

**kneat.com, inc.**

**Nine-month period ended September 30, 2018**

## **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 nine-month period ended September 30, 2018 and the audited consolidated financial statements of kneat.com for the year ended December 31, 2017, 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 November 27, 2018. The reporting currency for kneat.com is the Canadian dollar. All of the financial information presented herein is expressed in Canadian dollars, unless otherwise stated. United States dollars are indicated by the symbol "US\$". Euros are indicated by the symbol "€". This MD&A contains "forward-looking statements" that are subject to risk factors set out in a cautionary note contained herein. The reader is cautioned not to place undue reliance on forward-looking statements.*

## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INFORMATION**

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

This forward-looking information includes, but is not limited to, statements and comments regarding:

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

Although kneat.com believes that the plans, intentions and expectations reflected in this forward-looking information are reasonable, actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking information contained in this MD&A. 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; the Company's inability to continually develop technologically advanced products; the inability of

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

## **COMPANY OVERVIEW**

kneat.com, inc. (the "Company" or "kneat.com" or "Kneat"), was incorporated on December 12, 2013 under the laws of the Canada Business Corporations Act. On June 27, 2016, the Company completed a transaction with Fortune Bay Corp. and Kneat Solutions Limited whereby kneat.com spun out its resource properties to Fortune Bay Corp. and acquired 100% of the issued and outstanding ordinary shares of Kneat Solutions Limited by way of a scheme of arrangement in Ireland (the "Transaction"). 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.

### *Operational overview*

kneat.com designs, develops and supplies software for data and document management within regulated environments. The Company'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. biotechnology, pharmaceutical and medical device manufacturing). Complete and comprehensively documented validation of processes, products, equipment and software is a significant and impactful regulatory requirement in the life sciences industry. Kneat Gx provides a compliant digital solution that enables companies in the life sciences industry to become efficient and compliant with an automated process that has traditionally been manual, inefficient and paper-based.

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

Traditionally, validation and cGMP testing has been a manual, paper intensive activity. Test documents must be developed, printed, approved, executed, post approved and filed; ready for regulatory audit in the future. In many companies in the life sciences industry everything is done on paper using wet ink to record, apply proof of signature and date. It is a data and document minefield that leaves life sciences companies susceptible to production delays, high costs associated with document management and manpower and risk of non-compliance. Non-compliance can lead to regulatory fines, recalls, threats to patient safety and delays to market. In addition, non-compliance may 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 specialists years of intense research and development to overcome. kneat.com's customers cite Kneat Gx's innovation, ease of use, its central and dynamic data management, its configurability and its electronic records and signatures capabilities as the key differentiators that set it apart in the market. In addition, kneat.com's team of developers, training manuals and customer support are considered best in class by its customers.

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

The Company's focus is to service the facilities, equipment and computer systems ("CSV") validation market within the global life sciences industry. In particular, kneat.com targets large Tier 1 pharmaceutical and biotechnology companies in the United States and Europe. The Company believes this market has significant potential for a digital solution due to a number of factors, including increased compliance standards required by regulators globally, a push by manufactures to reduce production costs and an effort to create efficiencies and visibility in manufacturing processes, while maintaining data integrity. As the Company continues to enhance the Kneat Gx platform through added functionality, management expects the potential market for the platform to increase. Using Kneat's current customer penetration rates, the estimated number of manufacturing sites globally, current list prices and other assumptions, Kneat estimates that the potential market size for Kneat Gx within the life sciences industry may be in excess of US\$600M annual recurring revenue.

kneat.com's contracts with customers are typically three years in length plus renewal terms and include license subscriptions (on-premise or Software as a Service ("SaaS")), maintenance fees and other professional service fees. Once a new contract is signed, the deployment phase of the sales cycle commences and takes five to six months for the new customer to go-live on the platform. Some fees related to deployment, maintenance and licenses may be collected up front, however Kneat's revenue recognition criteria is such that revenue is only recognized on completion of the deployment phase and delivery of the licenses to the customer. Thus, resulting in a time lag from a new customer announcement to revenue recognition of five to six months.

Generally new customer contracts start with licenses for one process at one site with the ability to use the same contract to purchase additional licenses at the customers' request. Kneat's goal for each customer is to see them scale across various sites and processes through its land and expand philosophy over a number of years. Potential expansion within Kneat's existing customer base represents a revenue opportunity and continues to be a focus for the sales and support teams. The ease at which a customer can increase the number of users, sites and regulated processes once deployed has been a benefit that some customers have experienced within their global operations.

## **BUSINESS OBJECTIVES**

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

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

### *Recent developments*

Throughout 2018 Kneat has focused on new customer acquisition and has announced six newly signed customers and scaling at two existing customers. The profile of the new customers is large, multinational enterprises with five being top tier life sciences companies and one being Kneat's first entry into the supply chain to the life sciences industry. These new customers add to Kneat's potential install base within existing customers which is now in excess of 200 manufacturing sites and represents a revenue opportunity and area of potential growth for Kneat. Kneat's goal and objective is to convert these potential manufacturing sites within signed customers to license sales over the coming years.

On November 14, 2018, the Company announced it has signed a multi-year, global contract with one of the largest logistics suppliers in the world. This new customer will implement Kneat's SaaS platform to enable a compliant, paperless process for its CSV activities in the life sciences industry. Implementation will start immediately at a strategic location in the United States with go-live expected in the second quarter of 2019.

