Management's Discussion and Analysis
For the year ended December 31, 2018

LETTER TO SHAREHOLDERS

Dear Fellow Shareholders,

During the fourth quarter of 2018, Kneat accelerated its penetration of the life sciences market with the addition of two global supply chain clients, increasing the number of new tier one client wins in 2018 to seven. These two additional client wins were significant for Kneat as they were secured via competitive proposal processes in computer systems validation ("CSV"), resulted in displacing a competitor's product and increasing our profile in the CSV life sciences market and the supply chain. This is confirmation that the life sciences industry is responding positively to the unique capabilities of Kneat's platform in all areas of validation.

The clients signed in 2018 increased the number of potential target sites within our signed customer base to over 200, up from 15 at the beginning of the year. Existing and recently signed customers started to scale to new processes and expand their user bases in 2018. Our goal is to build on this momentum in 2019.

We are pleased with the success of the Company in 2018. This success was achieved because of the commitment from an excellent and growing team. As Kneat continues to invest ahead of revenues, we are pleased with the vote of confidence shown by new and existing shareholders in 2018.

We look forward to further enhancement of our product functionality and fulfilling the needs of our clients by efficiently managing their regulated processes and ensuring the highest level of compliance.

(s) "Edmund Ryan"
Edmund Ryan, CEO

kneat.com, inc.
Year ended December 31, 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" or "Kneat") and should be read in conjunction with the audited consolidated financial statements of kneat.com (the "Financial Statements") for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The information presented in this MD&A is as of April 24, 2019. 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," "continues," 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 Kneat Gx 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 Kneat Gx;
- 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 the Company 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. 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; 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 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 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 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 costly regulatory requirement in this 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, piece of equipment and 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 testing has been a manual, paper intensive activity whereby test documents had to be developed, printed, approved, executed, post approved and filed, ready for regulatory audit in the future. In many companies in the life sciences industry much of this is still done on paper using wet ink to record test results, apply proof of signature and date stamp. This process can leave life sciences companies susceptible to production delays, high costs associated with data and document management, and risk of non-compliance. Non-compliance can lead to regulatory recalls, threats to patient safety and delays to market. In addition, non-compliance may result in significant penalties, remediation costs and lost revenues.

The solution that Kneat Gx provides has taken a dedicated professional team of industry specialists years of research and development. Kneat'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 possesses a top tier quality management system ("QMS") 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 industry. Potential customers often perform extensive audits to verify compliance prior to purchasing the Company's software and services.

The Company's focus is to service the facilities, equipment and computer systems ("CSV") validation market within the global life sciences industry. Kneat targets large Tier 1 companies in the life sciences industry primarily 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 manufacturers to reduce costs and increase control while maintaining data integrity to a high standard. 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$600 million 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 commences and currently 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. This results in a time lag of five to six months from the date of a new customer announcement to the date of revenue recognition.

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" strategy 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 a number of customers have experienced within their global operations.

BUSINESS OBJECTIVES

Kneat plans to use its financial resources for the following key business objectives:

- add new features and functionality to Kneat Gx to enable fast and efficient onboarding and expansion of customers, further penetration of the supply chain sector and easy integration with resellers and partners;
- further advancement of the Kneat Gx SaaS platform toward the product vision of a total quality management platform for all sizes of customers;
- increase the awareness of Kneat Gx through direct selling, digital and print marketing and trade show attendance;
- secure additional contracts with key customer targets and further expand to new sites and processes within the current customer base; and
- expand the team needed to support a growing list of customers through pre and post sales and account management.

2019 RECENT ANNOUNCEMENTS

On February 13, 2019, Kneat announced that a leading laboratory services customer is expanding its user base on Kneat Gx within its flagship site in the United States. This expansion doubled the customer's license numbers. This customer first implemented the Kneat platform in December 2018 with the ultimate goal of creating a standardized, compliant and automated equipment and instrument validation process globally.

On February 14, 2019, the Company announced that a top tier global healthcare customer is expanding their use of Kneat Gx to a new manufacturing site. This customer was signed in July 2018, went live at their primary European site in December 2018 and is now expanding to a second site located in the United States.

On February 20, 2019, Kneat announced that it closed its short form prospectus offering, including the full exercise of the over-allotment option. As such, a total of 6,037,500 common shares of the Company were sold at a price of $1.05 per common share for aggregate gross proceeds of $6,339,375. This financing was completed by a syndicate of underwriters led by Cormark Securities Inc. and included Echelon Wealth Partners Inc. and Mackie Research

Capital Corporation. The Company also completed a non-brokered private placement of 2,074,437 common shares at the price of $1.05 per common share for aggregate gross proceeds of $2,178,159. The common shares issued pursuant to the non-brokered private placement are subject to a statutory four month hold period in accordance with applicable securities laws.

