kneat.com, inc.

Consolidated Financial Statements
December 31, 2018 and 2017
(expressed in Canadian dollars)

April 24, 2019

Management's Report

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

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

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

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

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

Independent auditor's report

To the Shareholders of kneat.com, inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of kneat.com, inc. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Gordon Ashe.

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Saint John, New Brunswick
April 24, 2019

kneat.com, inc.

Consolidated Statements of Financial Position

As at December 31, 2018 and 2017

(expressed in Canadian dollars)

	2018 $	2017[(a)] $
Assets		
Current assets		
Cash	2,765,507	3,482,318
Amounts receivable (note 3)	1,196,048	737,372
Deferred contract acquisition costs	55,618	–
	4,017,173	4,219,690
Amounts receivable (note 3)	787,044	623,790
Deferred contract acquisition costs	14,313	–
Property and equipment (note 4)	512,520	513,402
Intangible asset (note 5)	4,783,332	3,438,163
	10,114,382	8,795,045
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	901,135	590,389
Contract liabilities (note 7)	383,179	396,302
Loan payable and accrued interest (note 8)	1,026,752	12,293
Lease incentives	9,618	9,273
	2,320,684	1,008,257
Contract liabilities (note 7)	8,731	–
Lease incentives	192,020	194,398
Loan payable and accrued interest (note 8)	–	977,587
	2,521,435	2,180,242
Shareholders' Equity	7,592,947	6,614,803
	10,114,382	8,795,045

Going concern (note 1)

Commitments and contingencies (note 17)

(a) *kneat.com, inc. has adopted IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 2 (s)(ii) for details.*

Approved on behalf of the Board of Directors on April 24, 2019

(signed) *"Ian Ainsworth"*, Director

(signed) *"Wade Dawe"*, Director

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

kneat.com, inc.

Consolidated Statements of Loss and Comprehensive Loss

For the years ended December 31, 2018 and 2017

(expressed in Canadian dollars)

	2018 $	2017[a] $
Revenue (note 10)	1,307,295	421,266
Cost of revenues (note 11)	(976,707)	(530,890)
Gross margin	330,588	(109,624)
Expenses (income)		
Research and development (note 11)	2,555,418	1,759,661
Sales and marketing (note 11)	1,644,366	1,223,332
General and administrative (note 11)	1,299,379	1,189,235
Interest expense	24,410	23,404
Interest income	(13,576)	(4,736)
Foreign exchange gain	(570,875)	(305,603)
Loss before income taxes	(4,608,534)	(3,994,917)
Income tax recovery (note 12)	–	–
Net loss for the year	(4,608,534)	(3,994,917)
Other comprehensive income (loss)		
Foreign currency translation adjustment to presentation currency	(325,801)	23,850
Comprehensive loss for the year	(4,934,335)	(3,971,067)
Loss per share – Basic and diluted	(0.09)	(0.09)
Weighted-average number of common shares outstanding: Basic and diluted	49,574,405	42,503,244

(a) *kneat.com, inc. has adopted IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 2 (s)(ii) for details.*

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

kneat.com, inc.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2018 and 2017

(expressed in Canadian dollars)

	Number of common shares #	Common shares $	Warrants $	Contributed surplus $	Translation reserve $	Deficit $	Total $
Balance – December 31, 2016[(a)]	39,563,684	22,941,601	67,424	937,506	161,372	(16,820,815)	7,287,088
Net loss for the year[(a)]	–	–	–	–	–	(3,994,917)	(3,994,917)
Other comprehensive income for the year[(a)]	–	–	–	–	23,850	–	23,850
	–	–	–	–	23,850	(3,994,917)	(3,971,067)
Shares issued pursuant to private placement (note 9(a))	5,000,000	3,000,000	–	–	–	–	3,000,000
Share issuance costs (note 9(a))	–	(21,745)	–	–	–	–	(21,745)
Share-based compensation expense (note 9(c))	–	–	–	320,527	–	–	320,527
Warrant expiry (note 9(b))	–	–	(67,424)	67,424	–	–	–
Balance – December 31, 2017[(a)]	44,563,684	25,919,856	–	1,325,457	185,222	(20,815,732)	6,614,803
Impact of change in accounting policy [(a)]	–	–	–	–	–	(7,687)	(7,687)
Adjusted balance – January 1, 2018	44,563,684	25,919,856	–	1,325,457	185,222	(20,823,419)	6,607,116
Net loss for the year	–	–	–	–	–	(4,608,534)	(4,608,534)
Other comprehensive loss for the year	–	–	–	–	(325,801)	–	(325,801)
	–	–	–	–	(325,801)	(4,608,534)	(4,934,335)
Shares issued pursuant to private placement (note 9a))	6,871,830	6,184,647	–	–	–	–	6,184,647
Share issuance costs (note 9a))	–	(513,215)	–	–	–	–	(513,215)
Broker warrants (note 9b))	–	(140,394)	140,394	–	–	–	–
Shares issued pursuant to the stock option exercise (note 9a))	6,666	8,866	–	(5,000)	–	–	3,866
Share-based compensation expense (note 9c))	–	–	–	244,868	–	–	244,868
Balance – December 31, 2018	51,442,180	31,459,760	140,394	1,565,325	(140,579)	(25,431,953)	7,592,947

