

Unaudited Condensed Interim Consolidated Financial Statements of

KNEAT.COM, INC.

March 31, 2021

(Expressed in Canadian Dollars)

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these unaudited condensed interim consolidated financial statements, they must be accompanied by a notice indicating that these unaudited condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

kneat.com, inc.**Unaudited Interim Consolidated Statements of Financial Position***Expressed in Canadian dollars*

	March 31, 2021	December 31, 2020
	\$	\$
Assets		
Current assets		
Cash	6,847,712	8,659,085
Amounts receivable (note 3)	5,480,365	4,266,981
Prepayments	444,477	476,539
Deferred contract acquisition costs	28,722	30,723
	12,801,276	13,433,328
Non-current assets		
Amounts receivable (note 3)	1,586,077	1,565,830
Deferred contract acquisition costs	1,674	9,914
Property and equipment (note 4)	8,826,900	9,453,956
Intangible asset (note 5)	9,895,495	9,338,604
	33,111,422	33,801,632
Total assets	33,111,422	33,801,632
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	1,315,344	1,546,863
Contract liabilities (note 7)	5,078,553	3,500,838
Loan payable and accrued interest (note 8)	509,680	459,630
Lease liabilities (note 9)	683,533	530,175
	7,587,110	6,037,506
Non-current liabilities		
Contract liabilities (note 7)	7,894	19,805
Lease liabilities (note 9)	7,709,381	8,409,744
Loan payable and accrued interest (note 8)	-	120,457
	15,304,385	14,587,512
Total liabilities	15,304,385	14,587,512
Equity		
Shareholders' equity	17,807,037	19,214,120
	33,111,422	33,801,632
Total liabilities and equity	33,111,422	33,801,632

Commitments and contingencies (note 19)

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

Approved on behalf of the Board of Directors on 25 May, 2021.

"Ian Ainsworth"
Director"Wade Dawe"
Director

kneat.com, inc.**Unaudited Interim Consolidated Statements of Loss and Comprehensive Loss***Expressed in Canadian dollars*

	Three-month period ended March 31, 2021	Three-month period ended March 31, 2020
	\$	\$
Revenue (note 12)	2,355,382	954,530
Cost of revenues (note 13)	(1,267,619)	(907,187)
Gross margin	1,087,763	47,343
Expenses (income)		
Research and development (note 13)	1,735,338	1,055,093
Sales and marketing (note 13)	686,553	351,135
General and administrative (note 13)	686,023	573,824
Interest expense	75,128	15,838
Interest income	(188)	(997)
Foreign exchange loss (gain)	1,976,771	(1,482,127)
Loss before income taxes	(4,071,862)	(465,423)
Income taxes (note 14)	-	-
Net loss for the period	(4,071,862)	(465,423)
Other comprehensive income (loss)		
Foreign currency translation adjustment to presentation currency	1,023,034	(947,188)
Comprehensive loss for the period	(3,048,828)	(1,412,611)
Loss per share – basic and diluted	(0.06)	(0.01)
Weighted-average number of common shares outstanding - Basic and diluted	68,651,605	61,715,909

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

kneat.com, inc.**Unaudited Condensed Interim Consolidated Statements of Changes in Equity***Expressed in Canadian dollars*