On February 21, 2019, Kneat announced that it signed a partnership agreement with HCL Technologies (“HCL”), a leading global technology company, to provide innovative end-to-end digital validation solutions to customers in the life sciences industry. This partnership represents a key element in Kneat’s strategy to deliver greater value to its current customers and to grow and scale to new customers. Kneat and HCL will work together on projects to provide and implement next generation digital solutions for facilities, equipment and computer systems validation processes using Kneat’s paperless software platform and HCL’s experience delivering innovative digital solutions to the life sciences industry.

On March 11, 2019, the Company announced that an international leader in biotechnology chose Kneat Gx to facilitate its transition to paperless validation processes. With over 20,000 employees globally and manufacturing facilities in four continents, this company develops innovative therapies for patients around the world. Kneat Gx will initially be launched for facilities, utilities and equipment commissioning and qualification at a manufacturing plant in the United States.

2018 ANNOUNCEMENTS

Throughout 2018 Kneat focused on product advancement and new customer acquisition. Kneat announced seven new customers and scaling at two existing customers. The profile of the new customers is large, multinational enterprises, five being multi-national life sciences companies and two being customers in the supply chain to the life sciences industry. These new customers add to Kneat’s potential target sites within existing customers, which is now in excess of 200 sites and up from approximately 15 sites at the end of 2017. These potential sites within existing customers represent a revenue opportunity and area of potential growth for Kneat. One of Kneat’s goals and objectives is to convert these potential sites within signed customers to license sales in the coming years.

On January 19, 2018, kneat.com announced that one of its customers, a leading molecular diagnostics company, 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.

On February 15, 2018, the Company announced that a leading Tier 1 pharmaceutical company, headquartered in the United States and with over thirty manufacturing and laboratory sites globally, had selected Kneat Gx. kneat.com’s software platform to replace the customer’s paper-based C&Q process with one that is end-to-end paperless.

On February 26, 2018, kneat.com announced that a leader in laboratory services to the life sciences industry selected Kneat Gx 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 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.

On June 14, 2018, the Company announced that a global leader in biotechnology is deploying Kneat Gx to a number of their sites after successfully completing product trials at an initial test site. The customer will utilize Kneat Gx 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 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 July 16, 2018, Kneat announced that it will be deploying its SaaS platform to the biotechnology division of a multinational pharmaceutical manufacturer with more than 70 manufacturing sites worldwide.

On July 23, 2018, the Company announced that its customer, a leader in molecular diagnostics, further expanded its user base of Kneat Gx 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 August 22, 2018, Kneat announced that one of its tier one pharmaceutical customers is expanding their use of Kneat Gx to two new processes: test method and metrology CSV; and commissioning and qualifications process refresh procedures. The contract with this customer was announced in February 2018.

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.

On December 20, 2018, the Company announced that it signed a master service agreement with a new customer in the life sciences supply chain. This multi-national customer provides sample lifecycle and logistics management, infrastructure and consumables, including cold storage of biological assets, to global pharmaceutical companies and will now use Kneat Gx to automate and simplify their validation processes in the delivery of these services.

SELECTED QUARTERLY INFORMATION

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

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017[(a)]	Q3 2017[(a)]	Q2 2017[(a)]	Q1 2017[(a)]
	$	$	$	$	$	$	$	$
Total revenue*	465	249	132	462	77	131	67	147
Total expenses*	(1,085)	(2,188)	(1,610)	(1,022)	(1,107)	(1,272)	(1,054)	(989)
Total net loss*	(620)	(1,939)	(1,478)	(560)	(1,030)	(1,141)	(987)	(842)
Total net loss per common share *	(0.01)	(0.04)	(0.03)	(0.01)	(0.02)	(0.03)	(0.02)	(0.02)
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. In addition, expenses quarter over quarter are impacted by the foreign exchange rate between the Canadian dollar and the Euro as the majority of the Company's costs are denominated in Euro. In addition, foreign currency gains and losses are recognized as exchange rates fluctuate on financial assets and financial liabilities denominated in currencies other than the functional currency of the entity in which they are held. 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 consolidated financial statements for the year ended December 31, 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:

	2018	**2017[(a)]**	**2016[(a)]**
	$	**$**	**$**
Total revenue	1,307	421	820
Total expenses	(5,916)	(4,416)	(7,836)
Total net loss	(4,609)	(3,995)	(7,016)
Total net loss per common share	(0.09)	(0.09)	(0.21)
Cash dividends per common share	N/A	N/A	N/A
Total assets	10,114	8,795	9,571
Total non-current financial liabilities	-	978	923

(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, 2018

During 2018 Kneat focused on product advancement and new customer acquisition. Kneat announced seven new customers which increased the potential install base within signed customers to be over 200 sites. In addition, two existing customers scaled their use of Kneat Gx. Development of Kneat Gx continued to be a focus for the Company, with progress being made on a number of features. Key accomplishments for the year ended December 31, 2018, including the completion of a $6.18 million private placement, are outlined in the *2018 Announcements* section above.