On August 22, 2018, Kneat announced one of its tier one pharmaceutical customers is expanding their use of Kneat's software platform to two new processes: test method and metrology CSV and commissioning and qualifications ("C&Q") process refresh procedures. The contract with this customer was announced in February 2018.

On July 23, 2018, the Company announced that its customer, a leader in molecular diagnostics, further expanded its user base of the Kneat Gx platform by purchasing additional on-premise licenses. This order represents a twenty-eight percent increase in licenses purchased and it follows a fifty percent expansion which occurred earlier in the year.

On July 16, 2018, Kneat announced a new contracted customer whereby it will be deploying its SaaS platform for the biotechnology division of a multinational pharmaceutical manufacturer with more than 70 manufacturing sites worldwide.

On July 12, 2018 Kneat announced that one of the world's leading research-based developers of pharmaceuticals has chosen Kneat's technology to digitize its commissioning, qualification and validation processes. The initial scope of this on-premise license and maintenance agreement is for global capital projects with the opportunity to scale to other processes across multiple sites over several years. This tier one pharmaceutical company has more than 70 manufacturing plants and 90,000 employees operating in over 120 countries.

On June 14, 2018, the Company announced that a global leader in biotechnology is deploying the Kneat's software to a number of their sites after successfully completing product trials at an initial test site. The customer will utilize the software for both capital and operational validation projects during the next phase of their rollout. This customer, with an estimated 20,000 employees working across multiple sites, will transition their existing paper-based validation process to one that is completely digital.

On April 10, 2018, the Company completed a brokered private placement for gross proceeds of \$6,184,647. Through a syndicate of agents, the Company issued 6,871,830 common shares at an issue price of \$0.90 per common share. The Company paid the agents a cash commission equal to six percent (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 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 offering and received 106,266 broker warrants and \$95,640 in cash commissions. All securities issued pursuant to the offering were subject to a statutory four-month hold period in accordance with Canadian securities legislation.

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

On February 26, 2018, kneat.com announced that a leader in laboratory services to the life sciences industry selected the Kneat Gx platform to streamline and automate its equipment and instrumentation validation processes. The customer's goal is to convert to an end-to-end paperless process that enhances compliance, increases productivity and enables greater transparency and control. The initial deployment will be at one of its flagship laboratories in the United States which has more than 1,000 employees focused on biopharmaceutical laboratory services.

On February 15, 2018, the Company announced that a leading Tier 1 pharmaceutical company, headquartered in the United States and with over 30 manufacturing and laboratory sites globally, has selected Kneat Gx. kneat.com's software platform will replace the customer's paper-based C&Q process with one that is end-to-end paperless. This new client is seeking to improve data integrity and productivity by implementing a structured C&Q process that could be leveraged globally across all sites.

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

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

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

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

On May 31, 2017, the Company closed a non-brokered private placement for aggregate gross proceeds of \$3,000,000. The Company issued 5,000,000 common shares at an issue price of \$0.60 per share.

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

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

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

## SELECTED QUARTERLY INFORMATION

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

	Q3 2018	Q2 2018	Q1 2018	Q4 2017 <sup>(a)</sup>	Q3 2017 <sup>(a)</sup>	Q2 2017 <sup>(a)</sup>	Q1 2017 <sup>(a)</sup>	Q4 2016 <sup>(a)</sup>
			\$	\$	\$	\$	\$	\$
Total revenue	249	132	462	77	131	67	147	707
Total expenses	(2,188)	(1,610)	(1,022)	(1,107)	(1,272)	(1,054)	(989)	(1,100)
Total loss	(1,939)	(1,478)	(560)	(1,030)	(1,141)	(987)	(842)	(392)
Total loss per common share	(0.04)	(0.03)	(0.01)	(0.02)	(0.03)	(0.02)	(0.02)	(0.01)
Cash dividends per common share	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

(a) *kneat.com, inc. has adopted IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See New Accounting Standards Adopted During the Year section for details.*

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

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

kneat.com expects to record losses until such time as it secures additional customer contracts. Refer to the *Risk Factors* section of this MD&A and note 1, *Nature of operations and going concern*, of the unaudited condensed interim consolidated financial statements for the nine-month period ended September 30, 2018 for further details.

## SELECTED ANNUAL INFORMATION

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

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

(a) *kneat.com, inc.* has adopted IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See *New Accounting Standards Adopted During the Year* section for details.

### *Selected historical annual information*

#### Financial year ended December 31, 2017

During the year ended December 31, 2017, the focus of the Company was consistently on developing and adding key features to the Kneat Gx platform while engaging with current and new customers. kneat.com also continued to build a strong customer pipeline throughout 2017 within the target market of the life sciences industry. In addition, kneat.com successfully launched and deployed the SaaS version of the Kneat Gx platform and hired a number of individuals on the development and sales teams. Key accomplishments for the year ended December 31, 2017, including the completion of a \$3,000,000 private placement, are outlined in the *Recent developments* section above.

