kneat.com, inc.

Consolidated Financial Statements
December 31, 2019 and 2018
(expressed in Canadian dollars)

April 22, 2020

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) *"Hugh Kavanagh"*
Chief Financial Officer
Limerick, Ireland

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, 2019 and 2018, 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, 2019 and 2018;
- 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.

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.

(signed) *PricewaterhouseCoopers LLP*

Chartered Professional Accountants

Saint John, New Brunswick
April 22, 2020

kneat.com, inc.

Consolidated Statements of Financial Position

As at December 31, 2019 and 2018

(expressed in Canadian dollars)

	2019 $	2018 $
Assets		
Current assets		
Cash	**4,216,846**	2,765,507
Amounts receivable (note 3)	**1,807,643**	1,033,212
Prepayments	**261,905**	162,836
Deferred contract acquisition costs	**118,510**	55,618
	6,404,904	4,017,173
Amounts receivable (note 3)	**999,386**	787,044
Deferred contract acquisition costs	**51,162**	14,313
Property and equipment (note 4)	**1,107,908**	512,520
Intangible asset (note 5)	**6,085,076**	4,783,332
	14,648,436	10,114,382
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	**784,612**	901,135
Contract liabilities (note 7)	**967,913**	383,179
Loan payable and accrued interest (note 8)	**277,507**	1,026,752
Lease liabilities (note 9)	**148,061**	–
Lease incentives	–	9,618
	2,178,093	2,320,684
Contract liabilities (note 7)	**238,732**	8,731
Lease liabilities (note 9)	**496,017**	–
Lease incentives	–	192,020
Loan payable and accrued interest (note 8)	**555,014**	–
	3,467,856	2,521,435
Shareholders' equity	**11,180,580**	7,592,947
Total liabilities and equity	**14,648,436**	10,114,382

Commitments and contingencies (note 18)

Approved on behalf of the Board of Directors on April 22, 2020

(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, 2019 and 2018

(expressed in Canadian dollars)

	2019 $	2018 $
Revenue (note 11)	**3,949,924**	1,307,295
Cost of revenues (note 12)	**(2,185,449)**	(976,707)
Gross margin	**1,764,475**	330,588
Expenses (income)		
Research and development (note 12)	**3,462,353**	2,555,418
Sales and marketing (note 12)	**1,603,230**	1,644,366
General and administrative (note 12)	**1,785,780**	1,299,379
Interest expense	**67,778**	24,410
Interest income	**(6,743)**	(13,576)
Other recoveries	**(67,031)**	–
Foreign exchange (gain) loss	**1,115,734**	(570,875)
Loss before income taxes	**(6,196,626)**	(4,608,534)
Income tax recovery (note 13)	**–**	–
Net loss for the year	**(6,196,626)**	(4,608,534)
Other comprehensive loss		
Foreign currency translation adjustment to presentation currency	**524,522**	(325,801)
Comprehensive loss for the year	**(5,672,104)**	(4,934,335)
Loss per share – Basic and diluted	**(0.11)**	(0.09)
Weighted-average number of common shares outstanding: Basic and diluted	**58,684,955**	49,574,405

kneat.com, inc.

Consolidated Statements of Changes in Equity

For the years ended December 31, 2019 and 2018

(expressed in Canadian dollars)