Financial year ended December 31, 2017

During the year ended December 31, 2017, the focus of the Company continued to develop the technology and successfully launch and deploy the SaaS version of Kneat Gx. Headcount continued to increase across all functions of Kneat, including the addition of a sales director in the United States. A summary of key announcements made during fiscal 2017 are outlined below:

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.

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.

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 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 of up to 100% and cycle time improvements of up to 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.

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. During the year ended December 31, 2016, the focus of the Company was to advance customer relationships and increase functionality of Kneat Gx, including development of the SaaS version. In addition, Kneat hired additional software developers, testers, customer support and members of the operational and management team. This included hiring the first dedicated sales team member in the fourth quarter of 2016.

RESULTS OF OPERATIONS

Certain comparative figures in the consolidated statements of loss and comprehensive loss have been reclassified in order to conform with the current period classification.

Three-month period ended December 31, 2018

Revenues for the three-month period ended December 31,

	2018	2017[(a)]	$ change in 2018	% change in 2018
SaaS license fees	$47,394	$24,382	$23,012	94.4%
On-premise license fees	174,070	-	174,070	100.0%
Maintenance fees	74,353	52,543	21,810	41.5%
Professional services and other	169,388	-	169,388	100.0%
Total revenues	**$465,205**	**$76,925**	**$388,280**	**504.8%**

(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.

SaaS license fees entitle a specified number of users to utilize the Kneat Gx platform hosted by the Company on a secure cloud server. SaaS license fee revenue is recognized over time, on a monthly basis, as the services are performed. For the three-month period ended December 31, 2018, SaaS license fees were $47,394 as compared to $24,382 for the three-month period ended December 31, 2017. The increase of $23,012 in SaaS license fees was a result of onboarding new SaaS customers, including a new customer that was announced in February 2018 and the related expansion by the same customer announced in August 2018. The Company will begin to recognize revenues from the other 2018 announced SaaS customer wins when deployments are complete, and licenses are live for the customers' use.

On-premise license fees entitle a customer to use the Kneat Gx platform for a set number of users, hosted on the customers' 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 fee revenue for the three-month period ended December 31, 2018 was $174,070 as compared to $nil for the three-month period ended December 31, 2017. The increase in on-premise license fees is due to new customers going live on the platform during the quarter ended December 31, 2018.

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 revenue for the three-month period ended December 31, 2018 was $74,353 as compared to $52,543 for the three-month period ended December 31, 2017. The increase of $21,810 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 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 December 31, 2018 were $169,388 as compared to $nil for the three-month period ended December 31, 2017. This increase of $169,388 was primarily due to the timing of service milestones being met related to software deployment services.

Cost of revenues for the three-month period ended December 31,

	2018	2017[(a)]	$ change in 2018	% change in 2018
Cost of revenues	$292,580	$150,488	$142,092	94.4%

(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.

Cost of revenues consists primarily of costs associated with third-party hosting services related to the Company's SaaS platform, employees' salaries and benefits, and allocated other overhead costs related to the professional service team supporting customer deployment, training, maintenance and other services. Cost of revenue for the three-month period ended December 31, 2018 was $292,580 compared to $150,488 for the three-month period ended December 31, 2017. The increase of $142,092 was due mainly to an increase in salaries and benefits associated with increased headcount on the professional services team to service the new customers acquired during 2018.

Gross margin for the three-month period ended December 31,

	2018	2017[(a)]	$ change in 2018	% change in 2018
Gross margin	$172,625	($73,563)	$246,188	334.7%

(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.

Gross margin for the three-month period ended December 31, 2018 was $172,625 compared to ($73,563) for the three-month period ended December 31, 2017. The increase of $246,188 in gross margin is due primarily to the increase in revenues which exceeded the increase in cost of revenues in 2018 as compared to 2017. The Company increased revenue in all categories over the prior year period, most significantly in on-premise license fees and professional service fees, which more than offset the increases in cost of revenues associated with the professional services team and hosting fees.

Research and development expenses for the three-month period ended December 31,

	2018	2017[(a)]	$ change in 2018	% change in 2018
Research and development	$717,139	$545,881	$171,258	31.4%

(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.