	Number of Common Shares	Common Shares	Warrants	Contributed Surplus	Translation Reserve	(Deficit)	Total
	#	\$	\$	\$	\$	\$	\$
Balance – December 31, 2019	60,185,340	40,008,727	155,801	2,260,688	383,943	(31,628,579)	11,180,580
Net loss for the period	–	–	–	–	–	(465,423)	(465,423)
Other comprehensive (loss) for the period	–	–	–	–	(947,188)	–	(947,188)
	–	–	–	–	(947,188)	(465,423)	(1,412,611)
Share issued pursuant to public equity financing	6,024,275	12,650,978	–	–	–	–	12,650,978
Shares issued pursuant to private placement	871,677	1,830,522	–	–	–	–	1,830,522
Share issuance costs pursuant to the equity financings	–	(1,048,966)	–	–	–	–	(1,048,966)
Broker warrants share issuance costs	–	(253,088)	253,088	–	–	–	–
Shares issued pursuant to the option exercises	71,233	74,221	–	(32,834)	–	–	41,387
Shares issued pursuant to warrant exercises	43,879	65,325	(19,252)	–	–	–	46,073
Share-based compensation expense	–	–	–	179,192	–	–	179,192
Balance – March 31, 2020	67,196,404	53,327,719	389,637	2,407,046	(563,245)	(32,094,002)	23,467,155
Balance – December 31, 2020	67,416,570	53,663,724	331,881	2,846,703	(308,439)	(37,319,749)	19,214,120
Net loss for the period	–	–	–	–	–	(4,071,862)	(4,071,862)
Other comprehensive gain (loss) for the period	–	–	–	–	1,023,034	–	1,023,034
	–	–	–	–	1,023,034	(4,071,862)	(3,048,828)
Shares issued pursuant to option exercises	1,539,473	1,936,907	–	(656,332)	–	–	1,280,575
Shares issued pursuant to warrant exercises	168,345	215,266	(38,504)	–	–	–	176,762
Share-based compensation expense	–	–	–	184,408	–	–	184,408
Balance, March 31, 2021	69,124,388	55,815,897	293,377	2,374,779	714,595	(41,391,611)	17,807,037

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

kneat.com, inc.
Unaudited Interim Consolidated Statement of Cash Flows

Expressed in Canadian dollars

	Three-month period ended March 31, 2021	Three-month period ended March 31, 2020
	\$	\$
Operating activities		
Net loss for the period	(4,071,862)	(465,423)
Charges to loss not involving cash:		
Depreciation of property and equipment	210,009	74,557
Share-based compensation	184,408	162,117
Interest expense	75,128	15,838
Amortization of the intangible asset	775,372	487,795
Amortization of deferred contract acquisition costs	9,862	30,070
Research and development tax credit recovery	-	(8,623)
Foreign exchange (gain) loss	1,976,771	(1,482,127)
(Decrease) Increase in non-current contract liabilities	(11,788)	(66,810)
Net change in non-cash working capital related to operations (note 15)	153,949	426,038
Net cash used in operating activities	(698,151)	(826,568)
Financing activities		
Proceeds received from the public equity financing	-	12,650,978
Proceeds received from the non-brokered private placement	-	1,830,522
Share issuance costs associated with equity financings	-	(1,048,966)
Payment of principal and interest on the loan payable	(87,064)	(48,560)
Proceeds from the exercise of stock options	1,280,576	41,387
Proceeds from the exercise of warrants	176,761	46,073
Repayment of lease liabilities	(113,247)	(35,064)
Net cash provided by financing activities	1,257,026	13,436,370
Investing activities		
Additions to the intangible asset	(1,998,238)	(1,309,816)
Additions to property and equipment	(119,637)	(114,852)
Net cash used in investing activities	(2,117,875)	(1,424,668)
Effects of exchange rates on cash	(252,373)	70,636
Increase in cash during the period	(1,811,373)	11,255,770
Cash, beginning of period	8,659,085	4,216,846
Cash, end of period	6,847,712	15,472,616

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

kneat.com, inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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 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 unaudited condensed interim consolidated financial statements, except as discussed below.

a) Statement of compliance and basis of consolidation

The unaudited condensed interim 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 unaudited condensed interim consolidated financial statements for issue on May 25, 2021.

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”), as issued by the IASB. Accordingly, certain information normally included in annual financial statements prepared in accordance with IFRS, as issued by the IASB, has been omitted or condensed. The unaudited condensed interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended December 31, 2020.

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS as of May 25, 2021, the date the Board of Directors approved the unaudited condensed interim consolidated financial statements. Any subsequent changes to IFRS that are given effect in the Company’s annual consolidated financial statements for the year ended December 31, 2021 could result in the restatement of these unaudited condensed interim consolidated financial statements.

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

<u>Subsidiary</u>	<u>Principal Activity</u>	<u>Country of Incorporation</u>
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.