(a) kneat.com, inc. has adopted IFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated. See note 2 (s)(ii) for details.

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

kneat.com, inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2018 and 2017

(expressed in Canadian dollars)

	2018 $	2017 $
Operating activities		
Net loss for the year	(4,608,534)	(3,994,917)
Charges to loss not involving cash:		
Depreciation of property and equipment	141,374	90,580
Share-based compensation expense	131,805	160,017
Interest on loan payable	24,410	23,404
Amortization of intangible asset	1,385,953	1,043,186
Amortization of lease incentives	(9,434)	(9,032)
Amortization of deferred contract acquisition costs	68,583	–
Disposal and write-off of property and equipment, net	3,401	(1,558)
Foreign exchange gain	(570,875)	(305,603)
Increase in non-current amounts receivable	(11,393)	(10,557)
Increase in non-current contract liabilities	8,298	–
Net change in non-cash operating working capital related to operations (note 13)	(182,629)	487,084
Net cash used in operating activities	(3,619,041)	(2,517,396)
Financing activities		
Gross proceeds received upon the completion of the private placement	6,184,647	3,000,000
Share issuance costs associated with the private placement	(513,215)	(21,745)
Payment of interest on the loan payable	(24,410)	(23,371)
Proceeds from the issuance of shares on the exercise of stock options	3,866	–
Net cash provided by financing activities	5,650,888	2,954,884
Investing activities		
Additions to intangible asset	(3,210,971)	(2,268,903)
Receipt of research and development tax credits	519,564	430,485
Additions to property and equipment	(157,142)	(276,719)
Net cash used in investing activities	(2,848,549)	(2,115,137)
Effects of exchange rates on cash	99,891	171,366
Net change in cash during the year	(716,811)	(1,506,283)
Cash – Beginning of year	3,482,318	4,988,601
Cash – End of year	2,765,507	3,482,318

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

(expressed in Canadian dollars)

1 Nature of operations and going concern

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

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

The Company's operations have been financed through the sale of shares, issuance of debt, revenue generated from customers and research and development tax credits. The Company has incurred significant operating losses and negative cash flows from operations since inception and has an accumulated deficit of $25,431,953 as at December 31, 2018.

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. For the year ended December 31, 2018, the Company incurred a net loss of $4,608,534 with negative cash flows from operations of $3,619,041 and capitalized development cost spend of $3,210,971 (2017 - $3,994,917, $2,517,396 and $2,268,903, respectively). With limited revenue from customers and negative cash flow from operations, the Company has relied on financing activities, similar to the equity financings that closed subsequent to year end (note 19), to meet its working capital and operating requirements, including funds needed to further develop its software and expand its sales function. Such circumstances create material uncertainties that may cast significant doubt as to the ability of the Company to continue as a going concern and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

Management continues to evaluate alternatives to secure additional financing so that the Company can continue to operate as a going concern. Nevertheless, there can be no assurance that these initiatives will be successful or sufficient. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues and expenses and balance sheet classifications that would be necessary were the going concern assumption determined to be inappropriate and these adjustments could be material.

2 Summary of significant accounting policies

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

a) Statement of compliance and basis of consolidation

The consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The Board of Directors approved these consolidated financial statements for issue on April 24, 2019.