Research and development expenses consist of employee salaries and benefits for members of the research and development team that do not meet the criteria for capitalization to the intangible asset, amortization of the intangible asset, hosting costs associated with development servers and other allocated overhead costs associated with the team responsible for the research and development of Kneat Gx, net of any associated research and development tax credits earned during the period. Research and development expenses for the three-month period ended December 31, 2018 were $717,139 compared to $545,881 for the three-month period ended December 31, 2017. The increase of $171,258 is due primarily to an increase in salaries and benefits and related allocated overhead costs associated with increased headcount on the research and development team. In addition, the amortization of the intangible asset increased during the quarter ended December 31, 2018 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 expense.

Sales and marketing expenses for the three-month period ended December 31,

	2018	2017[(a)]	$ change in 2018	% change in 2018
Sales and marketing	$398,203	$290,385	$107,818	37.1%

(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.

Sales and marketing expenses consist of employee salaries and benefits for members of the sales team, amortization of contract acquisitions costs, advertising, trade shows, consultancy fees and other allocated overhead costs associated with the team responsible for sales and marketing globally. Sales and marketing expenses for the three-month period ended December 31, 2018 were $398,203 compared to $290,385 for the three-month period ended December 31, 2017. The increase of $107,818 was due primarily to an increase in salaries and benefits associated with the sales team and an increase in the amortization of contract acquisition costs.

General and administrative expenses for the three-month period ended December 31,

	2018	2017[(a)]	$ change in 2018	% change in 2018
General and administrative	$329,430	$301,701	$27,729	9.2%

(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.*

General and administrative expenses consist primarily of employee salaries and benefits for members of the management and administrative teams, professional services for legal and audit, regulatory fees and other allocated overhead costs associated with the management and administrative teams. General and administrative expenses for the three-month period ended December 31, 2018 were $329,430 compared to $301,701 for the year ended December 31, 2017. The increase of $27,729 is due primarily to an increase in salaries and benefits associated with increased headcount on the administrative team.

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

	2018	2017 [(a)]	$ change in 2018	% change in 2018
Interest expense	$6,066	$6,048	$18	0.3%
Interest income	($478)	($2,975)	$2,497	(83.9%)
Foreign exchange gain	($657,497)	($184,613)	($472,884)	256.1%

(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.*

The foreign currency gain of $657,497 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.

Year ended December 31, 2018

Revenues for the year ended December 31,

	2018	2017[(a)]	$ change in 2018	% change in 2018
SaaS license fees	$130,425	$69,443	$60,982	87.8%
On-premise license fees	419,908	-	419,908	100.0%
Maintenance fees	262,777	214,285	48,492	22.6%
Professional services and other	494,185	137,538	356,647	259.3%
Total revenues	**$1,307,295**	**$421,266**	**$886,029**	**210.3%**

(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 fee revenue for the year ended December 31, 2018 was $130,425 as compared to $69,443 for the year ended December 31, 2017. The increase of $60,982 in SaaS license fees was a result of onboarding new SaaS customers, including a new customer that was announced in February 2018 and the related expansion by the same customer announced in August 2018. The Company will recognize revenues from the other 2018 announced SaaS customer wins when deployments are complete, and licenses are live for the customers' use.

On-premise license fee revenue for the year ended December 31, 2018 was $419,908 as compared to $nil for the year ended December 31, 2017. The increase in on-premise license fees is due to new customers going live on the platform during the year end December 31, 2018.

Maintenance fee revenue for the year ended December 31, 2018 was $262,777 as compared to $214,285 for the year ended December 31, 2017. The increase of $48,492 was due to an increased number of purchased on-premise licenses leading to increased associated maintenance fees.

Professional services and other revenues for the year ended December 31, 2018 was $494,185 as compared to $137,538 for the year ended December 31, 2017. This increase of $356,647 was primarily due to service milestones being met related to deployment and pilot services.

Cost of revenues for the year ended December 31,

	2018	2017(a)	$ change in 2018	% change in 2018
Cost of revenues	$976,707	$530,890	$445,817	84.0%

(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.*

Cost of revenues for the year ended December 31, 2018 was $976,707 compared to $530,890 for the year ended December 31, 2017. The increase of $445,817 was due to an increase in salaries and benefits associated with increased headcount on the professional services team to service the new customers acquired during 2018. In addition, hosting costs associated with the SaaS platform increased as additional servers were required as a result of new customers.

Gross margin for the year ended December 31,

	2018	2017(a)	$ change in 2018	% change in 2018
Gross margin	$330,588	($109,624)	$440,212	401.6%

(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.*

Gross margin for the year ended December 31, 2018 was $330,588 compared to ($109,624) for the year ended December 31, 2017. The increase of $440,212 in gross margin is due primarily to the increase in revenues exceeding the increase in cost of revenues in 2018 as compared to 2017. The Company increased revenue in all categories, most significantly in on-premise license fees and professional service fees, which more than offset the increases in cost of revenues associated with the professional services team and hosting fees.

