kneat.com, inc.

Consolidated Financial Statements
December 31, 2017 and 2016
(expressed in Canadian dollars)

April 24, 2018

Management's Report

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

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

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

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

(signed) *"Sarah Oliver"*
Chief Financial Officer
Halifax, Canada

April 24, 2018

Independent Auditor's Report

To the Shareholders of
kneat.com, inc.

We have audited the accompanying consolidated financial statements of kneat.com, inc. and its subsidiaries (the Company), which comprise the consolidated statement of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statement of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

PricewaterhouseCoopers LLP
Summit Place, 1601 Lower Water Street, Suite 400, Halifax, Nova Scotia, Canada B3J 3P6
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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter or other matter
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

kneat.com, inc.

Consolidated Statements of Financial Position

As at December 31, 2017 and 2016

(expressed in Canadian dollars)

	2017 $	2016 $
Assets		
Current assets		
Cash	3,482,318	4,988,601
Accounts receivable and other (note 5)	737,372	1,294,223
	4,219,690	6,282,824
Accounts receivable (note 5)	623,790	476,807
Property and equipment (note 6)	513,402	321,548
Intangible asset (note 7)	3,438,163	2,489,610
	8,795,045	9,570,789
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	602,682	1,117,577
Deferred income	396,302	42,549
Lease incentives	9,273	8,751
	1,008,257	1,168,877
Lease incentives	194,398	192,216
Loan payable and accrued interest (note 9)	977,587	922,608
	2,180,242	2,283,701
Shareholders' Equity	6,614,803	7,287,088
	8,795,045	9,570,789

Going concern (note 1)

Commitments and contingencies (note 18)

Approved on behalf of the Board of Directors on April 24, 2018

(signed) *"Ian Ainsworth"*, Director

(signed) *"Wade Dawe"*, Director

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

kneat.com, inc.

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31, 2017 and 2016

(expressed in Canadian dollars)

	2017 $	2016 $
Revenue (note 11)	421,266	820,360
Expenses		
Amortization of intangible asset (note 7)	1,043,186	702,765
Administrative expenses (note 12)	3,659,932	2,736,489
Interest expense	23,404	50,932
Interest income	(4,736)	(2,729)
Foreign exchange loss (gain)	(305,603)	127,536
Listing expense (note 4)	–	3,795,887
Disbursement connected to the Transaction (note 4)	–	425,285
Loss before income taxes	3,994,917	7,015,805
Income tax recovery (note 13)	–	–
Net loss for the years	3,994,917	7,015,805
Other comprehensive loss (income)		
Foreign currency translation adjustment to presentation currency	(23,850)	90,012
Comprehensive loss for the years	3,971,067	7,105,817
Loss per share – Basic and diluted	0.09	0.21
Weighted-average number of common shares outstanding: Basic and diluted (note 10(a))	42,503,244	33,523,669

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

kneat.com, inc.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

(expressed in Canadian dollars)

	Number of common shares #	Common shares $	Warrants $	Contributed surplus $	Translation reserve $	Deficit $	Total $
Balance – December 31, 2015	27,178,260	11,423,158	–	373,536	251,384	(9,805,010)	2,243,068
Net loss for the year	–	–	–	–	–	(7,015,805)	(7,015,805)
Other comprehensive loss for the year	–	–	–	–	(90,012)	–	(90,012)
	–	–	–	–	(90,012)	(7,015,805)	(7,105,817)
Shares and warrants issued pursuant to the Transaction (note 4)	12,385,424	11,518,443	67,424	250,477	–	–	11,836,344
Share-based compensation expense	–	–	–	313,493	–	–	313,493
Balance – December 31, 2016	39,563,684	22,941,601	67,424	937,506	161,372	(16,820,815)	7,287,088
Net loss for the year	–	–	–	–	–	(3,994,917)	(3,994,917)
Other comprehensive income for the year	–	–	–	–	23,850	–	23,850
	–	–	–	–	23,850	(3,994,917)	(3,971,067)
Shares issued pursuant to the private placement (note 10(a))	5,000,000	3,000,000	–	–	–	–	3,000,000
Shares issuance costs (note 10(a))	–	(21,745)	–	–	–	–	(21,745)
Share-based compensation expense	–	–	–	320,527	–	–	320,527
Warrant expiry (noted 10(b))	–	–	(67,424)	67,424	–	–	–
Balance – December 31, 2017	44,563,684	25,919,856	–	1,325,457	185,222	(20,815,732)	6,614,803