	Number of common shares #	Common shares $	Warrants $	Contributed surplus $	Translation reserve $	Deficit $	Total $
Balance – December 31, 2017	**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 income for the year	–	–	–	–	(325,801)	–	(325,801)
	–	–	–	–	(325,801)	(4,608,534)	(4,934,335)
Shares issued pursuant to private placement (note 10(a))	6,871,830	6,184,647	–	–	–	–	6,184,647
Share issuance costs (note 10(a))	–	(513,215)	–	–	–	–	(513,215)
Broker warrants (note 10(b))	–	(140,394)	140,394	–	–	–	–
Shares issued pursuant to the stock option exercise (note 10(a))	6,666	8,866	–	(5,000)	–	–	3,866
Share-based compensation expense (note 10(c))	–	–	–	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**
Net loss for the year	–	–	–	–	–	(6,196,626)	(6,196,626)
Other comprehensive loss for the year	–	–	–	–	524,522	–	524,522
	–	–	–	–	524,522	(6,196,626)	(5,672,104)
Share issued pursuant to public equity financing (note 10(a))	6,037,500	6,339,376	–	–	–	–	6,339,376
Shares issued pursuant to private placement (note 10(a))	2,074,437	2,178,160	–	–	–	–	2,178,160
Share issuance costs pursuant to the equity financings (note 10(a))	–	(686,921)	–	–	–	–	(686,921)
Broker warrants share issuance costs (note 10(a))	–	(150,870)	150,870	–	–	–	–
Shares issued pursuant to the option exercises (note 10(a))	286,782	423,762	–	(171,870)	–	–	251,892
Shares issued pursuant to warrant exercises (note 10 a))	344,441	445,460	(135,463)				309,997
Share-based compensation expense (note 10(c))	–	–	–	560,433	–	–	560,433
Deferred share units granted for director fees (note 10(d))	–	–	–	306,800	–	–	306,800
Balance – December 31, 2019	**60,185,340**	**40,008,727**	**155,801**	**2,260,688**	**383,943**	**(31,628,579)**	**11,180,580**

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, 2019 and 2018

(expressed in Canadian dollars)

	2019 $	2018 $
Operating activities		
Net loss for the year	(6,196,626)	(4,608,534)
Charges to loss not involving cash:		
Depreciation of property and equipment	301,087	141,374
Share-based compensation expense	424,171	131,805
Interest expense	67,778	24,410
Amortization of the intangible asset	1,729,260	1,385,953
Amortization of deferred contract acquisition costs	91,025	68,583
Amortization of lease incentives	–	(9,434)
Research and development tax credits recovery	(15,840)	(11,393)
Disposal and write-off of property and equipment, net	–	3,401
Foreign exchange gain / (loss)	1,115,734	(570,875)
Increase in non-current contract liabilities	233,892	8,298
Net change in non-cash operating working capital related to operation (note14)	(141,885)	(182,629)
Net cash used in operating activities	**(2,391,404)**	**(3,619,041)**
Financing activities		
Proceeds received from public equity financing	6,339,376	–
Proceeds received from non-brokered private placements	2,178,160	6,184,647
Share issuance costs associated with equity financings	(686,921)	(513,215)
Payment of principal and interest on the loan payable	(157,917)	(24,410)
Proceeds from the exercise of stock options	251,892	3,866
Proceeds from the exercise of warrants	309,997	–
Repayment of lease liabilities	(181,649)	–
Net cash provided by financing activities	**8,052,938**	**5,650,888**
Investing activities		
Additions to the intangible asset	(4,286,846)	(3,210,971)
Collection of research and development tax credits	653,326	519,564
Additions to property and equipment	(346,259)	(157,142)
Net cash used in investing activities	**(3,979,779)**	**(2,848,549)**
Effects of exchange rates on cash	(230,416)	99,891
Net change in cash during the year	1,451,339	(716,811)
Cash – Beginning of year	2,765,507	3,482,318
Cash – End of year	4,216,846	2,765,507

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

(expressed in Canadian dollars)

1 Nature of operations

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 ("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 Business Park, 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.

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 22, 2020. 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

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

c) Foreign currency translation (continued)

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.

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.

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

d) Critical accounting judgments and estimates (continued)

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.

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.

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

e) Revenue recognition (continued)

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*

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.

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

e) Revenue recognition (continued)

v) *Contracts with multiple performance obligations*

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.

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.

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

f) Income taxes and other taxes (continued)

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

The Company accounts for leases in accordance with IFRS 16. Effective January 1, 2019, the Company adopted IFRS 16, *Leases* ("IFRS 16"). The Company's transition to IFRS 16 is explained in Note 2 (s).

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 2019 or 2018. The Company depreciates the cost of property and equipment on a straight-line basis over their estimated useful lives at the following rates:

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

h) Property and equipment (continue)

Computers and servers	33.3% per annum
Leasehold improvements	Shorter of 12.5% per annum or remaining lease term
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 2019 or 2018.

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, 2019, there were no impairments or reversals of impairments recorded.

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

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.

n) Loss per share

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

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

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

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, 2019 and 2018.

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.