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

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

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

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

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

b) Basis of presentation

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

c) Foreign currency translation

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

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

d) Critical accounting judgments and estimates

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

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

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

d) Critical accounting judgments and estimates (continued)

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

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.

e) 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.

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

e) Revenue recognition (continued)

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.

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

e) Revenue recognition (continued)

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.

f) Income taxes and other taxes

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

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

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

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

f) Income taxes and other taxes (continued)

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

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

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

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

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

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

g) Leases

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

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

h) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises the purchase price and any directly attributable costs of bringing the asset to the working condition and location of its intended use net of any tax credits.

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

The estimated useful lives, residual values and depreciation method are reviewed annually, with the effect of any changes in estimate accounted for on a prospective basis. No changes to estimates were made in 2018 or 2017. The Company depreciates the cost of property and equipment on a straight-line basis over their estimated useful lives at the following rates:

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

i) Cash

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

j) 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.

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

k) Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which they are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date. During the year ended December 31, 2018, there were no impairments or reversals of impairments recorded.

l) Employee benefits

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

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

m) Share-based payments

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

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

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

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

n) Loss per share

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

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

o) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. There were no material provisions recorded within the consolidated financial statements as at December 31, 2018 and 2017.

p) Interest income and interest expense

Interest income is recognized as it accrues using the effective interest method. Interest expense relates to financial liabilities measured at amortized cost.

q) Segment information

The Company's chief operating decision makers ("CODMs") are the executives, specifically the Chief Executive Officer, Chief Financial Officer, Director of Research and Development and Director of Quality. This is the highest level of management responsible for assessing the Company's overall performance and making operational decisions such as resource allocations related to operations, development prioritization, and delegations of authority. Management has determined that the Company operates in a single operating and reportable segment.

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

r) Financial instruments

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

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

Financial instrument	Classification
Cash	Amortized cost
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Loan payable	Amortized cost

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

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

s) New accounting standards adopted during the year

Effective January 1, 2018, the Company adopted the following new accounting standards. These changes in accounting policies have been reflected in the Company's subsequent quarters and annual consolidated 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).

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

s) New accounting standards adopted during the year (continued)

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.

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

s) New accounting standards adopted during the year (continued)

ii) IFRS 15, Revenue from Contracts with Customers ("IFRS 15") (continued)

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

Refer to note 2 (e) for details of the related accounting policies.

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

s) New accounting standards adopted during the year (continued)

ii) IFRS 15, Revenue from Contracts with Customers ("IFRS 15") (continued)

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

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

s) New accounting standards adopted during the year (continued)

ii) IFRS 15, Revenue from Contracts with Customers ("IFRS 15") (continued)

Impact of adopting IFRS 15 on the current period (continued)

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 (note 11)	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

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

t) 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.

3 Amounts receivable

	2018 $	2017 $
Current		
Research and development tax credit receivable	686,068	533,127
Trade debtors	227,538	49,226
Contract assets	21,586	–
Other debtors	58,834	24,434
Sales tax receivable	39,186	50,505
Prepayments	162,836	80,080
	1,196,048	737,372
Non-current		
Research and development tax credit receivable	787,044	623,790
	1,983,092	1,361,162

(expressed in Canadian dollars)

4 Property and equipment

	Computers and servers $	Furniture and fixtures $	Leasehold improvements $	Total $
Cost				
As at January 1, 2017	121,613	67,465	226,756	415,834
Additions	99,575	2,973	158,151	260,699
Write-offs	(5,138)	–	–	(5,138)
Effect of movements in exchange rates	9,737	4,104	17,729	31,570
As at December 31, 2017	225,787	74,542	402,636	702,965
Additions	125,156	–	–	125,156
Write-offs	(56,613)	(9,422)	–	(66,035)
Effect of movements in exchange rates	9,736	2,594	14,998	27,328
As at December 31, 2018	304,066	67,714	417,634	789,414

	Computers and servers $	Furniture and fixtures $	Leasehold improvements $	Total $
Accumulated depreciation				
As at January 1, 2017	51,129	15,435	27,722	94,286
Depreciation charges	54,684	8,973	26,923	90,580
Write-offs	(3,248)	–	–	(3,248)
Effect of movements in exchange rates	4,412	1,162	2,371	7,945
As at December 31, 2017	106,977	25,570	57,016	189,563
Depreciation charge	80,761	9,412	51,201	141,374
Write-offs	(56,613)	(6,021)	–	(62,634)
Effect of movements in exchange rates	4,444	1,021	3,126	8,591
As at December 31, 2018	135,569	29,982	111,343	276,894