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

kneat.com, inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

(expressed in Canadian dollars)

	2017 $	2016 $
Operating activities		
Net loss for the years	(3,994,917)	(7,015,805)
Charges to loss not involving cash:		
Depreciation	90,580	75,167
Share-based compensation expense	160,017	251,394
Interest on long-term liabilities	23,404	50,932
Amortization of intangible asset	1,043,186	702,765
Listing expense	–	3,795,887
Disposal and write-off of property and equipment, net	(1,558)	57,204
Unrealized foreign exchange loss (gain)	(305,603)	127,536
Decrease (increase) in non-current accounts receivable	(10,557)	566
Decrease in non-current accounts payable and accrued liabilities	(9,032)	(4,525)
Net change in non-cash operating working capital related to operations (note 14)	487,084	(470,244)
Net cash used in operating activities	(2,517,396)	(2,429,123)
Financing activities		
Gross proceeds received upon the completion of the private placement	3,000,000	–
Share issuance costs associated with the private placement	(21,745)	–
Payment of interest on the loan payable	(23,371)	–
Proceeds from issuance of debenture to kneat.com (note 2)	–	1,479,200
Receipt of cash from the Transaction (note 4)	–	6,775,609
Net cash provided by financing activities	2,954,884	8,254,809
Investing activities		
Additions to intangible asset	(2,268,903)	(2,065,125)
Receipt of research and development tax credits	430,485	314,126
Additions to property and equipment	(276,719)	(64,219)
Net cash used in investing activities	(2,115,137)	(1,815,218)
Effects of exchange rates on cash	171,366	(85,391)
Net change in cash during the year	(1,506,283)	3,925,077
Cash – Beginning of years	4,988,601	1,063,524
Cash – End of years	3,482,318	4,988,601

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

(expressed in Canadian dollars)

1 Nature of operations and going concern

kneat.com, inc. (the "Company" or "kneat.com"), 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 (refer to note 2 and note 4 for details). 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 Solutions Limited, a wholly owned subsidiary of the Company, is in the business of developing and marketing a software application for modelling regulated data intensive processes for regulated industries, focusing on the life science 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 $20,815,732 as at December 31, 2017.

These 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 year ended December 31, 2017, the Company incurred a net loss of $3,994,917 with negative cash flows from operations of $2,517,396 and capitalized development cost spend of $2,268,903 (year ended December 31, 2016 - $7,015,805, $2,429,123 and $2,065,125, respectively). With limited revenue from customers and negative cash flow from operations, the Company has relied on financing activities, similar to the brokered private placement that closed subsequent to year end (note 19), to meet its working capital and operating requirements, including funds needed to further develop its software 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 consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues and expenses and balance sheet classifications that would be necessary were the going concern assumption determined to be inappropriate and these adjustments could be material.

2 Transaction with Kneat Solutions Limited

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

(expressed in Canadian dollars)

2 Transaction with Kneat Solutions Limited (continued)

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. After its reorganization, kneat.com does not meet the definition of a business, therefore the Transaction is outside the scope of IFRS 3, *Business Combinations*. The Transaction has therefore been accounted for under IFRS 2, *Share-based payment*. Under this basis of accounting, the consolidated entity is considered to be a continuation of Kneat Solutions Limited, with the net identifiable assets of kneat.com deemed to have been acquired by Kneat Solutions Limited. Refer to note 4 for further details.

On March 24, 2016, the Board of Directors of kneat.com approved the payment of €1,000,000 to Kneat Solutions Limited as consideration for a Series A Secured Debenture (the "Debenture") with an interest rate of 7.25% per annum and a maturity date of July 1, 2016. As the Transaction was completed prior to July 1, 2016, the Debenture became an intercompany loan between kneat.com and Kneat Solutions Limited and the kneat.com net cash balance due on closing of the Transaction was reduced by the amount of the Debenture plus all accrued interest.

3 Summary of significant accounting policies

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

a) Statement of compliance and basis of consolidation

The consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Board of Directors approved these consolidated financial statements for issue on April 24, 2018.