#### Financial year ended December 31, 2016

The Company financed its operations in 2016 through the completion of the Transaction, resulting in a net \$8 million cash investment and through revenues from customers of approximately \$0.8 million. Revenues generated in 2016 related primarily to the sale of licenses to a major life sciences company in the fourth quarter of 2016. Throughout the year ended December 31, 2016, the focus of the Company was to progress towards key improvements in the functionality of the Kneat Gx platform; hire additional software developers, testers and members of the operational team; progress development of the SaaS platform; advance discussions with key customers and targets; and the development of a sales and marketing plan with the hiring of the first sales team member, Mr. Mark Geldard as the European Sales Director in the fourth quarter of 2016.

#### Financial year ended December 31, 2015

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

## RESULTS OF OPERATIONS

### Three-month period ended September 30, 2018

#### Revenues for the three-month period ended September 30,

	2018	2017 <sup>(a)</sup>	\$ change in 2018	% change in 2018
SaaS license and hosting fees	\$35,051	\$18,311	\$16,740	91.4%
On-premise licenses fees	89,170	-	89,170	100.0%
Maintenance fees	67,805	51,891	15,914	30.7%
Professional services and other	56,640	60,465	(3,825)	(6.32%)
<b>Total revenues</b>	<b>\$248,666</b>	<b>\$130,667</b>	<b>\$117,999</b>	<b>90.3%</b>

(a) *kneat.com, inc.* has adopted IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See New Accounting Standards Adopted During the Year section for details.

SaaS license and hosting fees entitle a specified number of users to utilize the Kneat Gx platform hosted by the Company on a secure cloud server. SaaS license and hosting fee revenue is recognized over time, on a monthly basis, as the services are performed. For the three-month period ended September 30, 2018, SaaS license and hosting fees were \$35,051 as compared to \$18,311 for the three-month period ended September 30, 2017. The increase of \$16,740 in SaaS license and hosting fees was a result of onboarding of new SaaS customers since 2017, including one new customer that was announced in February 2018. The remaining recently announced SaaS customers will be announced when deployment has been completed.

On-premise licenses fees entitle a customer to use the Kneat Gx platform for a set number of users, hosted on the customer's server. These license fees are one-time-per license and paid upfront. In order to increase the number of licenses, the customer must pay additional license fees in advance of the license being granted. On-premise license fees revenue for the three-month period ended September 30, 2018 were \$89,170 as compared to \$nil for the three-month period ended September 30, 2017. The increase in on-premise license fees was primarily the result of a customer expanding their use of the Kneat platform by adding new users.

Maintenance fees are established annually for on-premise licenses. Maintenance fees entitle the customer to front line support and software upgrades, are paid up front and are generally recurring annually. Maintenance fee revenues for the three-month period ended September 30, 2018 were \$67,805 as compared to \$51,891 for the three-month period ended September 30, 2017. The increase of \$15,914 was due to an increased number of purchased on-premise licenses leading to increased associated maintenance fees.

Professional services and other revenue vary by customer depending on the customer specific needs. Service fees may include such services as special training, development of tailored reports, upgrades, pilots for potential customers, implementation and deployment services. Professional services and other revenues for the three-month period ended September 30, 2018 were \$56,640 as compared to \$60,465 for the three-month period ended September 30, 2017. This decrease of \$3,825 was primarily due to the timing of service milestones being met related to software upgrades, deployment and pilot services.

#### Amortization of the intangible asset for the three-month period ended September 30,

	2018	2017 <sup>(a)</sup>	\$ change in 2018	% change in 2018
Amortization of the intangible asset	\$366,860	\$274,099	\$92,761	33.8%

(a) *kneat.com, inc.* has adopted IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See New Accounting Standards Adopted During the Year section for details.

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 September 30, 2018 was \$366,860 compared to \$274,099 for the three-month period ended September 30, 2017. The increase of \$92,761 was primarily due to additions to the intangible asset made throughout the past year, consisting mainly of the salaries and benefits of the development team, which increased the carrying value of the intangible asset and thus the amortization charged to the statement of loss and comprehensive loss.

*Administrative expenses for the three-month period ended September 30,*

	<b>2018</b>	<b>2017<sup>(a)</sup></b>	<b>\$ change in 2018</b>	<b>% change in 2018</b>
Administrative expenses	\$1,423,550	\$881,925	\$541,625	61.4%

(a) *kneat.com, inc. has adopted IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See New Accounting Standards Adopted During the Year section for details.*

Administrative expenses for the three-month period ended September 30, 2018 totaled \$1,423,550 which was an increase of \$541,625 over the administrative expenses of \$881,925 for the three-month period ended September 30, 2017. This increase can be attributed mainly to the following items:

- Employees' salaries and wages increased by \$269,104 due mainly to new hires in the administrative, quality, marketing and sales teams whose salaries are not directly attributable to the intangible asset.
- Other administrative costs increased by \$104,151 primarily due to an increase in recruitment costs associated with the hiring of additional personnel.
- Audit and accounting fees increased by \$41,880 due to additional audit requirements during the three-month period ended September 30, 2018.
- Sales, marketing and advertising increased by \$31,967 during the three-month period ended September 30, 2018 due to an increase in marketing activities, attendance at trade shows by the sales directors in Europe and the United States and the amortization of the deferred contract acquisition costs a result of the transition to IFRS 15. See "New Account Standing Adopted During the Year" for further details.
- Stock-based compensation increased by \$20,946 as a result of the stock options earned during the period net of forfeitures.
- Cloud hosting and other service costs increased by \$21,496 due to the increase in costs associated with the launch of the SaaS model in mid-2017 and the hosting costs associated with new SaaS customers.

