

kneat.com, inc. (formerly Fortune Bay Corp.)
Three and six-month periods ended June 30, 2016

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 unaudited condensed interim consolidated financial statements of kneat.com (the "Financial Statements") for the three and six-month periods ended June 30, 2016, and the audited financial statements of Kneat Solutions Limited for the year ended December 31, 2015, 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 August 25, 2016. The functional currency for kneat.com is the Euro, and the presentation currency 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;
- the Company's business strategy;
- 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 risk of competitors entering the market;
- the Company's hiring and retention of skilled staff;
- the ability to obtain financing to fund future expenditure and capital requirements; 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 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.

COMPANY OVERVIEW

kneat.com, inc. (the "Company" or "kneat.com"), (formerly Fortune Bay Corp.) commenced trading on the TSX Venture Exchange ("TSX-V") as kneat.com on July 5, 2016 under the symbol KSI (TSX-V). 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 (formerly Fortune Bay Corp.) 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 resources 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 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 (1) new common share of kneat.com (each a "kneat.com share") and one and one half (1.5) of a common share of Spinco (a "Spinco Share") in exchange for each three (3) 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. kneat.com, after its reorganization, 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 unaudited condensed interim consolidated financial statements of the Company for the period ended June 30, 2016 for further details.

Operational overview

kneat.com designs, develops and supplies software for data and document management within regulated environments. kneat.com's current product is Kneat Gx, a configurable, commercial, off the shelf application focused on validation lifecycle management and testing within the life sciences industry (i.e., Biotech,

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 application provides a compliant e-solution that enables life science companies to become efficient and compliant with an automated process that has traditionally been manual, in-efficient and 100% 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. Everything is done on paper using wet ink to record, apply proof signature and date, etc. It is a data and document minefield that leaves healthcare companies susceptible to delays, high costs and non-compliance. Non-compliance can lead to regulatory fines, recalls, threats to patient safety and delays to market. 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 over nine 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 is considered best in class by its customers.

kneat.com possesses a best in class quality management system and is certified to ISO 9001. In addition, it adheres to all applicable life science 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 must perform extensive audits to verify compliance prior to purchasing kneat.com’s products.

BUSINESS OBJECTIVES

With the completion of the Transaction, kneat.com now has the ability to use its financial resources for the following key business objectives:

- development of new features and functionality based on customer feedback;
- product advancements to enhance the user experience;
- development and deployment of its SaaS model to small and medium size customers;
- securing contracts with key customer targets; and
- expansion of the operational management team in order to reach these and other key future objectives.

Recent Developments

During the six-month period ended June, 30 2016, the focus of the Company has been: i) the completion of the Transaction, ii) the progress towards key improvements in the functionality of the Kneat Gx platform, iii) the further development of the Software as a Service (SaaS) model and iv) the advancement of discussions with key customers.

- Management’s priority from a business perspective was to get the Transaction completed whereby cash was secured to fund ongoing growth and to increase the liquidity of the stock by meeting the requirements

for the listing on the TSX Venture Exchange.

- During the six months ended June 30, 2016, key software developers and testers have been hired to further advance and develop the Kneat Gx platform. The functionality and performance of the Kneat Gx platform has been and continues to be improved based on the technical feedback from our early customers and new prospects.
- One of the key initiatives for the Company is to deploy a SaaS model which will allow the Company to service small to mid-size customers. During the quarter ended June 30, 2016, development of the SaaS model has progressed and will continue to be a focus for the remainder of the fiscal year and into 2017.
- Management has spent the second quarter of 2016 focusing on building relationships with new potential customers. In addition, discussions with current customers are ongoing and have focused on sustainable long term growth based on expansion of the Company's technology within their operations. Significant time has also been spent on developing a marketing plan and hiring of key sales team members.