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

a) Statement of compliance and basis of consolidation (continued)

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

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

The Company consolidates the wholly-owned subsidiaries on the basis that it controls these subsidiaries through its ability to govern their financial and operating policies. There are no non-controlling interests; therefore all comprehensive loss is attributable to the shareholders of the Company.

b) Basis of presentation

These consolidated financial statement of the Company have been prepared on a historical cost basis.

c) Foreign currency translation

Items included in the consolidated financial statements of each entity included in these consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in Canadian dollars. Assets and liabilities of each foreign entity are translated into Canadian dollars at the exchange rate in effect on the consolidated statements of financial position date. Revenue and expenses are translated at the average rate in effect during the year. Unrealized translation gains and losses are recorded as a cumulative translation adjustment, which is included in other comprehensive loss, which is a component shareholders' equity. 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.

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 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.

d) Critical accounting judgments and estimates

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

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

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

d) Critical accounting judgments and estimates (continued)

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

Valuation and amortization of internally generated intangible asset

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

Recovery of research and development tax credits

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

Valuation of stock options

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

Recognition of revenue

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

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

e) Revenue recognition

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

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

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

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

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

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

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

e) Revenue recognition (continued)

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

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

If there is objective and reliable evidence of fair value for all products and services in a sale, the total price of the arrangements is allocated to each product and service based on relative fair value. Otherwise, the Company first allocates a portion of the total price to any undelivered products and services based on their fair value and the remainder to the products and services that have been delivered.

f) Income taxes and other taxes

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

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

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

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

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

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

f) Income taxes and other taxes (continued)

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

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

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

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

g) Leases

Operating lease costs are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Lease incentives are recognized as a reduction of the total lease expense, over the term of the lease.

h) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises the purchase price and any directly attributable costs of bringing the asset to the working condition and location of its intended use. Leasehold improvements are stated at cost less accumulated depreciation and are depreciated over the shorter of the useful life of the improvement or the remaining lease term.

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

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

h) Property and equipment (continued)

The estimated useful lives, residual values and depreciation method are reviewed at each year-end, with the effect of any changes in estimate accounted for on a prospective basis. The Company depreciates the cost of property and equipment over their estimated useful lives at the following rates:

Computers	33.3% per annum
Furniture and fixtures	12.5% per annum
Leasehold improvements	12.5% per annum

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated statements of loss and comprehensive loss.

i) Cash

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

j) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of a financial instrument. Financial assets and financial liabilities are initially measured at fair value. Financial assets are classified into one of the following specified categories: fair value through profit or loss ("FVTPL"), held-to-maturity, available-for-sale and loans and receivables. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities classified as FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in the consolidated statement of loss.

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

Asset / liability	Classification	Subsequent measurement
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Loan payable	Other financial liabilities	Amortized cost

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

j) Financial instruments (continued)

Impairment of financial assets
Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated fair value of the financial asset has declined.

Offsetting financial instruments
Financial assets and financial liabilities are offset and the net amount reported on the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

k) Intangible asset

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

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

The estimated useful life, residual value and amortization rate are reviewed on a regular basis.

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

l) Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amount of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount is estimated in order to determine the extent of the impairment loss.

The recoverable amount of an asset is the higher of fair value less costs to dispose and value in use. Value in use is determined by discounting the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

l) Impairment of non-financial assets (continued)

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in the consolidated statement of loss.

An impairment loss recognized in a prior year is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that it does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. Impairment reversals are recognized immediately in the consolidated statement of comprehensive loss.

During the year ended December 31, 2017, there were no impairments or reversals of impairments recorded.

m) Employee benefits

Defined contribution plans
The Company operates a defined contribution pension plan for employees. A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as expense through the consolidated statements of loss and comprehensive loss as incurred or capitalized to the intangible asset.

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

n) Share-based payments

The Company has a share-based compensation plan. Awards of options under this plan are recognized based on the estimated fair value of the options at the grant date, with a corresponding credit to contributed surplus in equity. Fair value is estimated using the Black-Scholes pricing model. If the options are subject to a vesting period, the estimated fair value is recognized over this period on a graded vesting basis, based on the Company's estimate of the shares that will eventually vest.

Option pricing models require the use of assumptions, including the expected volatility. The Company uses historical price data of comparable entities in the estimate of future volatilities.