*Other expenses (recoveries) for the three-month period ended September 30,*

	<b>2018</b>	<b>2017<sup>(a)</sup></b>	<b>\$ change in 2018</b>	<b>% change in 2018</b>
Interest expense	\$6,110	\$5,925	\$185	3.1%
Interest income	(\$1,128)	(\$715)	(\$413)	57.8%
Foreign exchange loss (gain)	\$393,012	\$110,413	\$282,599	255.9%

(a) *kneat.com, inc. has adopted IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See New Accounting Standards Adopted During the Year section for details.*

The foreign currency loss of \$393,012 arose in the current period due primarily to the impact of changes in exchange rates on financial assets and financial liabilities denominated in currencies other than the functional currency of the entity in which they are held.

**Nine-month period ended September 30, 2018**

*Revenues for the nine-month period ended September 30,*

	<b>2018</b>	<b>2017<sup>(a)</sup></b>	<b>\$ change in 2018</b>	<b>% change in 2018</b>
SaaS license and hosting fees	\$83,392	\$44,846	\$38,546	86.0%
On-premise licenses fees	245,431	-	245,431	100.0%
Maintenance fees	188,551	161,750	26,801	16.6%
Professional services and other	324,751	138,189	186,562	135.0%
<b>Total revenues</b>	<b>\$842,125</b>	<b>\$344,785</b>	<b>\$497,340</b>	<b>144.2%</b>

(a) *kneat.com, inc. has adopted IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See New Accounting Standards Adopted During the Year section for details.*

SaaS license and hosting fee revenue for the nine-month period ended September 30, 2018 was \$83,392 as compared to \$44,846 for the nine-month period ended September 30, 2017. The increase of \$38,546 in SaaS license and hosting fees was the result of the launch of the SaaS model in mid-2017 and the onboarding of new SaaS customers since 2017, including one new customer that was announced in February 2018. The remaining recently announced SaaS customers will be announced when deployment has been completed.

On-premise licenses fees entitle a customer to use the Kneat Gx platform for a set number of users, hosted on the customer's server. These license fees are one-time-per license and paid upfront. In order to increase the number of licenses, the customer must pay additional license fees in advance of the license being granted. On-premise license fees revenue for the nine-month period ended September 30, 2018 was \$245,431 as compared to \$nil for the nine-month period ended September 30, 2017. The increase in on-premise license fees revenue was primarily the result of newly purchased licenses being delivered during the period for a customer that has expanded the number of users on the Kneat Gx platform.

Maintenance fee revenues for the nine-month period ended September 30, 2018 were \$188,551 as compared to \$161,750 for the nine-month period ended September 30, 2017. The increase of \$26,801 was due to an increased number of purchased on-premise licenses leading to increased associated maintenance fees.

Professional services and other revenues for the nine-month period ended September 30, 2018 was \$324,751 as compared to \$138,189 for the nine-month period ended September 30, 2017. This increase of \$186,562 was primarily due to service milestones being met related to software upgrades, deployment and pilot services.

*Amortization of the intangible asset for the nine-month period ended September 30,*

	<b>2018</b>	<b>2017<sup>(a)</sup></b>	<b>\$ change in 2018</b>	<b>% change in 2018</b>
Amortization of the intangible asset	\$988,014	\$743,121	\$244,893	33.0%

(a) *kneat.com, inc.* has adopted IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See *New Accounting Standards Adopted During the Year* section for details.

The amortization expense for the nine-month period ended September 30, 2018 was \$988,014 compared to \$743,121 for the nine-month period ended September 30, 2017. The increase of \$244,893 was primarily due to additions to the intangible asset made throughout the past year, consisting mainly of the salaries and benefits of the development team, which increased the carrying value of the intangible asset and thus the amortization charged to the statement of loss and comprehensive loss.

*Administrative expenses for the nine-month period ended September 30,*

	<b>2018</b>	<b>2017<sup>(a)</sup></b>	<b>\$ change in 2018</b>	<b>% change in 2018</b>
Administrative expenses	\$3,744,454	\$2,673,614	\$1,070,840	40.1%

(a) *kneat.com, inc.* has adopted IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See *New Accounting Standards Adopted During the Year* section for details.

Administrative expenses for the nine-month period ended September 30, 2018 totaled \$3,744,454 which was an increase of \$1,070,840 over the administrative expenses of \$2,673,614 for the nine-month period ended September 30, 2017. This increase can be attributed mainly to the following items:

- Employees' salaries and wages increased by \$605,496 due mainly to new hires in the administrative, quality, marketing and sales teams whose salaries are not directly attributable to the intangible asset.
- Other administrative costs increased by \$135,831 primarily due to an increase in recruitment costs associated with the hiring of additional personnel.
- Sales, marketing and advertising increased by \$98,688 during the nine-month period ended September 30, 2018 due to an increase in marketing activities, attendance at trade shows by the sales directors in Europe and the United States and the amortization of the deferred contract acquisition costs a result of the transition to IFRS 15. See "*New Account Standing Adopted During the Year*" for further details.
- Travel expenses increased by \$76,551 during the nine-month period ended September 30, 2018 primarily due to increased travel to customer and prospective customer sites and trade shows for a higher number of employees in the sales team.
- Audit and accounting fees increased by \$63,148 due to additional audit requirements during the nine-month period ended September 30, 2018.