	Computers and servers $	Furniture and fixtures $	Leasehold improvements $	Total $
Carrying amount				
Balance, December 31, 2017	118,810	48,972	345,620	513,402
Balance, December 31, 2018	168,497	37,732	306,291	512,520

Depreciation of property and equipment is included in the consolidated statements of loss and comprehensive loss in cost of revenues, research and development, sales and marketing and general and administration for $17,993, $97,676, $12,210 and $13,495, respectively (2017 - cost of revenues $10,938; research and development $58,877; sales and marketing $8,492; and general and administration $12,273).

(expressed in Canadian dollars)

5 Intangible asset

Cost	$
As at January 1, 2017	4,170,824
Additions, net of research and development tax credits of $607,535	1,822,606
Effect of movements in exchange rates	297,122
As at December 31, 2017	6,290,552
Additions, net of research and development tax credits of $802,743	2,579,678
Effect of movements in exchange rates	284,833
As at December 31, 2018	9,155,063

Accumulated amortization	$
As at January 1, 2017	1,681,214
Amortization charge	1,043,186
Effect of movements in exchange rates	127,989
As at December 31, 2017	2,852,389
Amortization charge	1,385,953
Effect of movements in exchange rates	133,389
As at December 31, 2018	4,371,731

Carrying amount	$
Balance, December 31, 2017	3,438,163
Balance, December 31, 2018	4,783,332

Amortization of the intangible asset is included in research and development costs on the consolidated statements of loss and comprehensive loss. In addition to the capitalized development costs, the Company incurred research costs of $21,384 (2017 - $30,941) which were expensed through the consolidated statements of loss and comprehensive loss as they did not meet the criteria for capitalization. Research costs consist primarily of employee salaries, wages and benefits.

6 Accounts payable and accrued liabilities

	2018 $	2017 $
Current		
Trade payables	110,774	101,846
Accruals	225,309	102,137
Accrued directors’ fees (note 14)	336,510	211,671
Employee remittances	151,638	106,978
Sales tax payable	10,751	–
Other payables	66,153	67,757
	901,135	590,389

(expressed in Canadian dollars)

7 Contract liabilities

	2018 $	2017 $
As at January 1	396,302	42,549
IFRS 15 opening adjustment	22,587	–
Deferral of revenue	720,303	675,500
Recognition of deferred revenue	(778,240)	(311,760)
Effect of movements in exchange rate	30,958	(9,987)
As at December 31	391,910	396,302
Less: current portion of contract liabilities	(383,179)	(396,302)
Non-current portion of contract liabilities	8,731	–

8 Loan payable and accrued interest

	2018 $	2017 $
As at January 1	989,880	934,210
Interest accrual	24,410	23,371
Interest payment	(24,410)	(23,371)
Effect of movements in exchange rate	36,872	55,670
As at December 31	1,026,752	989,880
Less: current portion	(1,026,752)	(12,293)
Non-current portion of loan payable and accrued interest	–	977,587

On June 27, 2016, Enterprise Ireland and kneat.com executed a loan agreement whereby Enterprise Ireland agreed to exchange its cumulative redeemable convertible preference shares in Kneat Solutions Limited, comprised of 232,000 convertible preference shares and 300,000 A convertible preference shares plus accrued interest, for a loan payable to Enterprise Ireland on the third anniversary of the Merger effective date, being June 27, 2019. The interest rate is 3% on the principal balance of €532,000, not compounded and payable annually. Management has determined that the underlying terms of the loan payable do not differ substantially from the terms of the cumulative redeemable convertible preference shares and thus it has been accounted for as a modification of the original financial liability. As at December 31, 2018, the loan payable and accrued interest balance on the consolidated statements of financial position was comprised of a principal balance of $829,595 and accrued interest of $197,157 (2017 - principal balance of $799,804 and accrued interest of $190,076). Subsequent to year end, the loan payable was renegotiated resulting in a three-year repayment schedule. Refer to note 19 for details.