Cash consideration received on the exercise of options is credited to share capital together with the amounts originally recorded as share-based compensation related to the exercised options.

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

o) Loss per share

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

Diluted loss per share for the years presented is the same as basic loss per share, as the Company has incurred losses and the exercise of options and warrants would be anti-dilutive.

p) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. There were no material provisions recorded within the consolidated financial statements as at December 31, 2017 and 2016.

q) Finance income and costs

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues using the effective interest method. Finance costs comprise interest expense on financial liabilities measured at amortized cost and any losses on the sale of financial assets. Borrowing costs that are not directly attributable to the acquisition or production of a qualifying asset are recognized in profit or loss using the effective interest method.

r) New accounting standards adopted during the year

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

s) Standards, interpretations and amendments to published standards that are not yet effective

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

(expressed in Canadian dollars)

3 Summary of significant accounting policies (continued)

s) Standards, interpretations and amendments to published standards that are not yet effective (continued)

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

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

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

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

(expressed in Canadian dollars)

4 Accounting for the Transaction

On June 27, 2016, kneat.com acquired 100% of the 794,254 issued and outstanding ordinary and A ordinary shares of Kneat Solutions Limited in exchange for 12,385,424 common shares of kneat.com. This resulted in 39,563,684 outstanding common shares of kneat.com. Previous shareholders of Kneat Solutions Limited held 68.7% or 27,178,260 common shares of kneat.com and previous shareholders of kneat.com held 31.3% or 12,385,424 common shares of kneat.com immediately following the Transaction.

As a consequence of the Transaction, the shareholders of Kneat Solutions Limited acquired control over the combined entity. After the spin-out of its resources properties to SpinCo, kneat.com does not meet the definition of a business as its assets consist only of cash, with no ability to generate outputs. 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 on June 27, 2016.

All figures related to the common shares, as well as loss per share, in these consolidated financial statements, have been retroactively restated to reflect the legal capital of kneat.com at an exchange ratio of one Kneat Solutions Limited share to 34.2186 common shares of kneat.com as per the terms of the Transaction agreement. The number of Kneat Solutions Limited ordinary and A ordinary shares at December 31, 2015 were restated from 794,254 to 27,178,260.

As a result of the Transaction falling within the scope of IFRS 2, the Transaction was accounted for by Kneat Solutions Limited as the issuance of shares at fair value for the net assets of kneat.com and a listing expense, which reflects the difference between the fair value of the Kneat Solutions Limited deemed shares issued to kneat.com shareholders and kneat.com's net assets acquired. In accordance with IFRS 2, the excess of the fair value of the deemed shares issued over the acquired net assets is recognized in the statement of loss and comprehensive loss as a listing expense. The fair value of the 794,254 issued and outstanding ordinary and A ordinary shares of Kneat Solutions Limited was estimated to be $25,275,782 based on management's estimates.

Under IFRS 2, the capital 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)	8,040,457
Fair value of 31.3% of the equity of the combined entity based on the estimated fair value	(11,518,443)
Fair value of warrants (note 10(b))	(67,424)
Fair value of options (note 10(c))	(250,477)
Listing expense	(3,795,887)

(expressed in Canadian dollars)

4 Accounting for the Transaction (continued)

Certain former Kneat Solutions Limited shareholders took part in an employment and investment incentive scheme ("EIIS") under Part 16 of the Irish Taxes Consolidation Act 1997, pursuant to which they availed of income tax relief on their investment in Kneat Solutions Limited. As a result of the Transaction, a claw back of this relief from these shareholders may occur. Only those former Kneat Solutions Limited shareholders who held their EIIS shares for less than three years up to June 27, 2016 should be affected by this claw back. kneat.com and Kneat Solutions Limited formulated a proposal whereby kneat.com would make a payment to the Irish Revenue Commissioners that would be equivalent to or less than the amount of the tax relief as a result of the Transaction. Any payment to any shareholder pursuant to this proposal would only be made after kneat.com has been provided with satisfactory documentary evidence of the loss of tax relief. During the year ended December 31, 2017, the EIIS payment was finalized and settled for $453,359, which differed from the amount accrued at December 31, 2016 due to changes in foreign currency rates.