SELECTED ANNUAL INFORMATION

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

	2015	2014	2013
	\$	\$	\$
Total revenue	986	293	-
Total expenses	(1,995)	(1,474)	(920)
Total loss	(1,009)	(1,181)	(920)
Total loss per common share	(0.04)	(0.05)	(0.04)
Cash dividends per common share	N/A	N/A	N/A
Total assets	4,251	2,236	1,956
Total non-current financial liabilities	1,159	1,057	896

SELECTED QUARTERLY INFORMATION

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

	Q2 2016	Q1 2016	Q2 2015	Q1 2015
	\$	\$	\$	\$
Total revenue	19	18	201	147
Total expenses	(5,230)	(713)	(416)	(451)
Total loss	(5,211)	(695)	(215)	(304)
Total loss per common share	(0.19)	(0.03)	(0.01)	(0.01)
Cash dividends per common share	N/A	N/A	N/A	N/A

kneat.com expects to record losses until such time as it invests in additional staffing for sales and marketing staff, further develops the Kneat Gx platform and secures additional customer contracts. The Company estimates that the funding received on completion of the Transaction will provide kneat.com with the ability to make the investment in staffing and further development of the Kneat Gx platform in order to execute the growth strategy required however additional capital funding may be required in order to produce net income within the next three to five years.

Historical information

Financial year ended December 31, 2015:

Kneat Solutions Limited raised in excess of \$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 and service current and newly acquired customers. Costs of approximately \$1 million were incurred and capitalized specifically to further develop the Kneat Gx platform. Customers were secured through the execution of license, maintenance and service agreements. Revenue totaling approximately \$1 million was recognized during the year.

Financial year ended December 31, 2014:

As Kneat Solutions Limited progressed with customers in the United States, a presence in the United States was required. Thus, Kneat Solutions, Inc., a 100% wholly-owned subsidiary of Kneat, was incorporated in Pennsylvania, United States. Kneat Solutions Limited raised in excess of \$0.8 million through the issuance of common shares. These funds were used to further develop the Kneat Gx platform. Costs of approximately \$1 million were incurred and capitalized specifically to further develop the Kneat Gx platform.

The financial year ended December 31, 2014 was the first year in which Kneat was able to execute contracts with customers and recognize revenue. Kneat secured two multi-national biotech and diagnostics customers and recognized their first revenue from operations totaling approximately \$0.3 million.

Financial year ended December 31, 2013:

Throughout the financial year ended December 31, 2013, Kneat Solutions Limited raised approximately \$2 million through the issuance common shares. Funds were used in ongoing development of the Kneat Gx platform, including increasing its functionality. Costs of approximately \$0.7 million were incurred and capitalized specifically to further develop the Kneat Gx platform.

RESULTS OF OPERATIONS

Six-month period ended June 30, 2016

Revenues for the six month periods ended June 30,

	2016	2015	\$ change in 2016	% change in 2016
Service fees	-	\$324,344	(\$324,344)	(100%)
Maintenance fees	\$37,206	\$24,399	\$12,807	52.4%
Total revenues	\$37,206	\$348,743	(\$311,537)	(89.3%)

Service fees revenues vary by customer depending on the customer specific needs. Service fees may include such services as special training, development of tailored functionality, implementation and deployment services. Service fee revenue for the six months ended June 30, 2016 was \$nil as compared to \$324,344 for the six-month period ended June 30, 2015. The service fee revenue decrease was primarily as a result of the Company's focus on service milestones that were not yet met as of quarter end and fewer ongoing service assignments in the six-month period ended June 30, 2016.

Maintenance fees are established annually. Maintenance entitles the customer to front line support and software upgrades. Maintenance fee revenues for the six months ended June 30, 2016 were \$37,206 as compared to \$24,399 for the six-month period ended June 30, 2015. The increase of \$12,807 or 52.4% was due to new maintenance contracts being signed in the third and fourth quarters of 2015 that are recognized over a one-year period throughout 2016.