(expressed in Canadian dollars)

9 Share capital

a) Common shares

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

	Number of shares #	Amount $
Outstanding – January 1, 2017	39,563,684	22,941,601
Shares issued pursuant to private placement	5,000,000	3,000,000
Share issuance costs	–	(21,745)
Outstanding – December 31, 2017	44,563,684	25,919,856
Shares issued pursuant to private placement	6,871,830	6,184,647
Share issuance costs	–	(513,215)
Broker warrants	–	(140,394)
Shares issued pursuant to the stock option exercise	6,666	8,866
Outstanding – December 31, 2018	51,442,180	31,459,760

As at December 31, 2017, 17,048,720 common shares of the Company were subject to an escrow agreement pursuant to the terms of the transaction with Kneat Solutions Limited. On January 4, 2018, these shares were released from escrow in accordance with the escrow agreement. As at December 31, 2018, no shares were held in escrow.

On August 3, 2018, an employee exercised 6,666 options with an exercise price of $0.58 per share, for proceeds of $3,866. The share price on the date the options were exercised was $1.33 per share.

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

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

(expressed in Canadian dollars)

9 Share capital (continued)

b) Warrants

As part of the brokered private placement completed on April 10, 2018, the Company issued 356,977 broker warrants, valued at $140,394, which entitle the agents to purchase 356,977 common shares at an exercise price of $0.90 per common share for a period of 18 months.

The fair value of the warrants was estimated at the grant date using the Black-Scholes pricing model using a risk-free interest rate of 1.81%, an expected life of 18 months, volatility of 103%, expected dividends of 0% and an exercise price of $0.90. There were no warrants issued during the year ended December 31, 2017.

The following table reconciles the warrant activity during the years ended December 31, 2018 and December 31, 2017:

	Number of warrants #	Weighted-average exercise price $
Outstanding – January 1, 2017	267,857	0.90
Expired	(267,857)	0.90
Outstanding – December 31, 2017	–	–
Granted	356,977	0.90
Outstanding – December 31, 2018	356,977	0.90

As at December 31, 2018, 356,977 broker warrants are outstanding, exercisable at $0.90 per share into common shares of the Company and expiring on October 10, 2019.

c) Share-based compensation

The Company has a share-based compensation plan, providing the Board of Directors with the discretion to grant an equivalent number of options of up to 10% of the issued and outstanding share capital of the Company. Stock options are granted with an exercise price of not less than the closing share price of the date preceding the date of grant. As at December 31, 2018, 2,486,713 remain available for grant under the terms of the stock option plan.

The following are the weighted-average assumptions used in calculating the value of the stock options granted during the years ended December 31, 2018 and 2017:

	2018	2017
Risk-free interest rate	2.12%	1.11%
Expected life	4.5 years	4.5 years
Expected volatility	96%	116%
Expected dividend per share	0.0%	0.0%
Weighted-average share price	$0.91	$0.60

(expressed in Canadian dollars)

9 Share capital (continued)

c) Share-based compensation (continued)

The following table reconciles the stock option activity during the years ended December 31, 2018 and 2017:

	Number of options #	Weighted-average exercise price $
Outstanding – January 1, 2017	1,985,859	0.86
Granted	554,000	0.60
Forfeited	(241,083)	0.79
Outstanding – December 31, 2017	2,298,776	0.80
Granted	438,000	0.91
Exercised	(6,666)	0.58
Forfeited	(72,605)	0.54
Outstanding – December 31, 2018	2,657,505	0.83

For the year ended December 31, 2018, the estimated value of options earned and recorded in the consolidated statements of loss and comprehensive loss was $131,805 and is included in cost of revenues for $24,505, research and development for ($4,361), sales and marketing for $76,030 and general and administration for $35,631 (2017 - $160,017 included in cost of revenues for $33,126, research and development for ($11,002), sales and marketing for $76,541 and general and administration for $61,352). The estimated value of options earned during the year ended December 31, 2018 and recorded as an addition to the intangible asset was $113,063 (2017 - $160,510).