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

FVTPL are recognized immediately in the consolidated statements of loss and comprehensive loss.

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

r) Financial instruments (continued)

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 accounts receivable. Under this model, impairment provisions are based on credit risk characteristics and days past due. When there is no reasonable expectation of collection, financial assets classified as amortized cost are written off. Indications of credit risk arise based on failure to pay and other factors. Should objective events occur after an impairment loss is recognized, a reversal of impairment is recognized in the consolidated statements of loss and comprehensive loss.

s) New accounting standards adopted during the year

Effective January 1, 2019, 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, 2019.

IFRS 16, Leases ("IFRS 16")

The Company adopted IFRS 16 effective January 1, 2019. IFRS 16 was applied using the modified retrospective approach whereby 2018 figures were not restated.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. IFRS 16 was applied only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were not reassessed for whether there is a lease. In addition, the Company applied section C8(b)(ii) of the standard and recognized leased assets at an amount equal to the lease liability, adjusted for prepayments recognized before initial application. As a result of the adoption of IFRS 16, $423,625 of right-of-use assets and $630,444 of lease liabilities were recognized at January 1, 2019, based on leases that were in place at December 31, 2018. The difference in amounts recognized with respect to right-of-use assets and lease liabilities relates to lease incentives that

(expressed in Canadian dollars)

2 Summary of significant accounting policies (continued)

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

reduce the right-of-use asset value under IFRS 16. The right-of-use assets and lease liabilities recognized are for the Company's office spaces that were previously classified as operating leases.

When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at the date of adoption. The incremental borrowing rate was estimated by assessing the amount of the total lease payments, the underlying assets and the term of each lease. The weighted average incremental borrowing rate for lease liabilities initially recognized as of January 1, 2019 was 5.7%.

The reconciliation of commitments disclosed in the December 31, 2018 financial statements to the lease liability recognized on transition to IFRS 16 is:

	$
Commitments as at December 31, 2018	895,028
Recognition exemptions for:	
Leases of low value assets	(8,033)
Non-lease commitments	(79,997)
Extension option reasonably certain to be recognized	107,802
Modified lease effective January 1, 2019	(182,449)
Impact of discount using incremental borrowing rate at January 1, 2019	(101,907)
Lease liability recognized on transition at January 1, 2019	630,444

Effective January 1, 2019, in accordance with IFRS 16, the Company assesses whether a contract is or contains a lease based on the criteria outlined in the standard. When a contract meets the definition of a lease, the Company recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which includes the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any incentives received. The right-of-use asset is then depreciated on a straight-line basis from the commencement date to the end of the lease term. The carrying amount of the right-of-use asset may be reduced by impairment losses or adjusted for certain remeasurements of the lease liability, if any.

The lease liability is initially measured at the present value of future lease payments, discounted using the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method. It is remeasured if the Company changes its assessment of whether it will exercise a purchase, extension or termination options.

The Company has elected not to recognize assets and lease liabilities for short-term leases with a term of 12 months or less, and leases of low value assets. The lease payments associated with these leases are recognized as an expense in the consolidated statement of loss and comprehensive loss over the lease term. Low value assets consist primarily of computers.

(expressed in Canadian dollars)

3 Amounts receivable

	2019 $	2018 $
Current		
Research and development tax credits receivable	828,885	686,068
Trade debtors	610,789	227,538
Contract assets	257,971	21,586
Other debtors	53,002	58,834
Sales tax receivable	56,996	39,186
	1,807,643	1,033,212
Non-current		
Research and development tax credits receivable	999,386	787,044
	2,807,029	1,820,256

4 Property and equipment

	Computers and servers $	Furniture and fixtures $	Right-of-use assets $	Leasehold improvements $	Total $
Cost					
As at January 1, 2018	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
Additions	191,793	36,780	575,482	99,251	903,306
Lease modifications	–	–	34,116	–	34,116
Write-offs	–	–	–	–	–
Effect of movements in exchange rates	(21,540)	(4,721)	(8,937)	(27,216)	(62,414)
As at December 31, 2019	474,319	99,773	600,661	489,669	1,664,422

(expressed in Canadian dollars)