These unaudited condensed interim consolidated financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of the Company for the year ended

kneat.com, inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

December 31, 2020. Refer to note 2, *Summary of Significant Accounting Policies*, of the kneat.com, inc. annual consolidated financial statements for the year ended December 31, 2020 for information on the other accounting policies, critical accounting judgments and estimates.

b) 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 unaudited condensed interim 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 unaudited condensed interim consolidated statements of financial position date. Revenue and expenses are translated at the average rate in effect during the period. 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 unaudited condensed interim 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.

c) 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.

The Company has a Deferred Share Unit (“DSU”) plan where DSUs may be granted to members of its Board of Directors or officers of the Company. DSUs typically vest over a three year period, will be settled through the issuance of common shares, and cannot be redeemed until the holder is no longer a director or officer of the Company. All services received in exchange for the grant of DSUs are measured at their fair values as of the date of grant with no subsequent revaluation. The fair value is recognized over the vesting period on a graded vesting basis. Compensation expense is classified consistent with directors' fees or salaries and is recognized over the vesting period in the consolidated statement of loss and comprehensive loss.

The Company calculates the fair value of warrants issued as part of fundraising activities at the date of issue taking the amount directly to equity where no cash settlement option exists and where a fixed number of warrants are issued at a fixed rate. The fair value is calculated using the Black Scholes model. Fair value, which is assessed at the grant date, is calculated on the basis of the contractual term of the warrants.

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

d) New accounting standards adopted during the period

A number of new or amended standards became applicable for the current reporting period. The Company did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

3. AMOUNTS RECEIVABLE

	<u>March 31, 2021</u>	<u>December 31, 2020</u>
	\$	\$
Current		
Research and development tax credits receivable	1,186,178	1,257,286
Trade debtors	4,105,921	2,437,585
Contract assets	104,162	431,316
Other debtors	24,762	21,514
Sales tax recoverable	59,342	119,280
	<u>5,480,365</u>	<u>4,266,981</u>
Non-current		
Research and development tax credits receivable	1,586,077	1,565,830
	<u>7,066,442</u>	<u>5,832,811</u>

4. PROPERTY AND EQUIPMENT

Cost	Computers and servers	Furniture and fixtures	Right-of-use assets	Leasehold improvements	Total
	\$	\$	\$	\$	\$
As at January 1, 2020	474,319	99,773	600,661	489,669	1,664,422
Additions	232,215	9,669	8,418,338	230,591	8,890,813
Write-offs	(103,498)	-	-	-	(103,498)
Effect of movements in exchange rates	32,445	7,014	41,708	33,998	115,165
As at December 31, 2020	635,481	116,456	9,060,707	754,258	10,566,902
Additions	50,650	60,060	-	-	110,710
Effect of movements in exchange rates	(35,859)	(6,586)	(512,444)	(42,658)	(597,547)
As at March 31, 2021	650,272	169,930	8,548,263	711,600	10,080,065
	Computers and servers	Furniture and fixtures	Right-of-use assets	Leasehold improvements	Total
	\$	\$	\$	\$	\$
As at January 1, 2020	231,445	39,398	124,728	160,943	556,514
Depreciation charge	171,113	14,197	343,878	80,950	610,138
Write-offs	(100,216)	-	-	-	(100,216)
Effect of movements in exchange rates	18,660	3,092	12,091	12,667	46,510
As at December 31, 2020	321,002	56,687	480,697	254,560	1,112,946
Depreciation charge	46,577	4,465	135,977	22,990	210,009
Effect of movements in exchange rates	(19,661)	(3,341)	(31,640)	(15,148)	(69,790)
As at March 31, 2021	347,918	57,811	585,034	262,402	1,253,165
	Computers and servers	Furniture and fixtures	Right-of-use assets	Leasehold improvements	Total
	\$	\$	\$	\$	\$
Balance - December 31, 2020	314,479	56,769	8,580,010	499,698	9,453,956
Balance - March 31, 2021	302,354	112,119	7,963,229	449,198	8,826,900

Depreciation of property and equipment is included in the unaudited condensed interim consolidated statements of loss and comprehensive loss for \$210,009 (three-month period ended March 31, 2020 – \$74,557).