*Other expenses (recoveries) for the nine-month period ended September 30,*

	2018	2017 <sup>(a)</sup>	\$ change in 2018	% change in 2018
Interest expense	\$18,344	\$17,355	\$989	5.7%
Interest income	(\$13,098)	(\$1,759)	(\$11,339)	644.6%
Foreign exchange gain	\$86,441	(\$120,372)	\$206,813	(171.8%)

(a) *kneat.com, inc. has adopted IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See New Accounting Standards Adopted During the Year section for details.*

The foreign currency loss of \$86,441 arose in the current period due primarily to the impact of changes in exchange rates on financial assets and financial liabilities denominated in currencies other than the functional currency of the entity in which they are held.

## **LIQUIDITY AND CAPITAL RESOURCES**

kneat.com's liquidity depends on existing cash reserves, supplemented as necessary by equity and/or debt financings and revenue generated from customers. As of September 30, 2018, kneat.com had cash of \$4,011,798 compared to \$3,482,318 as at December 31, 2017. kneat.com's debt relates to the loan payable held by Enterprise Ireland which is due on June 27, 2019. The working capital balance at September 30, 2018 was \$2,678,004 as compared to \$3,211,433 at December 31, 2017. Changes during the period relate primarily to the brokered private placement described below, the reclassification of the loan payable balance to current, revenue collected from customers less the operating and investing costs incurred through the normal course of operations.

During the nine-month period ended September 30, 2018, kneat.com used net cash of \$2,654,715 to fund operating activities. Investing activities focused mainly on development of the intangible asset resulting in net cash outflow from investing activities of \$2,478,721 for the nine-month period ended September 30, 2018. In addition, kneat.com raised net funds through financing activities of \$5,650,772 during the nine-month period ended September 30, 2018.

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

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

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

The Company is currently negotiating proposals, pricing and contracts with a number of customers and potential customers and is pursuing financing alternatives. However, there can be no assurance that additional customer revenues will be generated or additional future financings will be available on acceptable terms or at all. If the Company is unable to obtain additional financing when required, the Company may have to substantially reduce or eliminate planned expenditures. Refer to note 1, *Nature of operations and going concern*, in the unaudited condensed interim consolidated financial statements for the nine-month period ended September 30, 2018 for further details.

## **COMMITMENTS AND CONTINGENCIES**

In the normal course of business, kneat.com enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of these contracts. 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 September 30, 2018				Total
	Within 1 year	2-3 years	4-5 years	Over 5 years	
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	987,986	-	-	-	987,986
Loan payable	979,519	-	-	-	979,519
Operating leases and other	92,967	185,934	156,185	-	435,086
	2,060,472	185,934	156,185	-	2,402,591

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

The Company has committed to sponsor several conferences in 2018 and 2019 which will result in the Company paying \$25,282 throughout the next year.

#### **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 September 30, 2018, and November 27, 2018, the Company had 51,442,180 common shares outstanding. No common shares are subject escrow agreements.

As of November 27, 2018, the Company has 2,560,505 (September 30, 2018 – 2,485,505) stock options outstanding at an average exercise price of \$0.81 per common share with varying expiry dates. As at September 30, 2018 and November 27, 2018, there were 356,977 common share purchase warrants outstanding with an exercise price of \$0.90 per common share and an expiry date of October 10, 2019.

#### **RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2017, the Company received \$9,201 from a director of the Company in repayment of a director's receivable balance. Amounts receivable from officers and directors were \$nil as at September 30, 2018 and December 31, 2017.

During the nine-month period ended September 30, 2018, the Company incurred costs for accounting services from a related party, Numus Financial Inc. ("Numus"), a company controlled by a director of kneat.com in the amount of \$23,034 (nine-month period ended September 30, 2017 – \$29,200) and reimbursed rent and office costs to Numus in the amount of \$20,790 (nine-month period ended September 30, 2017 – \$20,790). As at September 30, 2018, the amount owing to Numus was \$6,009 (December 31, 2017 – \$nil).

As at September 30, 2018, the Company had \$16,989 receivable from Beek Investment Limited ("Beek"), a company controlled by directors and officers of kneat.com, relating to professional fees paid on behalf of Beek during the year ended December 31, 2016 (year ended December 31, 2017 – \$17,063).

During the nine-month period ended September 30, 2018, the Company accrued directors' fees of \$86,448 for the independent directors (nine-month period ended September 30, 2017 – \$108,428). As at September 30, 2018, the amount owing to directors was \$294,938 (December 31, 2017 – \$211,671).

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

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

## FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Market Risk

#### *Currency risk*

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

The Company is exposed to currency risk on cash, the loan payable, intercompany balances and accounts payable and accrued liabilities balances that are held in currencies that are not in the transacting entities functional currencies. As at September 30, 2018, a 5% decrease in the exchange rate between the functional currencies and foreign currencies would increase the net loss by approximately \$706,000 for the nine-month period ended September 30, 2018; a 5% increase would decrease the net loss by approximately \$706,000 for the nine-month period ended September 30, 2018. The Company currently does not hedge its currency risk.