Research and development expenses for the year ended December 31,

	2018	2017(a)	$ change in 2018	% change in 2018
Research and development	$2,555,418	$1,759,661	$795,757	45.2%

(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.*

Research and development expenses for the year ended December 31, 2018 were $2,555,418 compared to $1,759,661 for the year ended December 31, 2017. The increase of $795,757 is due primarily to an increase in salaries and benefits that do not meet the criteria for capitalization to the intangible asset, and related allocated overhead costs associated with increased headcount on the research and development team. In addition, the amortization of the intangible asset increased during 2018 due to additions to the intangible asset made throughout the 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 expense.

Sales and marketing expenses for the year ended December 31,

	2018	2017(a)	$ change in 2018	% change in 2018
Sales and marketing	$1,644,366	$1,223,332	$421,034	34.4%

(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.*

Sales and marketing expenses for the year ended December 31, 2018 were $1,644,366 compared to $1,223,332 for the year ended December 31, 2017. The increase of $421,034 is due primarily to an increase in salaries and benefits due to increased headcount on the sales team, amortization of contract acquisition costs and an increase in marketing costs associated with the website and branding initiatives.

General and administrative expenses for the year ended December 31,

	2018	2017(a)	$ change in 2018	% change in 2018
General and administrative	$1,299,379	$1,189,235	$110,144	9.3%

(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.*

General and administrative expenses for the year ended December 31, 2018 were $1,299,379 compared to $1,189,235 for the year ended December 31, 2017. The increase of $110,144 was due primarily to an increase in salaries and benefits due to an increased headcount on the administrative team and an increase in professional service fees for legal and accounting costs.

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

	2018	2017 [(a)]	$ change in 2018	% change in 2018
Interest expense	$24,410	$23,404	$1,006	4.3%
Interest income	($13,576)	($4,736)	($8,840)	186.7%
Foreign exchange gain	($570,875)	($305,603)	($265,272)	86.8%

(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 gain of $570,875 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, revenue generated from customers supplemented as necessary by equity or debt financings. As of December 31, 2018, kneat.com had cash of $2,765,507 compared to $3,482,318 as at December 31, 2017. Subsequent to year end, on February 20, 2019, the Company closed a public equity financing for gross proceeds of $6,339,375 and a concurrent non-brokered private placement equity financing for gross proceeds of $2,178,160. The net cash proceeds raised, of approximately $7.8 million, during these financings is 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 Kneat Gx to increase functionality and to fund ongoing operating costs and working capital requirements.

The Company's debt relates to the loan payable held by Enterprise Ireland which, as at December 31, 2018, was due on June 27, 2019. Subsequent to year end, Enterprise Ireland and Kneat agreed to a revised loan repayment schedule which resulted in payments being deferred and made over a three-year period. Approximate annual repayments are outlined in the *Commitments and Contingencies* section below.

The working capital balance at December 31, 2018 was $1,696,489 as compared to $3,211,433 at December 31, 2017. Changes during the period relate primarily to the cash flows as described below, the reclassification of the loan payable balance to current in 2018, revenue collected from customers less the operating and investing costs incurred through the normal course of operations.

During the year ended December 31, 2018, kneat.com used net cash of $3,619,041 to fund operating activities. Investing activities focused mainly on development of Kneat Gx offset by collections of the research and development tax credit resulting in net cash outflow from investing activities of $2,848,549 for the year ended December 31, 2018. In addition, kneat.com raised net funds through financing activities of $5,650,888 during the year ended December 31, 2018.

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

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, research and development spend, sales and marketing spend, general and administrative requirements and the availability of funding on the 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 consolidated financial statements for the year ended December 31, 2018 for further details.

COMMITMENTS AND CONTINGENCIES

In the normal course of business, Kneat enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of these contracts:

	Payments due by period as of December 31, 2018:				
	Within 1 year	2-3 years	4-5 years	Over 5 years	Total
	$	$	$	$	$
Accounts payable and accrued liabilities	890,384	-	-	-	890,384
Loan payable [1]	1,026,752	-	-	-	1,026,752
Operating leases and other	208,949	410,881	275,198	-	895,028
	$2,126,085	$410,881	$275,198	-	$2,812,164

(1) Loan payable repayment amounts included in the table above are as of December 31, 2018. Subsequent to December 31, 2018 Enterprise Ireland and Kneat revised the loan repayment schedule resulting in estimated payments due as follows: within one year: $161,548, within two to three years: $774,661 and within four to five years: $124,065.