Amortization of the intangible asset for the six month periods ended June 30,

	2016	2015	\$ change in 2016	% change in 2016
Amortization of the intangible asset	(\$306,392)	(\$201,665)	\$104,727	51.9%

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 six-month period ended June 30, 2016 was \$306,392 compared to \$201,665 for the six-month period ended June 30, 2015. The increase of \$104,727 or 51.9% was primarily due to additions to the intangible asset, consisting mainly of the salaries of the development team, made throughout the first two quarters of 2016 and the last two quarters of 2015 which increased the carrying value of the intangible asset and thus the amortization charged to the statement of loss.

Administrative expenses for the six month periods ended June 30,

	2016	2015	\$ change in 2016	% change in 2016
Administrative expenses	(\$1,357,634)	(\$654,078)	\$703,556	107.6%

Administrative expenses for the six-months ended June 30, 2016 totaled \$1,357,634 which was an increase of \$703,556 or 107.6% over the administrative expenses of \$654,078 for the six-month period ended June 30, 2015. This increase can be attributed mainly to the following items:

- Professional fees incurred for the six-month period ended June 30, 2016 were \$455,722 as compared to the six-month period ended June 30, 2015 of \$115,071. The increase in professional fees of \$340,651 was due primarily to legal fees associated with the completion of the Transaction.
- Software development costs totaling \$106,955 for the six-month period ended June 30, 2016 had increased by \$62,471 from the six-month period ended June 30, 2015 related primarily to the acquisition of increased cloud back up and monitoring services and other service providers.
- The net recovery in the P&L from the research and development tax credit has decreased by a net amount of \$8,457 (2015 amounts are included within the employee salaries and benefit line items and the research and development tax credit line items in the statement of loss). The recovery in the statement of loss for the six-month period ended June 30, 2016 related to the research and development tax credits exclude amounts that are capitalized to the intangible asset and therefore recognized over the life of the intangible asset. The net increase in the employee salaries and wages and the decrease in the research and development tax credit recovery is due to the increase in headcount.
- Social insurance costs increased by \$40,164 to \$100,955 over the six-month period ended June 30, 2015 due to the increase in headcount over the prior year.
- The increases in the expenses were partially offset by a decrease consultancy fees of \$31,735 bringing the consultancy fees down to \$68,454 for the six-month period ended June 30, 2016. This was due mainly to the fact that the roles being performed by the consultants were brought in-house or were no longer required in 2016.
- Audit fees increased by \$33,912 for the six-month period ended June 30, 2016 as compared to the six-month period June 30, 2015 due primarily to an increase in costs associated with the completion of the Transaction.
- Unrealized foreign currency losses of \$70,482 arose in the current year 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.

Other expenses for the six month periods ended June 30,

	2016	2015	\$ change in 2016	% change in 2016
Interest and similar charges	(\$42,163)	(\$12,759)	\$29,404	230.4%
Listing expense	(\$3,799,810)	-	\$3,799,810	100%
Disbursement connected to the Transaction	(\$436,616)	-	\$436,616	100%

Under 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. 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 is estimated to be \$11,518,443 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)	8,036,534
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)
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Listing expense	(3,799,810)

The listing expense is expensed through the statement of loss. The consideration and allocation reflects the best estimates and assumptions of the management of the Company after taking in to account all available information.

As at June 30, 2016, the estimated cost that may be incurred related 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 is \$436,616. This figure is management’s best estimate based on supporting evidence received from former Kneat Solutions Limited shareholders to date and is subject to change pending final annual tax filings by former Kneat Solutions Limited shareholders which is expected to be finalized in the fourth quarter of 2016.

Three-month period ended June 30, 2016

Revenues for the three-month periods ended June 30,

	2016	2015	\$ change in 2016	% change in 2016
Service fees	-	\$186,491	(\$186,491)	(100%)
Maintenance fees	\$19,263	\$14,711	\$4,552	30.9%
Total revenues	\$19,263	\$201,202	(\$181,939)	(90.4%)

Service fees revenues vary by customer depending on the customer specific needs. Service fees may include such services as special training, development of tailored functionality, implementation and deployment services. Service fee revenue for the three months ended June 30, 2016 was \$nil as compared to \$185,669 for the three-month period ended June 30, 2015. The service fee revenue decrease was primarily as a result of the Company’s focus on service milestones that were not yet met as of quarter end and fewer ongoing service agreements during the three-month period ended June 30, 2016.