#### *Interest rate risk*

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

An immaterial amount of interest rate exposure exists in respect of cash balances and the loan payable on the unaudited condensed interim consolidated statement of financial position. The Company holds a loan payable with a fixed interest rate. The loan payable is privately-issued, with no secondary market. It is measured at amortized cost and bears a fixed interest rate. As a result, the Company is not exposed to cash flow interest rate risk on its 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 the Company. The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date. At September 30, 2018 and December 31, 2017, the Company's financial assets exposed to credit risk amounted to the following:

	September 30, 2018	December 31, 2017
	\$	\$
Cash	4,011,798	3,482,318
Accounts receivable and other	269,492	153,740

During the nine-month period ended September 30, 2018 and the year ended December 31, 2017, the Company did not hold any financial assets that were past due or impaired. Trade debtors of \$64,458 are included in accounts receivable as at September 30, 2018 (December 31, 2017 – \$49,226). 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.

### RISK FACTORS

The Company's operations and financial performance are subject to the normal risks of its industry and are subject to various factors which are beyond the control of the Company. Certain of these risk factors are described below. The risks described below are not the only ones facing the Company. Additional risks not currently known to the Company, or that it currently considers immaterial, may also adversely impact the Company's business, operations, financial results or prospects, should any such other events occur.

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

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

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

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

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

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

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

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

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

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

particular period and kneat.com may not be able to adjust its costs quickly enough to offset such lower revenues, potentially negatively impacting its business, operating results and financial condition.

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

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

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

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

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

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

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

kneat.com is highly dependent on its ability to protect its proprietary technology. kneat.com relies on a combination of trade secret laws, copyright protection, as well as non-disclosure agreements and other contractual provisions to establish and maintain its proprietary rights. kneat.com currently does not own any patents or have any patents pending. kneat.com intends to protect its intellectual property rights vigorously; however, there can be no assurance

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

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

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

#### *Impact of laws*

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

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

*Foreign currency and exchange rate risk*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

### **Disclosure Controls and Procedures**

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

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

The CEO and CFO have concluded that, as of September 30, 2018, the design and operation of the disclosure controls and procedures are effective to ensure that information required to be disclosed in reports that it files or submits to regulatory authorities is recorded, processed, summarized and reported within the time periods specified by regulation and is accumulated and communicated to management, including the CEO and CFO, to allow timely decisions regarding required disclosures.

### **Internal Control over Financial Reporting**

The Company’s management, with the participation of its CEO and CFO, has designed, established and is maintaining a system of internal control over financial reporting. Under the supervision of the CFO, as at September 30, 2018, the Company’s internal control over financial reporting is a process designed to provide reasonable assurance that the financial information prepared by the Company for external purposes is reliable and has been recorded, processed and reported in an accurate and timely manner and in accordance with IFRS.

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

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

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

### **Limitations of Controls and Procedures**

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

assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## **CRITICAL ACCOUNTING POLICIES**

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

### **Intangible asset**

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

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

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

## **SIGNIFICANT ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

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

### *Valuation and amortization of internally generated intangible asset*

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

### *Recovery of research and development tax credits*

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

### *Valuation of stock options*

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

## **NEW ACCOUNTING STANDARDS ADOPTED DURING THE YEAR**

Effective January 1, 2018 the Company adopted the following accounting policies. These changes in accounting policies will also be reflected in the Company's subsequent quarters and annual financial statements as at and for the year ended December 31, 2018.

### **i) IFRS 9, Financial Instruments (“IFRS 9”)**

#### Description of IFRS 9

IFRS 9 replaces provisions of the IASB's IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”) that relates to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The Company has adopted IFRS 9 using the retrospective approach from January 1, 2018.

#### Impact of adoption of IFRS 9

Financial liabilities that are considered modified must be accounted for by discounting the new cash flows at the original effective interest rate, resulting in an immediate impact to the Company's net loss. Management identified one financial liability that was modified prior to January 1, 2018; however, the related gain was considered immaterial.

IFRS 9 requires the Company to use the Expected Credit Loss (“ECL”) impairment model in calculating impairment provisions which differs from the incurred credit loss model under IAS 39. The ECL model is a probability weighted estimate of credit losses. Management has determined that there is no impact on the financial statements due to this change in impairment models.

The Company determines the measurement of financial assets and liabilities at initial recognition and classifies them at amortized cost. The Company completed an assessment of its financial assets and liabilities as at January 1, 2018 and concluded that there were no changes in measurement due to the transition to IFRS 9.

Cash and accounts receivable that were classified as loans and receivables under IAS 39 are classified as financial assets measured at amortized cost under IFRS 9. There has been no impact on classification of the Company's financial liabilities.

#### Accounting policies associated with IFRS 9

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of a financial instrument. Financial assets and financial liabilities are initially measured at fair value. Financial assets are classified into one of the following specified categories: amortized cost, fair value through profit or loss (“FVTPL”) or fair value through other comprehensive income (“FVOCI”). Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities classified as FVTPL) are added to, or deducted from, the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities classified as FVTPL are recognized immediately in the unaudited condensed interim consolidated statement of loss.

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

<u>Financial instrument</u>	<u>Classification</u>
Cash	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Loan payable	Amortized cost

*Impairment of financial assets at amortized cost*

The Company recognizes an allowance using the ECL model on financial assets classified as amortized cost. The Company has elected to use the simplified approach for measuring ECL by using a lifetime expected loss allowance for all accounts receivable. Under this model, impairment provisions are based on credit risk characteristics and days past due. When there is no reasonable expectation of collection, financial assets classified as amortized cost are written off. Indications of credit risk arise based on failure to pay and other factors. Should objective events occur after an impairment loss is recognized, a reversal of impairment is recognized in the statement of loss.