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 2019 and 2020 which will result in the Company paying fees of $126,745 and $57,766, respectively.

OFF-BALANCE SHEET ARRANGEMENTS

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

OUTSTANDING SHARE INFORMATION

The Company has authorized an unlimited number of common shares without par value. As of December 31, 2018, and April 24, 2019, the Company had 51,442,180 and 59,769,117 common shares outstanding, respectively. No common shares are subject escrow agreements however 2,074,437 common shares that were issued in connection with the non-brokered private placement on February 20, 2019 are subject to a statutory four month hold period ending June 20, 2019.

As of April 24, 2019, the Company has 3,145,505 (December 31, 2018 – 2,657,505) stock options outstanding at an average exercise price of $0.87 per common share with varying expiry dates. In addition, as at April 24, 2019, the Company has 11,112 deferred share units outstanding (December 31, 2018 – nil).

As at December 31, 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. As of April 24, 2019, there were a total of 700,837 common share purchase warrants outstanding with a weighted average exercise price of $0.97 per share and expiry dates of October 10, 2019 and February 20, 2021.

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 $115 as at December 31, 2018 (2017 - $nil).

During the year ended December 31, 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 $30,713 (2017 - $39,850) and incurred rent and office costs from Numus in the amount of $26,795 (2017 - $27,720).

As at December 31, 2018, the Company was due $17,699 from Beek Investment Limited ("Beek"), a company controlled by directors and officers of the Company, relating to professional fees paid on behalf of Beek during the year ended December 31, 2016 (year ended December 31, 2017 – $17,063).

As at December 31, 2018, the Company was due $17,699 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 (2017 - $17,063).

During the year ended December 31, 2018, the Company accrued directors' fees of $114,719 for the independent directors (2017 - $140,729). As at December 31, 2018, the amount owing to directors was $336,510 (2017 - $211,671).

As part of the non-brokered private placement completed on May 31, 2017, directors of the Company subscribed to an aggregate of 1,175,066 of the common shares issued pursuant to the financing for gross proceeds of $705,040 (note 9(a)).

On April 10, 2018, pursuant to the brokered private placement, directors of the Company subscribed to an aggregate of 599,999 of the common shares for gross proceeds of $539,999. In addition, Numus Capital Corp., a company controlled by a director of the Company, acted as a selling agent in the brokered private placement and received 106,266 broker warrants and $95,640 in cash commissions (note 9(a)).

Subsequent to year end, on February 20, 2019, pursuant to the public equity raise, directors of the Company subscribed to an aggregate of 761,904 of the Company's common shares for gross proceeds of $799,999. In addition, Numus Capital Corp. acted as a selling agent in the non-brokered private placement and received 124,466 broker warrants and $130,689 in cash commissions.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Market Risk

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

The Company is exposed to currency risk on its cash balances, amounts receivable, loan payable, intercompany balances and accounts payable and accrued liabilities that are held in currencies that are not in the transacting entity's functional currency. For the year ended December 31, 2018, a 5% decrease in the exchange rate between the functional currencies and foreign currencies would increase the net loss by approximately $744,000; a 5% increase would decrease the net loss by approximately $744,000. The Company currently does not hedge its currency risk.

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

	Year ended December 31, 2018			Year ended December 31, 2017		
	As reported	Exchange rate effect	5% Stronger	As reported	Exchange rate effect	5% Stronger
	$	$	$	$	$	$
Revenues	1,307,295	65,366	1,372,661	421,266	21,063	442,329
Expenses	(5,915,829)	(319,254)	(6,235,083)	(4,416,183)	(213,566)	(4,629,749)
Net loss	(4,608,534)	(253,888)	(4,862,422)	(3,994,917)	(192,503)	(4,187,420)

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

Interest rate risk
Interest risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. An immaterial amount of interest rate exposure exists in respect of cash balances and the loan payable on the consolidated statements of financial position. The Company holds a loan payable with a fixed interest rate. These are privately-issued, with no secondary market. They are measured at amortized cost. 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 December 31, 2018 and 2017, the Company's financial assets exposed to credit risk amounted to the following:

	December 31,2018	December 31, 2017
	$	$
Cash	2,765,507	3,482,318
Amounts receivable	470,794	153,740

During the years ended December 31, 2018 and 2017, the Company did not hold any financial assets that were past due or impaired. Trade debtors of $227,538 are included in amounts receivable as at December 31, 2018 (2017 - $49,226). Trade debtors are monitored on a regular basis, with reference to the ECL impairment model, in order to minimize material aging and to ensure adequate collection. Historically there have been no significant trade debtor collection issues and the Company does not believe it is subject to significant concentration of credit risk.