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 lease term began on the successful completion of the agreed works on June 26, 2020, resulting in the measurement of the additional right of use asset and lease liability (note 9) on the consolidated statement of financial position during 2020. The lease term is twenty years and the company has an option to terminate at the end of the 10th year.

5. INTANGIBLE ASSET

Cost	\$
As at January 1, 2020	11,891,049
Additions, net of research and development tax credits of \$1,664,023	5,337,032
Effect of movements in exchange rates	825,674
As at December 31, 2020	<u>18,053,755</u>
Additions, net of research and development tax credits of \$106,915	1,835,217
Effect of movements in exchange rates	(1,021,061)
As at March 31, 2021	<u>18,867,911</u>
Accumulated amortization	\$
As at January 1, 2020	5,805,973
Amortization charge	2,460,369
Effect of movements in exchange rates	448,809
As at December 31, 2020	<u>8,715,151</u>
Amortization charge	775,372
Effect of movements in exchange rates	(518,107)
As at March 31, 2021	<u>8,972,416</u>
Carrying amount	\$
Balance - December 31, 2020	<u>9,338,604</u>
Balance - March 31, 2021	<u>9,895,495</u>

Amortization of the intangible asset of \$775,372 (three-month period ended March 31, 2020 - \$487,795) is included in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2021	December 31, 2020
	\$	\$
Trade payables	237,271	456,470
Accruals	526,892	504,321
Employee remittances	405,937	468,089
Sales tax payable	90,375	21,213
Other payables	54,869	96,770
	<u>1,315,344</u>	<u>1,546,863</u>

7. CONTRACT LIABILITIES

	March 31, 2021	December 31, 2020
	\$	\$
Balance - Beginning of period	3,520,643	1,206,645
Deferral of revenue	3,982,219	9,016,926
Recognition of deferred revenue	(2,355,382)	(6,659,251)
Effect of movements in exchange rates	(61,033)	(43,677)
Balance - End of period	<u>5,086,447</u>	<u>3,520,643</u>
Less: current portion of contract liabilities	(5,078,553)	(3,500,838)
Non-current portion of contract liabilities	<u>7,894</u>	<u>19,805</u>

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

8. LOAN PAYABLE AND ACCRUED INTEREST

	March 31, 2021	December 31, 2020
	\$	\$
Balance - Beginning of period	580,087	832,521
Interest accrual	4,328	23,437
Repayments	(87,064)	(317,949)
Effect of movements in exchange rates	12,329	42,078
Balance - End of period	509,680	580,087
Less: Current portion	(509,680)	(459,630)
Non-current portion	-	120,457

As at March 31, 2021, the loan payable to Enterprise Ireland and accrued interest balance on the unaudited condensed interim consolidated statement of financial position was comprised of a principal balance of \$509,680 and accrued interest of \$nil (December 31, 2020 – principal balance of \$580,087 and accrued interest of \$nil).

The minimum annual principal repayments of the loan payable over the next year as of March 31, 2021 is \$509,680.

9. LEASE LIABILITIES

	March 31, 2021	December 31, 2020
	\$	\$
Balance - Beginning of period	8,409,744	644,078
Additions	-	8,418,338
Repayments of lease obligations	(109,872)	(330,375)
Accreted interest	68,480	166,232
Effect of movements in exchange rates	24,562	41,646
Balance - End of period	8,392,914	8,939,919
Less: Current portion	(683,533)	(530,175)
Non-current portion	7,709,381	8,409,744

10. 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 950,000 common shares. As at March 31, 2021, 347,355 remain available for grant under the terms of the DSU plan.

DSU activity for the three-month period ended March 31, 2021 and year ended December 31, 2020 is as follows:

	March 31, 2021	December 31, 2020
	#	#
Outstanding - Beginning of period	583,001	468,053
Granted	19,644	114,948
Outstanding - End of period	602,645	583,001

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three-months ended March 31 2021, the estimated value of DSUs earned and recorded in the unaudited interim consolidated statement of loss and comprehensive loss was \$60,326 and is included in general and administration expenses.