5 Accounts receivable and other

	2017 $	2016 $
Current		
Research and development tax credit receivable	533,127	419,344
Trade debtors	49,226	726,745
Other debtors	24,434	23,722
Value added tax receivable	50,505	72,383
Prepayments	80,080	52,029
	737,372	1,294,223
Non-current		
Research and development tax credit receivable	623,790	476,807
	1,361,162	1,771,030

6 Property and equipment

	Property and equipment $	Leasehold improvements $	Total $
Cost			
As at January 1, 2016	301,613	232,979	534,592
Additions	46,241	8,797	55,038
Write-offs	(142,830)	–	(142,830)
Effect of movements in exchange rates	(15,946)	(15,020)	(30,966)
As at December 31, 2016	189,078	226,756	415,834
Additions	102,548	158,151	260,699
Write-offs	(5,138)	–	(5,138)
Effect of movements in exchange rates	13,841	17,729	31,570
As at December 31, 2017	300,329	402,636	702,965

(expressed in Canadian dollars)

6 Property and equipment (continued)

	Property and equipment $	Leasehold improvements $	Total $
Accumulated depreciation			
As at January 1, 2016	111,459	–	111,459
Depreciation charge	46,519	28,648	75,167
Write-offs	(85,626)	–	(85,626)
Effect of movements in exchange rates	(5,788)	(926)	(6,714)
As at December 31, 2016	66,564	27,722	94,286
Depreciation charge	63,657	26,923	90,580
Write-offs	(3,248)	–	(3,248)
Effect of movements in exchange rates	5,574	2,371	7,945
As at December 31, 2017	132,547	57,016	189,563

	Property and equipment $	Leasehold improvements $	Total $
Carrying amount			
Balance, December 31, 2016	122,514	199,034	321,548
Balance, December 31, 2017	167,782	345,620	513,402

7 Intangible asset

Cost	**$**
As at January 1, 2016	2,809,746
Additions, net of research and development tax credits of $529,437	1,590,064
Effect of movements in exchange rates	(228,986)
As at December 31, 2016	4,170,824
Additions, net of research and development tax credits of $607,535	1,822,606
Effect of movements in exchange rates	297,122
As at December 31, 2017	6,290,552

Accumulated amortization	**$**
As at January 1, 2016	1,068,734
Amortization charge	702,765
Effect of movements in exchange rates	(90,285)
As at December 31, 2016	1,681,214
Amortization charge	1,043,186
Effect of movements in exchange rates	127,989
As at December 31, 2017	2,852,389

Carrying amount	**$**
Balance, December 31, 2016	2,489,610
Balance, December 31, 2017	3,438,163

(expressed in Canadian dollars)

7 Intangible asset (continued)

In addition to the capitalized development costs, the Company incurred research costs of $30,941 (2016 - $38,574) which were expensed through the statement of loss. as they did not meet the criteria for capitalization. Research costs consist primarily of employee salaries, wages and benefits.

8 Accounts payable and accrued liabilities

	2017 $	2016 $
Current		
Trade payables	101,846	287,101
Accruals	313,808	639,764
Social insurance cost payable	106,978	110,599
Value added tax payable	–	11,634
Other payables	67,757	56,877
Accrued interest on loan payable (note 9)	12,293	11,602
	602,682	1,117,577

9 Loan payable and accrued interest

On June 27, 2016, Enterprise Ireland and kneat.com executed a loan agreement whereby Enterprise Ireland agreed to exchange its cumulative redeemable convertible preference shares in Kneat Solutions Limited, comprised of 232,000 convertible preference shares and 300,000 A convertible preference shares plus accrued interest, for a loan payable to Enterprise Ireland on the third anniversary of the Merger effective date, being June 27, 2019. The interest rate is 3% on the principal balance of €532,000, not compounded and payable annually. Management has determined that the underlying terms of the loan payable do not differ substantially from the terms of the cumulative redeemable convertible preference shares and thus it has been accounted for as a modification of the original financial liability. As at December 31, 2017, the loan payable and accrued interest balance on the consolidated statements of financial position was comprised of a principal balance of $799,804 and accrued interest of $190,076 (December 31, 2016 - principal balance of $754,823 and accrued interest of $179,386).