Cash is held with reputable banks in Ireland and Canada. The long-term credit rating, as determined by Standard and Poor's, was BBB+ and A 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 revenues to date. For the foreseeable future, kneat.com may 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 additional 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 recent years 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 product 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 product 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 product, 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 the software product 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 product functionality, 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 functionality, services and enhancements of current functionality 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 and social media. In addition, kneat.com's software product, 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 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 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 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. In response to customer demand, it is important to kneat.com's success that it continues to enhance its software product and services and to seek to set the standard for Kneat Gx capabilities. The primary market for its software product and services is rapidly evolving, which means that the level of acceptance of software functionality 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 product 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 product and services; (ii) develop new software product functionalities and services and enhancements to current software product functionalities and services; (iii) complete customer implementations on a timely basis; or (iv) complete software upgrades and services currently under development. In addition, increased competition could put significant pricing pressures on kneat.com's product which could negatively impact its margins and profitability. If kneat.com's software product 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 product 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 functionality and services may not be profitable, and even if they are profitable, operating margins for new software product functionality 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 product may represent a loss of revenue to kneat.com. Where applicable, certain of kneat.com's license arrangements have required it 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 product 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 may from time to time 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

product and in any third party software that is incorporated into its product, 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 may include certain third party and/or open source software in its software product. 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 product, 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 product functionality 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 product 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 product. 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, the United States and Ireland and continues to offer its product and services in the European Union, Canada, the United States and 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 product 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. The vote of the United Kingdom to leave the European Union ("Brexit") has resulted in many political and economic uncertainties including exchange rate risk associated with the British Pound Sterling. One of Kneat's customers is headquartered in the United Kingdom and has a contract priced in British Pound Sterling, therefore there is risk associated with Kneat's ability to manage this contract profitability should there be a significant reduction in the value of the British Pound Sterling. 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 product and services are competitive and are subject to technological change and other pressures created by changes in its industry. The convergence of many technologies may result 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 its existing product and services; (iii) acquire competitive products and services; (iv) reduce prices; and/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 product and services, kneat.com would need to lower the prices it charges for the product and services it 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 product or services.

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

kneat.com's revenues, 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 product. 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 product 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 product 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. 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 product or services, kneat.com may not be able to fully simulate the environment in which its product 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 product is 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 product or services could result in the delay or the denial of market acceptance of its product 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 product 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 product, 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. 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 IT 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 product 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. 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 product 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. Brexit has created economic and political uncertainty and the impact of it may not be fully known for several years. Brexit may cause some of our customers or potential customers to reduce spending and/or may result in new regulatory and cost challenges for Kneat and its customers in that region. These adverse conditions could result in reductions in revenues from our United Kingdom based customers, slower adoption of new technologies as new regulations are put in place, and increased price competition if tariffs are implemented. Any of these events may have an adverse effect on Kneat's operating results and financial position.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

The CEO and CFO have concluded that, as of December 31, 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 December 31, 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 2, *Summary of Significant Accounting Policies*, of the annual consolidated financial statements for the year ended December 31, 2018. 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

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

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

The 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%.

The estimated useful life, residual value and amortization rate are reviewed annually and no changes to estimates were made in 2018 or 2017.

Revenue Recognition

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; and
- Recognition of revenue when, or as, the Company satisfies a performance obligation.

Revenues generated by the Company include the following:

i) *On-premise license fees*

On-premise license 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) *Software as a service ("SaaS") license fees*

SaaS license 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 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 to its customers that are distinct from the sale of licenses. Revenues from such services are generally recognized at the point in time when performance obligations are satisfied.

The Company also performs services related to implementation. Services related to implementation are not a distinct performance obligation and thus are recognized consistent with the licenses for which they relate but are classified as professional services and other in the consolidated statements of loss and comprehensive loss.

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 and marketing expenses in the consolidated statements of loss and comprehensive loss. 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 are recognized in the consolidated statements of loss and comprehensive loss as revenue recognition criteria are met.

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.

Recognition of revenue
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 judgment, 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.

Internally generated intangible asset
The Company capitalizes certain costs incurred for the development of its Kneat Gx software platform in accordance with IAS 38, *Intangible Assets*. The capitalized costs include the costs directly attributable to preparing the intangible asset for its intended use, net of any qualifying research and development tax credits which are subject to audit by tax authorities. Management estimates the expected term over which the Company will receive benefits from the software application to be five years. A change in these estimates would have a significant impact on the carrying value of the intangible asset, the amounts receivable for the research and development tax credit and the amortization and expenses recognized in the consolidated statements of loss and comprehensive loss.