**ii) IFRS 15, Revenue from Contracts with Customers (“IFRS 15”)**

Description of IFRS 15

The IASB issued IFRS 15, effective for annual periods 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* (“IAS 11”) 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: (i) retrospectively to each prior reporting period presented (“full retrospective method”); or (ii) retrospectively with the cumulative effect of the transition recognized at the date of initial application (“cumulative effect method”). The Company adopted the standard using the cumulative effect method and, therefore, the comparative information has not been restated and continues to be reported under IAS 18. The adoption of IFRS 15 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements.

Impact of adoption of IFRS 15

The Company 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. Under IFRS 15, installation services now form part of the related on-premise or SaaS license delivery and thus are recognized consistently with the form of license sold to the customer. This resulted in an adjustment to opening retained earnings of \$22,587.

In addition, prior to IFRS 15, contract acquisition costs were expensed upon commencement of the related contract revenue. Effective January 1, 2018, the Company now recognizes an asset related to such costs and amortizes these costs over the term of the related revenues. Refer to the accounting policy noted below for *Deferred contract acquisition costs*. This resulted in an adjustment to opening retained earnings of \$14,900.

The timing of revenue recognition often differs from contract payment schedules, resulting in revenue that has been earned but not invoiced. These amounts will be included in contract assets. Amounts billed in accordance with customer contracts, but not yet earned, are recorded as a contract asset and contract liability and presented on a net basis on the statement of financial position.

The Company has elected to apply the practical expedient to not adjust the total consideration over the contract term for the effect of a financing component if the period between the transfer of services to the customer and the customer's payment for these services is expected to be one year or less.

The following table details the impact on the Company's opening consolidated statement of financial position as a result of adopting IFRS 15:

**Statement of financial position**

	December 31, 2017 prior to adoption of IFRS 15	Adjustment	December 31, 2017 after adoption of IFRS 15
	\$	\$	\$
<b>Assets</b>			
Current assets			
Cash	3,482,318	-	3,482,318
Accounts receivable and other	737,372	-	737,372
Deferred contract acquisition costs	-	13,153	13,153
	4,219,690	13,153	4,232,843
<b>Accounts receivable</b>	623,790	-	623,790
<b>Deferred contract acquisition costs</b>	-	1,747	1,747
<b>Property and equipment</b>	513,402	-	513,402
<b>Intangible asset</b>	3,438,163	-	3,438,163
<b>Total assets</b>	8,795,045	14,900	8,809,945
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	590,389	-	590,389
Loan payable and accrued interest	12,293	-	12,293
Deferred income	396,302	(396,302)	-
Contract liabilities	-	418,889	418,889
Lease incentives	9,273	-	9,273
	1,008,257	22,587	1,030,844
<b>Lease incentives</b>	194,398	-	194,398
<b>Loan payable and accrued interest</b>	977,587	-	977,587
<b>Total liabilities</b>	2,180,242	22,587	2,202,829
<b>Equity</b>			
Shareholders' equity	6,614,803	(7,687)	6,607,116
<b>Total liabilities and equity</b>	8,795,045	14,900	8,809,945

**Accounting policies associated with IFRS 15****Revenue from contracts**

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

Revenue recognition is determined through the following five steps:

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

Revenues generated by the Company include the following:

i) ***On-premise licenses and installation fees***

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

ii) ***SaaS license, hosting and installation fees***

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

iii) *Maintenance fees*

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

iv) *Professional services and other*

The Company provides consulting, training and other services for its customers. Revenues from such services are generally recognized at the point in time when performance obligations are satisfied.

The Company also performs services related to deployment. Services related to deployment are not a distinct performance obligation and thus are recognized consistent with the licenses for which they relate.

v) *Contracts with multiple performance obligations*

Many of the Company's contracts involve multiple performance obligations that include licenses, maintenance and various professional services. The Company evaluates each product and service in a contract to determine if they represent distinct performance obligations and thus require separate accounting treatment. For these contracts, the transaction price is allocated to the separate performance obligations based on their estimated stand-alone selling prices. The stand-alone selling prices of each performance obligation in these contracts is based on such factors as historical selling prices for these performance obligations in similar transactions, current pricing practices and other factors.

*Deferred contract acquisition costs*

Deferred contract acquisition costs are incremental selling costs that are associated with acquiring customer contracts and consist of sales commissions paid or due to the sales team. Capitalized contract acquisition costs are amortized consistently with the pattern of transfer to the customer for the goods and services to which the asset relates. The amortization period includes specifically identifiable contract renewals where there is no substantive renewal commission. The Company determines the amortization period by considering the customer specific contract deliverables, term and other factors. Amortization of deferred contract acquisition costs is included in sales, marketing and advertising costs in administrative expenses, as detailed in note 10. The Company applies the practical expedient available under IFRS 15 and does not capitalize incremental costs of obtaining contracts if the amortization period is one year or less.

*Contract liabilities*

Contract liabilities consist of deferred revenue for payments received in advance of revenue recognition from contracts with customers and is recognized as revenue recognition criteria are met.