	2017 $	2016 $
As at January 1	934,210	973,250
Interest accrual	23,371	23,268
Interest payment	(23,371)	–
Effect of movements in exchange rate	55,670	(62,308)
As at December 31	989,880	934,210
Less: Current portion of accrued interest (note 8)	(12,293)	(11,602)
Non-current portion of loan payable and accrued interest	977,587	922,608

(expressed in Canadian dollars)

10 Share capital

a) Common shares

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

	Number of shares #	Amount $
Outstanding – January 1, 2016	27,178,260	11,423,158
Shares issued pursuant to the Transaction (note 4)	12,385,424	11,518,443
Outstanding – December 31, 2016	39,563,684	22,941,601
Shares issued pursuant to the Private Placement	5,000,000	3,000,000
Shares issuance costs pursuant to the Private Placement	–	(21,745)
Outstanding – December 31, 2017	44,563,684	25,919,856

As at December 31, 2017, 17,048,720 common shares of the Company are subject to an escrow agreement pursuant to the terms of the Transaction.

On January 4, 2018, these shares were released from escrow in accordance with the escrow agreement.

Private placement financing
On May 31, 2017, the Company completed a non-brokered private placement financing for aggregate gross proceeds of $3,000,000. The Company issued 5,000,000 common shares at a price of $0.60 per share. Total costs associated with the private placement, consisting primarily of professional and regulatory fees, were $21,745. All securities issued pursuant to the financing were subject to a statutory four-month holding period in accordance with Canadian securities legislation.

b) Warrants

Pursuant to the Transaction, during the year ended December 31, 2016, 267,857 warrants were issued, valued at $67,424. The fair value of the 267,857 warrants issued was estimated at the grant date using the Black-Scholes option pricing model. These warrants expired on April 1, 2017. There were no warrants issued during the year ended December 31, 2017. As at December 31, 2017, no common share purchase warrants are outstanding (2016 - 267,857).

c) Share-based compensation

The Company has adopted a share-based compensation plan, providing the Board of Directors with the discretion to grant an equivalent number of options of up to 10% of the issued and outstanding share capital of the Company. Stock options are granted with an exercise price of not less than the closing share price of the date preceding the date of grant. As at December 31, 2017, 2,157,592 remain available for grant under the terms of the stock option plan.

(expressed in Canadian dollars)

10 Share capital (continued)

c) Share-based compensation (continued)

As per the terms of the Transaction, all Kneat Solutions Limited stock options were cancelled and 1,045,635 stock options in kneat.com were granted to former Kneat Solutions Limited stock option holders. In accordance with IFRS 2, *Share-based payment*, the 1,045,635 stock options granted to former Kneat Solutions Limited option holders are treated as though the options were modified although they are legally new options in kneat.com. These kneat.com options have an exercise price of $0.90, a term of five years and vest over varied periods. The incremental value of $167,168 related to the modification of these options has been expensed to the consolidated statements of loss and comprehensive loss as it was triggered by the Transaction.

In connection with the Transaction, 666,667 kneat.com stock options were granted to former holders of options in Fortune Bay Corp valued at $250,477. The fair value of the 666,667 options was estimated using the Black-Scholes option pricing model. These options were granted with an average exercise price of $0.90 per share and are fully vested with expiration dates ranging from September 25, 2016 to November 10, 2020.

The following are the weighted-average assumptions used in calculating the value of the stock options granted during the years ended December 31, 2017 and 2016:

	2017	**2016**
Risk-free interest rate	1.11%	0.56%
Expected life	4.5 years	4.3 years
Expected volatility	116%	140%
Expected dividend per share	0.0%	0.0%
Weighted-average share price	$0.60	$1.02

The following table reconciles the stock option activity during the years ended December 31, 2017 and 2016:

	Number of options #	**Weighted-average exercise price $**
Balance – January 1, 2016	1,162,680	0.90
Granted	1,333,054	0.84
Forfeited	(143,208)	0.90
Expired	(366,667)	0.90
Balance – December 31, 2016	1,985,859	0.86
Granted	554,000	0.60
Forfeited	(241,083)	0.79
Balance – December 31, 2017	2,298,776	0.80

(expressed in Canadian dollars)

10 Share capital (continued)

c) Share-based compensation (continued)

For the year ended December 31, 2017, the estimated value of options earned and recorded in the consolidated statements of loss and comprehensive loss was $160,017 (2016 - $251,394). The estimated value of options earned during the year ended December 31, 2017 and recorded as an addition to the intangible asset was $160,510 (2016 - $62,099).