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 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 was no impact on the consolidated 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 amounts 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. Refer to the related accounting policy in note 2 (r).

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 consolidated 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. 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 consolidated statements 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 statements 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**
	$	**$**	**$**
Assets			
Current assets			
Cash	3,482,318	–	3,482,318
Amounts receivable	737,372	–	737,372
Deferred contract acquisition costs	–	13,153	13,153
	4,219,690	13,153	4,232,843
Amounts receivable	623,790	–	623,790
Deferred contract acquisition costs	–	1,747	1,747
Property and equipment	513,402	–	513,402
Intangible asset	3,438,163	–	3,438,163
	8,795,045	14,900	8,809,945
Liabilities			
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
Lease incentives	194,398	–	194,398
Loan payable and accrued interest	977,587	–	977,587
	2,180,242	22,587	2,202,829
Shareholders' equity	6,614,803	(7,687)	6,607,116
	8,795,045	14,900	8,809,945

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 consolidated statements of financial position at December 31, 2018 and the consolidated statements of loss and comprehensive loss for the year ended December 31, 2018. The impact to the consolidated statements of cash flows was considered immaterial.

Statement of financial position	**As reported**	**IFRS 15 adjustments**	**Balance without IFRS 15**
	$	**$**	**$**
Assets			
Current assets			
Cash	2,765,507	–	2,765,507
Amounts receivable	1,196,048	–	1,196,048
Deferred contract acquisition costs	55,618	(55,618)	–
	4,017,173	(55,618)	3,961,555
Amounts receivable	787,044	–	787,044
Deferred contract acquisition costs	14,313	(14,313)	–
Property and equipment	512,520	–	512,520
Intangible asset	4,783,332	–	4,783,332
	10,114,382	(69,931)	10,044,451
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	901,135	(46,522)	854,613
Loan payable and accrued interest	1,026,752	–	1,026,752
Deferred income	–	290,183	290,183
Contract liabilities	383,179	(383,179)	–
Lease incentives	9,618	–	9,618
	2,320,684	(139,518)	2,181,166
Contract liabilities	8,731	(8,731)	–
Lease incentives	192,020	–	192,020
	2,521,435	(148,249)	2,373,186
Shareholders' equity	7,592,947	78,318	7,671,265
	10,114,382	(69,931)	10,044,451

Statement of loss and comprehensive loss for the year ended December 31, 2018	**As reported**	**IFRS 15 adjustments**	**Amount without IFRS 15**
	$	**$**	**$**
Revenue	1,307,295	74,139	1,381,434
Expenses			
Operating expenses	6,475,870	5,502	6,481,372
Interest expense	24,410	–	24,410
Interest income	(13,576)	–	(13,576)
Foreign exchange gain	(570,875)	234	(570,641)
Loss before income taxes	(4,608,534)	68,403	(4,540,131)
Income tax recovery	–	–	–
Net income (loss) for the year	(4,608,534)	68,403	(4,540,131)
Other comprehensive income (loss)	(325,801)	2,228	(323,573)
Comprehensive income (loss) for the year	(4,934,335)	70,631	(4,863,704)
Loss per share – Basic and diluted	(0.09)		(0.09)

The impact of adopting IFRS 15 by type of revenue for the year ended December 31, 2018 is outlined in the table below:

	As reported	IFRS 15 adjustments	Amount without IFRS 15
	$	$	$
SaaS license fees	130,425	–	130,425
On-premise license fees	419,907	–	419,907
Maintenance fees	262,777	–	262,777
Professional services and other	494,186	74,139	568,325
Total revenue	1,307,295	74,139	1,381,434

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

IFRS 16, Leases ("IFRS 16")

The IASB issued IFRS 16 effective for annual periods beginning on or after January 1, 2019. IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. As a lessee, an entity recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The Company anticipates using the modified retrospective approach whereby 2018 figures will not be restated and the cumulative effect of applying the standard will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, the date of initial application. The Company continues to assess the impact that the adoption of IFRS 16 will have on its consolidated financial statements and plans to apply the practical expedients for leases with terms ending within twelve months of the date of initial application and for leases related to low-value assets.

The new standard is expected to have an impact on the Company's consolidated statements of financial position with an increase in total assets and total liabilities of approximately $200,000 to $300,000 as at January 1, 2019. The adjustment to retained earnings on January 1, 2019 is expected to be immaterial. These adjustments reflect the new accounting treatment under IFRS 16 for office lease arrangements that the Company currently accounts for as operating leases. Following adoption of IFRS 16, rental expense for this office space will no longer be recorded and will be replaced by amortization of the right of use assets and interest on the underlying lease liability using the Company's incremental borrowing rate.

OTHER INFORMATION

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