options were granted to employees of the Company. The stock options are exercisable at a prices of \$1.18 per share and expire July 9, 2024. The options granted vest over a three-year period.

On July 15, 2019, an employee exercised 3,315 stock options at an exercise price of \$0.80 per common share.

On July 31, 2019, 12,536 broker warrants were exercised at an exercise price of \$0.90 per common share.

Subsequent to June 30, 2019, 14,683 stock options were forfeited with exercise prices ranging from \$0.85 to \$1.00 per common share.