The following table summarizes information related to outstanding and exercisable stock options as at December 31, 2017:

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price
March 19, 2019	1.2	200,000	200,000	0.90
January 2, 2020	2.0	66,667	66,667	0.90
November 10, 2020	2.9	33,333	33,333	0.90
July 4, 2021	3.5	1,264,189	984,986	0.90
September 26, 2021	3.7	10,587	7,940	0.90
October 3, 2021	3.8	216,000	72,000	0.55
January 11, 2022	4.0	193,000	–	0.58
February 1, 2022	4.1	100,000	–	0.57
April 4, 2022	4.3	100,000	–	0.57
May 29, 2022	4.4	15,000	–	0.68
November 1, 2022	4.8	100,000	–	0.70

11 Revenue

Revenue consists of the following:

	2017 $	2016 $
SaaS license and hosting fees	69,443	–
Maintenance fees	214,285	63,498
Professional services and other	137,538	65,970
On-premise license fees	–	690,892
	421,266	820,360

(expressed in Canadian dollars)

12 Expenses by nature

	2017 $	2016 $
Administrative expenses		
Audit and accounting fees	61,987	118,722
Cloud hosting and other services	189,199	204,849
Consultancy fees	171,336	161,318
Depreciation of plant and equipment	90,580	75,167
Director and key management salaries and benefits	687,305	459,634
Disposals and write-off of fixed assets, net	(1,558)	57,204
Employee salaries, wages and benefits	1,455,511	442,265
Other administrative cost	343,303	195,701
Professional fees	113,550	501,549
Research and development tax credit recovery	(8,727)	(17,797)
Rent and rates	39,756	23,183
Sales, marketing and advertising	142,160	89,529
Securities and regulatory fees	55,131	46,668
Share-based compensation	160,017	251,394
Travel expenses	160,382	127,103
	3,659,932	2,736,489

13 Income taxes

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

	2017 $	2016 $
Loss before income taxes	(3,994,917)	(7,015,805)
Statutory rate	14.56%	25.30%
Tax recovery at statutory rate	(581,663)	(1,774,998)
Permanent differences and other	(119,813)	1,398,414
Recovery for losses and deductible differences not recognized in current and prior years	701,476	376,584
Income tax recovery	–	–

At December 31, 2017, the Company has unused non-capital losses in Canada and the United States of $2.0 million (2016 - $0.7 million) available for carry-forward purposes which expire from 2036 to 2037.

The Company also has unused non-capital loss carry-forwards in Ireland of $12.9 million (2016 - $10.6 million) that have no expiration date, however, the use of these carry-forwards is restricted to taxable income from operations.

At December 31, 2017, the Company has no unrecognized deferred tax liabilities (2016 - $nil) for taxes that would be payable on unremitted earnings. At December 31, 2017, the Company has $2.3 million of unrecognized deferred tax assets (2016 - $1.6 million).

There are no income tax consequences attached to the payment of dividends in 2017 or 2016 by the Company to its shareholders as the Company did not pay dividends during these years.

(expressed in Canadian dollars)

14 Supplemental cash flow information

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

	2017 $	2016 $
Decrease (increase) in accounts receivable and other	652,838	(568,445)
Decrease in directors' current account	–	(250,855)
Increase (decrease) in accounts payable and accrued liabilities	(529,494)	338,929
Increase in deferred income	363,740	10,127
	487,084	(470,244)

15 Related party transactions

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

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

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

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

As part of the non-brokered private placement completed on May 31, 2017, directors of the Company subscribed to an aggregate of 1,175,066 of the common shares issued pursuant to the financing for gross proceeds of $705,040 (note 10 (a)).

16 Key management compensation

Key management includes the Company's directors, Chief Executive Officer, Chief Financial Officer, Director of Research and Development and the Director of Quality. Effective June 27, 2017, key management was updated to include the Chief Financial Officer. Compensation awarded to key management is summarized as follows:

	2017 $	2016 $
Salaries and other benefits	507,515	372,517
Share-based compensation	121,026	154,083
Listing expense	–	189,977
Capitalized to intangible asset	175,289	66,665
Directors' fees	179,790	87,117
	983,620	870,359

(expressed in Canadian dollars)

17 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 the debt and equity balance.