Maintenance fees are established annually. Maintenance entitles the customer to front line support and software upgrades. Maintenance fee revenues for the three months ended June 30, 2016 were \$19,263 as compared to \$14,711 for the three-month period ended June 30, 2015. The increase of \$4,552 or 30.9% was due to new maintenance contracts being signed in the third and fourth quarters of 2015 that are recognized over a one-year period throughout 2016.

Amortization of the intangible asset for the three-month periods ended June 30,

	2016	2015	\$ change in 2016	% change in 2016
Amortization of the intangible asset	(\$161,545)	(\$109,376)	\$52,169	47.6%

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 June 30, 2016 was \$161,545 compared to \$109,376 for the three-month period ended June 30, 2015. The increase of \$52,169 or 47.6% was primarily due to additions to the intangible asset, consisting mainly of the salaries of the development team,

made throughout the first two quarters of 2016 and the last two quarters of 2015 which increased the carrying value of the intangible asset and thus the amortization charged to the statement of loss.

Administrative expenses for the three-month periods ended June 30,

	2016	2015	\$ change in 2016	% change in 2016
Administrative expenses	(\$797,630)	(\$300,886)	\$496,744	165.1%

Administrative expenses for the three-months ended June 30, 2016 totaled \$797,630 which was an increase of \$496,744 or 165.1% over the administrative expenses of \$300,886 for the three-month period ended June 30, 2015. This increase can be attributed mainly to the following items:

- Professional fees incurred for the three-month period ended June 30, 2016 were \$296,838 as compared to the three-month period ended June 30, 2015 of \$58,686. The increase in professional fees of \$238,152 was due primarily to legal fees associated with the completion of the Transaction.
- Software development costs totaling \$58,685 for the three-month period ended June 30, 2016 had increased by \$30,681 from the three-month period ended June 30, 2015 related primarily to the acquisition of increased cloud back up and monitoring services and other service providers.
- The net recovery in the P&L from the research and development tax credit has decreased by a net amount of \$12,576 (2015 amounts are included within the employee salaries and benefit line items and the research and development tax credit line items in the statement of loss). The recovery in the statement of loss for the three-month period ended June 30, 2016 related to the research and development tax credits exclude amounts that are capitalized to the intangible asset and therefore recognized over the life of the intangible asset. The net increase in the employee salaries and wages and the decrease in the research and development tax credit recovery is due to the increase in headcount.
- Social insurance costs increased by \$23,783 to \$54,065 over the three-month period ended June 30, 2015 due to the increase in headcount over the prior year.
- The increases in the expenses were partially offset by a decrease consultancy fees of \$12,542 bringing the consultancy fees down to \$39,624 for the three-month period ended June 30, 2016. This was due mainly to the fact that the roles being performed by the consultants were brought in-house or are no longer required in 2016.
- Unrealized foreign currency losses of \$67,001 arose in the current year 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.

Other expenses for the three-month periods ended June 30,

	2016	2015	\$ change in 2016	% change in 2016
Interest and similar charges	(\$34,215)	(\$6,351)	27,864	438.7%
Listing expense	(\$3,799,810)	-	3,799,810	100%
Disbursement connected to the Transaction	(\$436,616)	-	436,616	100%

Under 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 outlined above.

As at June 30, 2016, the estimated cost that may be incurred related to certain 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 is \$436,616. This figure is management’s best estimate based on supporting evidence received from former Kneat Solutions Limited shareholders to date and is subject to change pending final annual tax filings by former Kneat Solutions Limited shareholders which is expected to be finalized in the fourth quarter of 2016.