4 Property and equipment (continued)

	Computers and servers $	Furniture and fixtures $	Right-of-use assets $	Leasehold improvements $	Total $
Accumulated depreciation					
As at January 1, 2018	106,977	25,570	–	57,016	189,563
Depreciation charges	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
Depreciation charge	105,762	11,436	126,584	57,305	301,087
Write-offs	–	–	–	–	–
Effect of movements in exchange rates	(9,886)	(2,020)	(1,856)	(7,705)	(21,467)
As at December 31, 2019	231,445	39,398	124,728	160,943	556,514

	Computers and servers $	Furniture and fixtures $	Right-of-use assets $	Leasehold improvements $	Total $
Carrying amount					
Balance, December 31, 2018	168,497	37,732	–	306,291	512,520
Balance, December 31, 2019	242,874	60,375	475,933	328,726	1,107,908

Depreciation of property and equipment is included in the consolidated statements of loss and comprehensive loss for $301,087 (2018 - $141,374).

(expressed in Canadian dollars)

5 Intangible asset

Cost	**$**
As at January 1, 2018	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
Additions, net of research and development tax credits of $1,071,712	3,349,818
Effect of movements in exchange rates	(613,832)
As at December 31, 2019	11,891,049

Accumulated amortization	**$**
As at January 1, 2018	2,852,389
Amortization charge	1,385,953
Effect of movements in exchange rates	133,389
As at December 31, 2018	4,371,731
Amortization charge	1,729,260
Effect of movements in exchange rates	(295,018)
As at December 31, 2019	5,805,973

Carrying amount	**$**
Balance, December 31, 2018	4,783,332
Balance, December 31, 2019	6,085,076

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 $63,358 (2018 - $21,384) 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

	2019 **$**	**2018** **$**
Current		
Trade payables	196,670	110,774
Accruals	315,025	225,309
Accrued directors' fees (note 15)	–	336,510
Employee remittances	213,289	151,638
Sales tax payable	2,033	10,751
Other payables	57,595	66,153
	784,612	901,135

(expressed in Canadian dollars)

7 Contract liabilities

	2019 $	2018 $
As at January 1	391,910	396,302
IFRS 15 opening adjustment	–	22,587
Deferral of revenue	2,497,215	720,303
Recognition of deferred revenue	(1,653,544)	(778,240)
Effect of movements in exchange rate	(28,936)	30,958
As at December 31	1,206,645	391,910
Less: current portion of contract liabilities	(967,913)	(383,179)
Non-current portion of contract liabilities	238,732	8,731

8 Loan payable and accrued interest

	2019 $	2018 $
As at January 1	1,026,752	989,880
Interest accrual	25,508	24,410
Interest payment	(157,917)	(24,410)
Effect of movements in exchange rate	(61,822)	36,872
As at December 31	832,521	1,026,752
Less: current portion	(277,507)	(1,026,752)
Non-current portion of loan payable and accrued interest	555,014	–

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, with the total balance being due in June 2019. 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. Management has determined that the revised terms of the loan payable do not differ substantially from the terms of the original loan. As such, the loan was accounted for as a non-substantial modification of the original loan. As at December 31, 2019, the loan payable and accrued interest balance on the consolidated statement of financial position was comprised of a principal balance of $832,521 and accrued interest of $nil. The interest rate on the loan is 3.0% at December 31, 2019 and December 31, 2018. The minimum annual principal repayments of the loan payable over the next three years as of December 31, 2019 are as follows:

Within 1 year $	2 years $	3 years $	Total $
277,507	436,083	118,931	832,521

(expressed in Canadian dollars)

9 Lease liability

	2019	2018
	$	$
Balance - Beginning of period	-	-
Leases recognized upon transition to IFRS 16 (note 2(s))	630,444	-
Additions	166,565	-
Repayments of lease obligations	(181,653)	-
Accreted interest	42,265	-
Modifications	34,118	
Effects of movements in exchange rates	(47,661)	-
Balance - End of period	644,078	-
Less: Current portion	(148,061)	-
Non-current portion	496,017	-

10 Share capital

a) Common shares

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

	Number of shares	Amount
	#	$
Outstanding – January 1, 2018	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
Shares issued pursuant to the public equity financing	6,037,500	6,339,376
Shares issued pursuant to the private placement	2,074,437	2,178,160
Share issuance costs pursuant to the equity financing	–	(686,921)
Broker warrants share issuance costs	–	(150,870)
Shares issued pursuant to the stock option exercise	286,782	423,762
Shares issued pursuant to warrant exercises	344,441	445,460
Outstanding – December 31, 2019	60,185,340	40,008,727

During the year ended December 31, 2019, employees exercised 86,782 options with a weighted average exercise price of $0.83 per share for proceeds of $71,892; and a director exercised 200,000 options with an exercise price of $0.90 per share for proceeds of $180,000.