11. 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, 2020	60,185,340	40,008,727
Shares issued pursuant to the public equity financing	6,024,275	12,650,978
Shares issued pursuant to the private placement	871,677	1,830,522
Shares issuance costs pursuant to the equity financing	-	(1,048,966)
Broker warrants	-	(253,088)
Shares issued pursuant to the stock option exercise	159,763	214,253
Shares issued pursuant to warrant exercises	175,515	261,298
Outstanding - December 31, 2020	67,416,570	53,663,724
Shares issued pursuant to the stock option exercise	1,539,473	1,936,907
Shares issued pursuant to warrant exercises	168,345	215,266
Outstanding – March 31, 2021	69,124,388	55,815,897

During the year ended December 31, 2020, employees exercised 126,430 options with a weighted average exercise price of \$0.72 per share, for proceeds of \$90,469; and a director exercised 33,333 options with an exercise price of \$0.90 per share for proceeds of \$30,000. During the year ended December 31, 2020, 175,515 broker warrants were exercised with an exercise price of \$1.05 per share for proceeds of \$184,291.

During the three-month period ended March 31, 2021, employees exercised 977,424 options with a weighted average exercise price of \$0.79 per share for proceeds of \$774,746 and directors exercised 562,049 options with a weighted average exercise price of \$0.90 per share for proceeds of \$505,844. During the three-month period ended March 31, 2021, 168,345 broker warrants were exercised with an exercise price of \$1.05 per share for proceeds of \$176,762.

Equity financings

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 6,895,952 common shares of the Company 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 share 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 \$1,302,054, including commissions, professional and regulatory fees and broker warrants. The 871,677 common shares issued in connection with the non-brokered private placement were subject to a statutory four-month hold period in accordance with applicable securities laws.

b) Warrants

The following table reconciles the warrant activity during the three-month period ended March 31, 2021 and the year ended December 31, 2020:

	Number of warrants #	Weighted-average exercise price \$
Outstanding - January 1, 2020	343,860	1.05
Granted	370,900	2.10
Exercised	(175,515)	1.05
Outstanding - December 31, 2020	539,245	1.77
Exercised	(168,345)	1.05
Outstanding – March 31, 2021	370,900	2.10

The following table summarizes information relating to outstanding warrants as at March 31, 2021:

Expiry date	Weighted-average remaining contractual life (in years)	Number of warrants outstanding	Weighted-average exercise price \$
March 12, 2022	0.9	370,900	2.10

c) Share-based compensation

The Company has adopted a stock option plan, providing the Board of Directors with the discretion to issue an equivalent number of options of up to 10% of the issued and outstanding share capital of the Company. Generally stock options are granted with an exercise price of not less than the closing share price on the date preceding the date of grant. As at March 31, 2021, 4,690,827 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 three-month period ended March 31, 2021 and the year ended December 31, 2020:

	March 31, 2021	December 31, 2020
Risk-free interest rate	0.75%	0.38%
Expected life	4.5 years	4.5 years
Expected volatility	91.23%	91.16%
Expected dividend per share	0.0%	0.0%
Weighted-average exercise price	\$3.09	\$2.20

The following table reconciles the stock option activity during the three-month period ended March 31, 2021 and the year ended December 31, 2020:

	Number of options #	Weighted-average exercise price \$
Outstanding - January 1, 2020	3,256,371	0.92
Granted	671,000	2.45
Exercised	(159,763)	0.61
Forfeited	(84,690)	1.04
Outstanding - December 31, 2020	3,682,918	1.20
Granted	95,000	3.09
Exercised	(1,539,473)	0.83
Forfeited	(16,833)	1.37
Outstanding – March 31, 2021	2,221,612	1.54

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

For the three-month period ended March 31, 2021, the estimated value of options earned and recorded in the unaudited condensed interim consolidated statements of loss and comprehensive loss was \$124,082 (three-month period ended March 31, 2020 – \$114,220). The estimated value of options earned during the three-month period ended March 31, 2021 and recorded as an addition to the intangible asset was \$nil (three-month period ended March 31, 2020 – \$17,074).