The following table summarizes information related to outstanding and exercisable stock options as at December 31, 2018:

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price
March 19, 2019	0.2	200,000	200,000	0.90
January 2, 2020	1.0	66,667	66,667	0.90
November 10, 2020	1.9	33,333	33,333	0.90
July 4, 2021	2.5	1,235,584	1,122,428	0.90
September 26, 2021	2.7	10,587	10,587	0.90
October 3, 2021	2.8	216,000	144,000	0.55
January 11, 2022	3.0	177,334	59,111	0.58
February 1, 2022	3.1	100,000	33,333	0.57
April 4, 2022	3.3	100,000	33,333	0.57
May 29, 2022	3.4	15,000	5,000	0.68
November 1, 2022	3.8	100,000	33,333	0.70
February 1, 2023	4.1	198,000	–	0.80
April 25, 2023	4.3	5,000	–	0.85
November 1, 2023	4.8	100,000	–	1.02
December 18, 2023	5.0	100,000	–	0.97

(expressed in Canadian dollars)

10 Revenue

Revenue consists of the following:

	2018 $	2017 $
SaaS license fees	130,425	69,443
On-premise license fees	419,908	–
Maintenance fees	262,777	214,285
Professional services and other	494,185	137,538
	1,307,295	421,266

The following table presents total external revenues by geographic location, based on the location of the Company's customers:

	2018 $	2017 $
United States	915,464	415,036
United Kingdom	187,000	–
Romania	126,395	–
Ireland	58,807	–
Canada	19,629	6,230
	1,307,295	421,266

11 Expenses by nature

	2018 $	2017 $
Amortization of the intangible asset	1,385,953	1,043,186
Cloud hosting and other services	323,078	220,102
Consultancy fees	171,046	171,336
Depreciation of plant and equipment	141,374	90,580
Disposals and write-off of fixed assets, net	3,401	(1,558)
Salaries, wages and benefits	2,996,816	2,142,816
Other administrative cost	429,468	312,400
Professional and audit fees	248,080	175,537
Research and development tax credit recovery	(5,346)	(8,727)
Rent and rates	54,989	39,756
Sales, marketing and advertising	287,040	142,160
Securities and regulatory fees	66,078	55,131
Share-based compensation	131,805	160,017
Travel	242,088	160,382
	6,475,870	4,703,118

(expressed in Canadian dollars)

12 Income taxes

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

	2018 $	2017 $
Loss before income taxes	(4,608,534)	(3,994,917)
Statutory rate	14.06%	14.56%
Tax recovery at statutory rate	(647,960)	(581,660)
Permanent differences and other	(152,861)	(119,813)
Recovery for losses and deductible differences not recognized in current and prior years	800,821	701,473
Income tax recovery	–	–

At December 31, 2018, the Company has unused non-capital losses in Canada and the United States of $3.8 million (2017 - $2.0 million) available for carry-forward purposes which expire from 2036 to 2038.

The Company also has unused non-capital loss carry-forwards in Ireland of $18.1 million (2017 - $12.9 million) that have no expiration date, however, the use of these carry-forwards is restricted to taxable income from operations.

At December 31, 2018, the Company has no unrecognized deferred tax liabilities (2017 - $nil) for taxes that would be payable on unremitted earnings. At December 31, 2018, the Company has $4.0 million of unrecognized deferred tax assets (2017 - $2.3 million).

There are no income tax consequences attached to the payment of dividends in 2018 or 2017 by the Company to its shareholders as the Company did not pay dividends during these years.

13 Supplemental cash flow information

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

	2018 $	2017 $
Decrease (increase) in amounts receivable	(291,554)	652,838
Increase (decrease) in accounts payable and accrued liabilities	175,161	(519,494)
Increase (decrease) in contract liabilities	(66,236)	353,740
	(182,629)	487,084

14 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).

(expressed in Canadian dollars)

14 Related party transactions (continued)

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)).

15 Key management compensation

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

	2018 $	2017 $
Salaries and other benefits (expensed)	552,289	507,515
Share-based compensation (expensed)	52,538	121,026
Salaries and other benefits (capitalized)	161,343	175,289
Directors' fees (expensed)	114,719	140,729
	880,889	944,559

16 Fair value of financial instruments and risk management

a) Capital management

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

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

	2018 $	2017 $
Equity	7,592,947	6,614,803
Less: Cash	(2,765,507)	(3,482,318)
	4,827,440	3,132,485

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may issue equity or return capital to shareholders. No changes were made in the objectives, policies or processes for managing capital during the year ended December 31, 2018 or 2017.