During the year ended December 31, 2019, 344,441 broker warrants were exercised with an exercise price of $0.90 per share for proceeds of $309,997

(expressed in Canadian dollars)

10 Share capital (continued)

a) Common shares (continued)

During the year ended December 31, 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.

Equity financings
On February 20, 2019, the Company completed a public equity financing for gross proceeds of $6,339,376 and a concurrent non-brokered private placement 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 the financings, the Company issued 343,860 broker warrants, exercisable into common shares of the Company at an exercise price of $1.05 per shares for a period of 24 months. The Company incurred share issuance costs of $837,791, including commissions, professional and regulatory fees and broker warrants. 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, which expired on June 20, 2019.

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 which expired on August 10, 2018.

b) Warrants

The following are the weighted-average assumptions used in calculating the value of the warrants granted during the years ended December 31, 2019 and December 31, 2018:

	2019	2018
Risk-free interest rate	1.77%	1.81%
Expected life	2.0 years	1.5 years
Expected volatility	76%	103%
Expected dividend per share	0.0%	0.0%
Weighted-average exercise price	$1.05	$0.90

(expressed in Canadian dollars)

10 Share capital (continued)

b) Warrants (continued)

The following table reconciles the warrant activity during the years ended December 31, 2019 and December 31, 2018:

	Number of warrants #	Weighted-average exercise price $
Outstanding – January 1, 2018	–	–
Granted	356,977	–
Outstanding – December 31, 2018	356,977	0.90
Granted	343,860	1.05
Exercised	(344,441)	0.90
Expired	(12,536)	0.90
Outstanding – December 31, 2019	343,860	1.05

The following table summarizes information relating to outstanding warrants as at December 31, 2019:

Expiry date	Weighted-average remaining contractual life (in years)	Number of warrants outstanding	Weighted-average exercise price
February 20, 2021	1.1	343,860	$ 1.05

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, 2019, 2,762,163 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, 2019 and 2018:

	2019	2018
Risk-free interest rate	1.64%	2.12%
Expected life	4.5 years	4.5 years
Expected volatility	86%	96%
Expected dividend per share	0.0%	0.0%
Weighted-average share price	$1.16	$0.91

(expressed in Canadian dollars)

10 Share capital (continued)

c) Share-based compensation (continued)

The following table reconciles the stock option activity during the years ended December 31, 2019 and 2018:

	Number of options #	Weighted-average exercise price $
Outstanding – January 1, 2018	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
Granted	943,000	1.15
Exercised	(286,782)	0.88
Forfeited	(57,352)	0.83
Outstanding – December 31, 2019	3,256,371	0.92

For the year ended December 31, 2019, the estimated value of options earned and recorded in the consolidated statements of loss and comprehensive loss was $336,134. The estimated value of options earned during the year ended December 31, 2019 and recorded as an addition to the intangible asset was $136,263 (2018 - $113,063).

(expressed in Canadian dollars)

10 Share capital (continued)

c) Share-based compensation (continued)

The following table summarizes information related to outstanding and exercisable stock options as at December 31, 2019:

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price
November 10, 2020	0.9	33,333	33,333	$ 0.90
July 4, 2021	1.5	1,235,584	1,122,428	$ 0.90
September 26, 2021	1.7	10,587	10,587	$ 0.90
October 3, 2021	1.8	199,200	132,800	$ 0.55
January 11, 2022	2.0	165,334	110,223	$ 0.58
February 1, 2022	2.1	100,000	66,667	$ 0.57
April 4, 2022	2.3	100,000	66,667	$ 0.57
May 29, 2022	2.4	15,000	10,000	$ 0.68
November 1, 2022	2.8	100,000	33,333	$ 0.70
February 1, 2023	3.1	171,333	57,111	$ 0.80
April 25, 2023	3.3	5,000	1,667	$ 0.85
November 1, 2023	3.8	100,000	33,333	$ 1.02
December 18, 2023	4.0	100,000	33,333	$ 0.97
January 3, 2024	4.0	358,000	–	$ 1.00
March 7, 2024	4.2	293,000	–	$ 1.06
April 4, 2024	4.3	30,000	–	$ 1.22
May 13, 2024	4.4	30,000	–	$ 1.30
July 9, 2024	4.5	10,000	–	$ 1.18
September 23, 2024	4.7	200,000	–	$ 1.52

d) Deferred Share Units

The maximum number of common shares which the Company is entitled to issue from treasury in connection with the redemption of DSUs granted under the DSU plan is 666,667 common shares. As at December 31, 2019, 198,614 remain available for grant under the terms of the DSU plan.

DSU activity for the years ended December 31, 2019 and year ended December 31, 2018 is as follows:

	2019	2018
	$	$
Outstanding - Beginning of period	–	–
Granted (note 15)	468,053	–
Outstanding - End of period	468,053	–

For the year ended December 31, 2019, the estimated value of DSUs earned and recorded in the consolidated statements of loss and comprehensive loss was $88,036 and is included in general and administration expenses.

(expressed in Canadian dollars)

11 Revenue

Revenue consists of the following:

	2019 $	2018 $
SaaS license fees	841,343	130,425
On-premise license fees	1,546,759	419,908
Maintenance fees	500,231	262,777
Professional services	1,061,591	494,185
	3,949,924	1,307,295

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

	2019 $	2018 $
North America	1,933,802	935,093
Europe	1,956,723	372,202
Asia	59,399	–
	3,949,924	1,307,295

12 Expenses by nature

	2019 $	2018 $
Amortization of the intangible asset	1,729,260	1,385,953
Cloud hosting and other services	490,184	323,078
Consultancy fees	127,098	171,046
Depreciation of plant and equipment	301,087	141,374
Disposals and write-off of fixed assets, net	–	3,401
Other administrative cost	703,620	429,468
Professional and audit fees	266,935	248,080
Research and development tax credit recovery	(127,179)	(5,346)
Rent and rates	31,061	54,989
Salaries, wages and benefits	4,455,896	2,996,816
Sales, marketing and advertising	331,640	287,040
Securities and regulatory fees	76,158	66,078
Share-based compensation	424,171	131,805
Travel	226,881	242,088
	9,036,812	6,475,870

(expressed in Canadian dollars)

13 Income taxes

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

	2019 $	2018 $
Loss before income taxes	(6,196,626)	(4,608,534)
Statutory rate	18.05%	14.06%
Tax recovery at statutory rate	(1,118,491)	(647,960)
Permanent differences and other	275,393	(152,861)
Recovery for losses and deductible differences not recognized in current and prior years	843,098	800,821
Income tax recovery	–	–

At December 31, 2019, the Company has unused non-capital losses in Canada and the United States of $4.5 million (2018 - $3.8 million) available for carry-forward purposes which expire from 2036 to 2039.

The Company also has unused non-capital loss carry-forwards in Ireland of $23.4 million (2018 - $18.1 million) that have no expiration date, however, the use of these carry-forwards is restricted to taxable income from operations.

At December 31, 2019, the Company has no unrecognized deferred tax liabilities (2018 - $nil) for taxes that would be payable on unremitted earnings. At December 31, 2019, the Company has $4.3 million of unrecognized deferred tax assets (2018 - $4.0 million).

There are no income tax consequences attached to the payment of dividends in 2019 or 2018 by the Company to its shareholders as the Company did not pay dividends during these years.