LIQUIDITY AND CAPITAL RESOURCES

kneat.com's liquidity depends on existing cash reserves, supplemented as necessary by asset dispositions, equity and/or debt financings and revenue generated from customers. As of June 30, 2016, kneat.com had cash of \$7,300,545, compared to \$1,063,524 as at December 31, 2015. 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 June 30, 2016 was \$6,300,527 as compared to \$848,645 at December 31, 2015 due primarily to the cash received on completion of the Transaction.

During the six-month period ended June 30, 2016, kneat.com used cash of \$1,353,681 to fund operating activities. In addition, kneat.com raised funds through financing activities of \$8,254,809 during the six-month ended June 30, 2016 through the completion of the Transaction. Investing activities focused mainly on development of the intangible and tangible assets resulting in net cash outflow from investing activities of \$660,187 for the six-month period ended June 30, 2016.

kneat.com's business to date has been the development of the Kneat Gx platform which has generated limited revenues to date. kneat.com has historically relied primarily on funding through the issuance of common and preferred shares.

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 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.

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 June 30, 2016				Total
	Within 1 year	2-3 years	4-5 years	Over 5 years	
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,248,379	-	-	-	1,248,379
Directors' current account	160,111	-	-	-	160,111
Operating lease payments	63,168	126,335	126,335	-	315,838
Loan payable	-	937,542	-	-	937,542
	<u>1,471,658</u>	<u>1,063,877</u>	<u>126,335</u>	<u>-</u>	<u>2,661,870</u>

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 August 25, 2016, the Company had 39,563,684 common shares outstanding. Of the common shares issued and outstanding, 15,343,848 are subject to an escrow agreement as at August 25, 2016 (June 30, 2016 – 17,048,720 shares were subject to the escrow agreement).

As of August 25, 2016, the Company has 2,012,302 stock options outstanding at an exercise price of \$0.90 per common share with varying expiry dates. In addition, as of August 25, 2016, 267,857 common share purchase warrants are outstanding, exercisable into common shares of the Company at an exercise price of \$0.90 per common share, expiring on April 1, 2017.

RELATED PARTY TRANSACTIONS

Amounts payable to officers and directors were \$160,111 as at June 30, 2016 (year-ended December 31, 2015 - \$259,146). During the six-month period ended June 30, 2016, the Company repaid Directors' current account balances of \$89,105 (year-ended December 31, 2015 - \$75,866).

During the period ended June 30, 2015, a Director of Kneat Solutions Limited was granted 2,727 shares of Kneat Solutions Limited valued at \$55,119 as compensation for consulting fees.

Key management of the Company previously included the Board of Directors, the Chief Executive Officer, Director of Research and Development and the Director of Quality. Effective June 27, 2016, key management also includes the Chief Financial Officer.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Market Risk

Market risk embodies the potential for both losses and gains and includes currency risk and interest rate 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, accounts receivable, and accounts payable and accrued liabilities that held in currencies that are not in its functional currency, in addition to certain of its operating costs. For the period ended June 30, 2016, the sensitivity of the Company's net loss due to changes in the exchange rate between the functional currency and foreign currencies would not have significantly impacted the statement of loss. 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. kneat.com holds a loan payable with a fixed interest rate of 3%. 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 the 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 June 30, 2016 and December 31, 2015, kneat.com's financial assets exposed to credit risk amounted to the following:

	June 30, 2016	December 31, 2015
	\$	\$
Cash and cash equivalents	7,300,545	1,063,524
Accounts receivable	1,003,467	1,023,014

During the periods ended June 30, 2016 and December 31, 2015, the Company did not hold any financial assets that were past due or impaired. Trade debtors of \$44,346 are included in accounts receivable as at June 30, 2016 (December 31, 2015 - \$230,280). Trade debtors 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.

RISK FACTORS

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

The decision by a customer to license 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 good data management, good 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.

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. Our 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 expects to 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 have 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 we 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 for the foreseeable future 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 will be materially adversely affected.