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

	2017 $	2016 $
Equity	6,614,803	7,287,088
Less: Cash	(3,482,318)	(4,988,601)
	3,132,485	2,298,487

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may issue equity or return capital to shareholders. No changes were made in the objectives, policies or processes for managing capital during the year ended December 31, 2017.

b) Fair values of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The carrying amounts reported in the consolidated statements of financial position for cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values based on the immediate or short-term maturities of these financial instruments. In addition, the loan payable, although not due in the current year, does not have a fair value that differs significantly from its 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 December 31, 2017 and 2016, the Company's financial assets exposed to credit risk amounted to the following:

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

(expressed in Canadian dollars)

17 Fair value of financial instruments and risk management (continued)

d) Credit risk (continued)

During the years ended December 31, 2017 and 2016, the Company did not hold any financial assets that were past due or impaired. Trade debtors of $49,226 are included in accounts receivable as at December 31, 2017 (2016 - $726,745). 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. The long-term credit rating, as determined by Standard and Poor's was BBB and AA - respectively. This reduces the concentration risk.

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 December 31, 2017:

	Within 1 year	2-3 years	4-5 years	Over 5 years	Total
Accounts payable and accrued liabilities	602,682	–	–	–	602,682
Loan payable	–	977,587	–	–	977,587
	602,682	977,587	–	–	1,580,269

(expressed in Canadian dollars)

17 Fair value of financial instruments and risk management (continued)

f) Currency risk

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

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

g) Interest risk

Interest risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates.

An immaterial amount of interest rate exposure exists in respect of cash balances and the loan payable on the consolidated statements of financial position. The Company holds a loan payable with a fixed interest rate. These are privately-issued, with no secondary market. They are measured at amortized cost and bear a fixed interest rate. 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 December 31, 2017 and 2016, the Company had no financial instruments that were measured and recognized on the consolidated statements of financial position at fair value. In addition, there were no transfers between levels during the years.

18 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.

(expressed in Canadian dollars)

18 Commitments and contingencies (continued)

Kneat Solutions Limited leases its offices in Limerick, Ireland under an operating lease agreement dated July 11, 2014, which is also the date of the commencement of the lease. The operating lease is subject to termination clauses at the expiration of the fifth year and the tenth year of the lease. The lease term is twenty-five years with a reduced rent period of 18 months from the date of the commencement of the lease. The lease expense is recognized evenly over the lease term.

The Company's commitments under the operating lease, in the form of non-cancellable future lease payments are not reflected as a liability on its consolidated statements of financial position. The lease agreement gives the Company the option to terminate the lease on the fifth and tenth anniversary of the lease signing. Non-cancellable lease payments are $95,031 in 2018, $60,713 in 2019, $21,172 in 2020, $21,172 in 2021 and $19,466 in 2022.

Lease incentives relate to the reimbursement of the fit out cost from the lessor and to the reduced rent period. A reduction of the total lease expense of $9,275 was recognized for the year ended December 31, 2017 in relation to the reimbursement of the fit out costs from the lessor (2016 - $4,524).

The Company also leases computer equipment under finance lease agreements, with lease terms of three to five years.

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

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.

19 Subsequent events

On February 1, 2018, 208,000 stock options were granted to employees of the Company. The stock options are exercisable at a price of $0.80 per share and expire on February 1, 2023.

Subsequent to year-end, 17,494 stock options were forfeited following the resignation of employees which will result in the reversal of $nil of share-based compensation in future periods.

On April 10, 2018, the Company closed a brokered private placement for aggregate gross proceeds of $6,184,647. Through a syndicate of agents led by Echelon Wealth Partners Inc., and including Bloom Burton Securities Inc. and Industrial Alliance Securities Inc. (together, the "Agents"), the Company issued 6,871,830 common shares at an issue price of $0.90 per common share. The Company paid the Agents a cash commission equal to six percent (6%) of the gross proceeds of the Offering and issued warrants entitling the Agents to purchase that number of common shares equal to six percent (6%) of the common shares sold as part of the Offering at an exercise price of $0.90 per common share for a period of 18 months (excluding the 922,221 common shares issued under the President's List as part of the Offering). 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.