14 Supplemental cash flow information

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

	2019 $	2018 $
Decrease in amounts receivable and prepayments	(776,951)	(291,554)
Increase in accounts payable and accrued liabilities	25,285	175,161
Increase (decrease) in contract liabilities	609,781	(66,236)
	(141,885)	(182,629)

(expressed in Canadian dollars)

15 Related party transactions

During the year ended December 31, 2019, the Company incurred costs for accounting services from a related party, Numus Financial Inc. ("Numus"), a company in which a director of kneat.com is a shareholder, in the amount of $30,318 (2018 - $30,713) and incurred rent and office costs from Numus in the amount of $20,145 (2018 - $26,795). As at December 31, 2019, the amount owing to Numus was $nil (December 31, 2018 - $12,021).

As at December 31, 2019, the Company was due $16,607 (2018 - $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.

During the year ended December 31, 2019, the Company accrued directors' fees of $27,914 for the directors who are not employees or officers of the Company (2018 - $114,719). During the year ended December 31, 2019, outstanding directors' fees of $306,800 were settled through the issuance of 255,666 DSUs and $42,247 were paid in cash. As at December 31, 2019, the amount owing to directors included in accounts payable and accrued liabilities was $nil (2018 - $336,510).

During the year ended December 31, 2019, the Company issued a total of 468,053 DSUs to members of the Board of Directors who are not employees or officers of the Company (note 10(d)).

On February 20, 2019, directors of the Company subscribed to 761,905 common shares for gross proceeds of $799,999. In addition, Numus Capital Corp., a company in which a director of the Company is a shareholder, acted as selling agent in the non-brokered private placement and received 124,466 broker warrants and $130,689 in cash finders fees (note 10(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 in which a director of the Company is a shareholder, acted as a selling agent in the brokered private placement and received 106,266 broker warrants and $95,640 in cash commissions (note 10(a)).

Amounts receivable from officers and directors was $nil as at December 31, 2019 (2018 - $115).

16 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:

	2019 $	2018 $
Salaries and other benefits (expensed)	642,294	552,289
Salaries and other benefits (capitalized)	513,115	161,343
Share-based compensation (expensed)	138,588	52,538
Directors' fees (expensed)	27,914	114,719
	1,321,911	880,889

(expressed in Canadian dollars)

17 Fair value of financial instruments and risk management

a) Capital management

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

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

	2019 $	2018 $
Equity	11,180,580	7,592,947
Less: Cash	(4,216,846)	(2,765,507)
	6,963,734	4,827,440

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 years ended December 31, 2019 or 2018.

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 and accounts payable and accrued liabilities approximate their fair values based on the immediate or short-term maturities of these financial instruments. In addition, non-current amounts receivable and the loan payable, although not due in the current year, do not have fair values that differ significantly from their carrying values.

c) Financial risk management objectives

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

(expressed in Canadian dollars)

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

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, 2019 and 2018, the Company's financial assets exposed to credit risk amounted to the following:

	2019 $	2018 $
Cash	4,216,846	2,765,507
Amounts receivable	1,183,667	470,794

During the years ended December 31, 2019 and 2018, the Company did not hold any financial assets that were past due or impaired. Trade debtors of $610,789 are included in amounts receivable as at December 31, 2019 (2018 - $227,538). 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, the United States and Canada. The long-term credit rating, as determined by Standard and Poor's, was BBB-, A 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.

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, 2019:

(expressed in Canadian dollars)

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

e) Liquidity risk (continued)

	Within 1 year	2-3 years	4-5 years	Over 5 years	Total
Accounts payable and accrued liabilities	782,577	–	–	–	782,577
Lease payments	182,628	365,256	177,976	–	725,860
Loan payable	277,507	555,014	–	–	832,521
	1,242,712	920,270	177,976	–	2,340,958

The Company's operations to date 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 $31,628,579 as at December 31, 2019. For the year ended December 31, 2019, the Company incurred a net loss of $6,196,626 with negative cash flows from operations of $2,391,404 and capitalized development cost spend of $4,286,846 (2018 - $4,608,534, $3,619,041 and $3,210,971, respectively). As the Company incurs losses and negative cash flow from operations, the Company has relied on financing activities to meet its working capital and operating requirements, including funds needed to further develop its software and expand its sales function. The Company has a history of being able to raise funds on the capital markets to meet its ongoing requirements and on March 12, 2020, the Company closed a public equity financing for gross proceeds of $12,650,978 and a concurrent non-brokered private placement for gross proceeds of $1,830,522 (note 19). However, there can be no assurance that, in the future, the Company will be able to raise funding on favorable terms, if at all.