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

kneat.com is highly dependent on our ability to protect our proprietary technology. We rely 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 represents a loss of revenue to kneat.com. Where applicable, certain of kneat.com's license arrangements have required it to make a 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 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 have and will continue to 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 continue to 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 us. 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 our 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 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, including 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 European Euro. It is expected that upon completion of the Transaction, the Resulting Issuer's revenue will be reported in the Canadian dollar. Fluctuations in the cross 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 Resulting Issuer. To date, kneat.com has not engaged in exchange rate hedging activities, and the Resulting Issuer 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. We could lose market share if our 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 our 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 research 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 are relatively fixed, a delay in recognizing revenues from transactions related to these expenses (such 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 IT 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 maintain errors and omissions insurance coverage and comprehensive liability 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 have 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 (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.

Based upon that evaluation, the CEO and CFO have concluded that as of the end of the period covered by this MD&A, 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 our CEO and CFO, to allow timely decisions regarding required disclosures.

Notwithstanding the foregoing, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that the disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Company and its subsidiaries to disclose material information otherwise required to be set forth in the reports. The disclosure controls and procedures are designed to provide reasonable assurance of achieving their objective of ensuring that information required to be disclosed in the reports that the Company files or submits is communicated to management to allow timely decisions regarding required disclosure.

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, 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.

The Company's control over financial reporting during the period ended June 30, 2016 were designed and implemented throughout the year. There have been no changes to the controls during the year that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of the internal control over financial reporting as of June 30, 2016. As a result, management concluded that the internal control over financial reporting were effective as at that date.

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 Fortune Bay Corp. annual consolidated financial statements for the year-ended December 31, 2015 and Note 3, *Accounting Policies*, of the Kneat Solutions Limited annual consolidated financial statements for the year-ended December 31, 2015. 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.

Intangible assets

Research and development

Expenditure on research activities undertaken with the prospect of gaining new technical knowledge and understanding, is recognized in the consolidated statement of comprehensive income as an expense as incurred. Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized only if kneat.com can demonstrate that it meets all of the following criteria:

The technical feasibility of completing the intangible asset so that it will be available for use or sale;

- Intention to complete the intangible asset and use or sell it;
- Ability to use or sell the intangible asset;
- The intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The expenditure capitalized in respect of intangible assets includes the cost of direct labour and an appropriate proportion of overheads that are directly attributable to preparing the asset for its intended use. Capitalized development expenditure is measured at cost less accumulated amortization and impairment losses. Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in the consolidated statement of comprehensive income as incurred.

Intangible assets are amortized based on the cost of an asset less its residual value. Intangible assets have finite useful lives. Amortization is charged to the consolidated statement of comprehensive income on a straight-line basis over the estimated useful economic life of intangible assets, from the date that the asset is available for use, based on a rate of 20%.

SIGNIFICANT ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements requires that management make estimates and judgments about future events that affect the amounts reported in the consolidated financial statements and related notes to the

combined carve-out financial statements. Actual results may differ from those estimates. Estimates and judgments are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates are accounted for prospectively. The significant assumptions about the future and other major sources of estimation uncertainty as at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of kneat.com's assets and liabilities are outlined in Note 2, *Basis of Preparation*, in the December 31, 2015 audited financial statements of Kneat Solutions Limited and Note 3, *Summary of Significant Account Policies*, of the June 30, 2016 unaudited condensed interim consolidated financial statements of the Company.

MANAGEMENT CHANGES AND OTHER INFORMATION

On June 27, 2016, the Company completed the Transaction at which point Edmund Ryan was appointed the Company's President and Chief Executive Officer, Sarah Oliver was appointed Chief Financial Officer, Kevin Fitzgerald was appointed the Director of Research and Development and Brian Ahearne was appointed the Director of Quality. Edmund Ryan, Kevin Fitzgerald, Paul Breen, James Osborne, Ian Ainsworth, and Wade Dawe were appointed as directors of the Company.

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