(expressed in Canadian dollars)

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

b) Fair values of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The carrying amounts reported in the consolidated statements of financial position for cash, amounts receivable, accounts payable, accrued liabilities and loan payable approximate their fair values based on the immediate or short-term maturities of these financial instruments.

c) Financial risk management objectives

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

d) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date. At December 31, 2018 and 2017, the Company's financial assets exposed to credit risk amounted to the following:

	2018 $	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.

e) Liquidity risk

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

(expressed in Canadian dollars)

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

e) Liquidity risk (continued)

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

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

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities as at December 31, 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
	1,917,136	–	–	–	1,917,136

[1] Refer to subsequent events (note 19) for renegotiated loan payment terms.

f) Currency risk

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

The Company is exposed to currency risk on its cash balances, 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 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.

(expressed in Canadian dollars)

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

g) Interest risk

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

h) Fair value hierarchy

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

At December 31, 2018 and 2017, the Company had no financial instruments that were measured and recognized on the consolidated statements of financial position at fair value. In addition, there were no transfers between levels during the years.

17 Commitments and contingencies

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

The Company's commitments under operating leases, in the form of non-cancellable future lease payments are not reflected as a liability on its consolidated statements of financial position. The lease agreements give the Company the option to terminate the leases on the fifth and tenth anniversaries of the lease signings. Non-cancellable lease payments are as follows:

Payments due by period as of December 31, 2018:

Within 1 year	2-3 years	4-5 years	Over 5 years	Total
$	$	$	$	$
208,949	410,881	275,198	-	895,028

Lease incentives relate to the reimbursement of the fit-out cost from the lessor and to the reduced rent period. A reduction of the total lease expense of $9,620 was recognized for the year ended December 31, 2018 in relation to the reimbursement of the fit-out costs from the lessor (2017 - $9,275). The Company also leases computer equipment under finance lease agreements, with lease terms of three to five years.

(expressed in Canadian dollars)

17 Commitments and contingencies (continued)

The Company has committed to sponsor several conferences and other services which will result in the Company paying $126,745 throughout 2019, and $57,766 in 2020.

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

18 Comparative figures

Certain comparative figures in the consolidated financial statements have been reclassified in order to conform with current year presentation.

19 Subsequent events

Subsequent to year-end, 410,000 stock options were granted to employees of the Company. The stock options are exercisable at a weighted average price of $1.02 per share and expire between January 3, 2024 and April 4, 2024. On March 7, 2019, officers of the Company were awarded 293,000 stock options at an exercise price of $1.06 per share and expire on March 7, 2024. All options granted vest over a three-year period.

On January 15, 2019, an employee exercised 15,000 stock options at an exercise price of $0.55 per common share. On March 4, 2019, a director exercised 200,000 stock options at an exercise price of $0.90 per common share.

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. This resulted in the issuance of 8,111,937 common shares of the Company at an issue price of $1.05 per common share. In connection with both financings, the Company paid a total of $386,052 in cash commissions and issued 343,860 broker warrants, exercisable into a common share of the Company at an exercise price of $1.05 per share for a period of 24 months. Directors of the Company subscribed to 761,905 common shares for gross proceeds of $799,999. In addition, Numus Capital Corp., a company controlled by a director, acted as selling agent in the non-brokers equity financing and received 124,466 broker warrants and $130,689 in cash finders' fees. Directors of the Company subscribed to 761,904 common shares issued pursuant to the public equity financing for gross proceeds of $799,999. The 2,074,437 common shares issued in connection with the non-brokered private placement are subject to a statutory four-month hold period in accordance with applicable securities laws.

On February 28, 2019, Enterprise Ireland and the Company agreed to a revised loan payment schedule. The revised schedule results in payments being made over a three-year period on a quarterly basis. Approximate annual payments of principal and interest will be as follows: 2019 - $161,548; 2020 - $310,503; 2021 - $464,158; and 2022 - $124,065.

On March 31, 2019, directors of the Company were awarded 11,112 deferred share units ("DSU") of the Company as compensation for their services as directors in lieu of cash. The DSUs vest over a three-year period and cannot be redeemed until the holder is no longer a director of the Company.