Subsequent to December 31, 2019, financial markets have been negatively impacted by a novel strain of coronavirus ("COVID-19"), which was declared a pandemic by the World Health Organization ("WHO") on March 11, 2020. The continued spread of the coronavirus (COVID-19) and the actions being taken by governments, businesses and individuals to limit this pandemic may adversely impact our operations, including, among others, credit risk our ability to serve our customers and our ability to raise new funding. This has resulted in significant economic uncertainty and even though the Company has to date experienced no significant impact to its operations, any potential impact on our future financial results is difficult to reliably measure. The Company is regularly assessing the situation and remains in contact with its partners, customers and suppliers to assess any impacts and risk.

The Directors believe that the Company's cash resources when combined with the proceeds from the 2020 Financing, will be sufficient to fund operations for at least twelve months from the issuance date of the financial statements.

(expressed in Canadian dollars)

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

f) Currency risk

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

The Company is exposed to currency risk on its cash balances, 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, 2019, a 5% decrease in the exchange rate between the functional currencies and foreign currencies would increase the net loss by approximately $1.2; a 5% increase would decrease the net loss by approximately $1.2. 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, 2019			Year ended December 31, 2018		
	As reported $	Exchange rate effect $	5% Stronger $	As reported $	Exchange rate effect $	5% Stronger $
Revenues	3,949,924	191,396	4,141,321	1,307,295	65,366	1,372,661
Expenses	(10,146,550)	(421,916)	(10,568,467)	(5,915,829)	(319,254)	(6,235,083)
Net loss	(6,196,626)	(230,521)	(6,427,146)	(4,608,534)	(253,888)	(4,862,422)

(1) A 5% weakening of the Euro and USD 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.

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.

(expressed in Canadian dollars)

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

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, 2019 and 2018, the Company had no financial instruments that were measured and recognized on the consolidated statements of financial position at fair value. In addition, there were no transfers between levels during the years.

18 Commitments and contingencies

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

On December 23, 2019, the Company entered into an Agreement for Lease relating to the fit-out of a new office premise located at the Second Floor, Hawthorn House, National Technology Park, Plassey, Co. Limerick, Ireland. Under the terms of the Agreement for Lease, the Company has committed to an initial ten-year lease for this premise with the term beginning on the successful completion of the agreed works. The agreed works are anticipated to be completed in the third quarter of 2020 and the Company has committed to make payments of $185,769 throughout 2020, $1,454,532 in two to three years, $1,454,532 in four to five years and $2,735,158 after 5 years.

The Company has also committed to sponsor several conferences and other services which will result in the Company paying $69,241 throughout 2020, and $78,945 in two to three years and $15,121 in four to five years

The Company has employment arrangements with the Chief Executive 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.

(expressed in Canadian dollars)

19 Subsequent events

On March 12, 2020, the Company closed a public equity financing for gross proceeds of $12,650,978 and a concurrent non-brokered private placement for gross proceeds of $1,830,522. This resulted in the issuance of 6,024,275 and 871,677 common shares of the Company, respectively, at an issue price of $2.10 per common share. In connection with the financings, the Company issued 370,900 broker warrants, exercisable into common shares of the Company at an exercise price of $2.10 per shares for a period of 24 months. Directors of the Company subscribed to 238,096 common shares for gross proceeds of $500,001. In addition, Numus Capital Corp., a company in which a director of kneat.com is a shareholder, acted as selling agent in the financing and received 52,301 broker warrants and $109,831 in cash finders' fees. The Company incurred share issuance costs of $1,071,831, including commissions, professional and regulatory fees and broker warrants. The 871,677 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.

Subsequent to December 31, 2019, financial markets have been negatively impacted by a novel strain of coronavirus (COVID-19), which was declared a pandemic by the World Health Organization (WHO) on March 11, 2020. The continued spread of the coronavirus (COVID-19) and the actions being taken by governments, businesses and individuals to limit this pandemic may adversely impact our operations, including, among others, credit risk and our ability to serve our customers. This has resulted in significant economic uncertainty and even though the Company has to date experienced no significant impact to its operations, any potential impact on our future financial results is difficult to reliably measure.