*Critical accounting judgements and estimates associated with IFRS 15*

As noted above, contracts with customers often include promises to deliver multiple products and services. Determining whether these products and services represent distinct performance obligations may require significant judgment. In addition, the determination of the stand-alone selling price for distinct performance obligations may also require judgment and estimates. 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 stand-alone selling value for each performance obligation. In addition, certain of these performance obligations have a term of more than one year and thus the identification and stand-alone selling price of the individual performance obligations impacts the timing of revenue recognition. A change in the stand-alone selling price allocated to each performance obligation could materially impact the revenue recognized in the current and future periods and the contract asset and liability balance at period-end.

*Impact of adopting IFRS 15 on the current period*

The following tables summarize the impact of adopting IFRS 15 for the current period on the unaudited interim consolidated statement of financial position at September 30, 2018 and the unaudited interim consolidated statement of loss and comprehensive loss for the nine-month period ended September 30, 2018. The impact to the unaudited interim consolidated statement of cash flows was considered immaterial.

*Statement of financial position*

	As reported	IFRS 15 adjustments	Balance without IFRS 15
	\$	\$	\$
<b>Assets</b>			
Current assets			
Cash	4,011,798	-	4,011,798
Accounts receivable and other	870,786	62,678	933,464
Deferred contract acquisition costs	80,185	(80,185)	-
	4,962,769	(17,507)	4,945,262
<b>Accounts receivable</b>	1,195,333	-	1,195,333
<b>Deferred contract acquisition costs</b>	22,327	(22,327)	-
<b>Property and equipment</b>	494,180	-	494,180
<b>Intangible asset</b>	4,335,394	-	4,335,394
<b>Total assets</b>	11,010,003	(39,834)	10,970,169
<b>Liabilities</b>			
Current liabilities			
Accounts payable and accrued liabilities	995,129	(43,191)	951,938
Loan payable and accrued interest	979,519	-	979,519
Deferred income	-	266,746	266,746
Contract liabilities	300,885	(300,885)	-
Lease incentives	9,232	-	9,232
	2,284,765	(77,330)	2,207,435
<b>Contract liabilities</b>	11,376	(11,376)	-
<b>Lease incentives</b>	186,621	-	186,621
<b>Total liabilities</b>	2,482,762	(88,706)	2,394,056
<b>Equity</b>			
Shareholders' equity	8,527,241	48,872	8,576,113
<b>Total liabilities and equity</b>	11,010,003	(39,834)	10,970,169

*Statement of loss and comprehensive loss for the nine-month period ended September 30, 2018*

	As reported	IFRS 15 adjustments	Amount without IFRS 15
	\$	\$	\$
<b>Revenue</b>	842,125	85,537	927,662
<b>Expenses</b>			
Amortization of intangible asset	988,014	-	988,014
Administrative expenses	3,744,454	44,574	3,789,028
Interest expense	18,344	-	18,344
Interest income	(13,098)	-	(13,098)
Foreign exchange loss	86,441	-	86,441
Loss (income) before income taxes	3,982,030	(40,963)	3,941,067
Income tax recovery	-	-	-
<b>Net loss (income) for the period</b>	3,982,030	(40,963)	3,941,067
Other comprehensive income	(35,574)	(222)	(35,796)
<b>Comprehensive loss (income) for the period</b>	3,946,456	(41,185)	3,905,271
<b>Loss per share – Basic and diluted</b>	0.08		0.08

**Statement of loss and comprehensive loss for the three-month period ended September 30, 2018**

	As reported	IFRS 15 adjustments	Amount without IFRS 15
	\$	\$	\$
<b>Revenue</b>	248,666	82,387	331,053
<b>Expenses</b>			
Amortization of intangible asset	366,860	-	366,860
Administrative expenses	1,423,550	33,168	1,456,718
Interest expense	6,110	-	6,110
Interest income	(1,128)	-	(1,128)
Foreign exchange loss	393,012	-	393,012
Loss (income) before income taxes	1,939,738	(49,219)	1,890,519
Income tax recovery	-	-	-
<b>Net loss (income) for the period</b>	1,939,738	(49,219)	1,890,519
Other comprehensive loss (income)	(164,277)	560	(163,717)
<b>Comprehensive loss (income) for the period</b>	1,775,461	(48,659)	1,726,802
<b>Loss per share – Basic and diluted</b>	0.04		0.04

The impact of adopting IFRS 15 by type of revenue for the nine-month period ended September 30, 2018 is outlined in the table below:

	As reported	IFRS 15 adjustments	Amount without IFRS 15
	\$	\$	\$
SaaS license and hosting fees	83,392	-	83,392
On-premise licenses fees	245,431	-	245,431
Maintenance fees	188,551	-	188,551
Professional services and other	324,751	85,537	410,288
Total revenue	842,125	85,537	927,662

The impact of adopting IFRS 15 by type of revenue for the three-month period ended September 30, 2018 is outlined in the table below:

	As reported	IFRS 15 adjustments	Amount without IFRS 15
	\$	\$	\$
SaaS license and hosting fees	35,051	-	35,051
On-premise licenses fees	89,170	-	89,170
Maintenance fees	67,805	-	67,805
Professional services and other	56,640	82,387	139,027
Total revenue	248,666	82,387	331,053

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

**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.

**OTHER INFORMATION**

Additional information regarding the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company’s website at [www.kneat.com](http://www.kneat.com)