The following table summarizes information relating to outstanding and exercisable stock options as at March 31, 2021:

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price
January 11, 2022	0.8	113,334	113,334	\$ 0.58
February 1, 2022	0.8	40,700	40,700	\$ 0.57
April 4, 2022	1.0	26,511	26,512	\$ 0.57
May 29, 2022	1.2	9,000	9,000	\$ 0.68
November 1, 2022	1.6	100,000	100,000	\$ 0.70
February 1, 2023	1.8	159,900	159,900	\$ 0.80
April 25, 2023	2.1	5,000	3,334	\$ 0.85
November 1, 2023	2.6	100,000	66,667	\$ 1.02
December 18, 2023	2.7	100,000	66,667	\$ 0.97
January 3, 2024	2.8	323,000	215,333	\$ 1.00
March 7, 2024	2.9	225,000	150,000	\$ 1.06
April 4, 2024	3.0	16,667	5,556	\$ 1.22
May 13, 2024	3.1	30,000	10,000	\$ 1.30
July 9, 2024	3.3	10,000	3,333	\$ 1.18
September 23, 2024	3.5	200,000	66,667	\$ 1.52
February 6, 2025	3.9	110,000	56,667	\$ 2.84
April 22, 2025	4.1	20,000	-	\$ 1.94
August 26, 2025	4.4	334,000	-	\$ 2.50
October 1, 2025	4.5	3,500	-	\$ 2.55
November 26, 2025	4.7	200,000	-	\$ 2.20
February 25, 2026	4.9	95,000	-	\$ 3.09
		<u>2,221,612</u>	<u>1,093,670</u>	

12. REVENUE

Revenue has been earned from the following sources:

	Three-month period ended March 31, 2021	Three-month period ended March 31, 2020
	\$	\$
SaaS license fees	1,290,796	410,303
On-premise licenses fees	133,654	184,856
Maintenance fees	220,478	177,976
Professional services and other	710,454	181,395
	<u>2,355,382</u>	<u>954,530</u>

kneat.com, inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****13. EXPENSES BY NATURE**

The following table lists certain expenses by nature included in the unaudited condensed interim consolidated statement of loss and comprehensive loss:

	Three-month period ended March 31, 2021	Three-month period ended March 31, 2020
	\$	\$
Amortization of the intangible asset	775,372	487,795
Depreciation of plant and equipment	210,009	74,557
Salaries, wages and benefits	2,188,723	1,471,823
Share-based compensation	184,408	162,117

14. INCOME TAXES

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

	Three-month period ended March 31, 2021	Three-month period ended March 31, 2020
	\$	\$
Loss before income taxes	(4,071,862)	(465,423)
Statutory rate	29.5%	31%
Tax recovery at statutory rate	(1,201,199)	(144,281)
Recovery for losses and deductible temporary differences not recognized in current and prior years	585,692	26,642
Permanent differences and other	302,788	(198,523)
Foreign tax rate variance	312,719	316,162
Income tax recovery	-	-

15. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three-month period ended March 31, 2021	Three-month period ended March 31, 2020
	\$	\$
(Decrease) Increase in amounts receivable and other	(1,358,840)	6,426
(Decrease) Increase in accounts payable and accrued liabilities	(165,575)	159,762
Increase in contract liabilities	1,678,364	259,850
	153,949	426,038

16. RELATED PARTY TRANSACTIONS

On March 12, 2020, directors of the Company subscribed to 238,096 common shares for gross proceeds of \$500,001. In addition, Numus Capital Corp. acted as selling agent in the financing and received 52,301 broker warrants and \$109,831 in cash finders' fees (note 11 (a)).

On January 22, 2020, directors of the company exercised an total of 528,716 stock options at an exercise price of \$.90 per common share for gross proceeds of \$475,844.

On February 1, 2021, a director of the company exercised 33,333 stock options at an exercise price of \$.90 per common share for gross proceeds of \$30,000.

During the three months ended March 31, 2021, the Company issued 19,644 DSUs to members of the Board of Directors who are not employees or officers of the Company (note 10) (three months ended March 31, 2020 – 30,120).

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 debt and equity balances.

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

	March 31, 2021	December 31, 2020
	\$	\$
Equity	17,807,037	19,214,120
Less: cash	(6,847,712)	(8,659,085)
	<u>10,959,325</u>	<u>10,555,035</u>

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 to the objectives, policies or processes for managing capital during the three-month period ended March 31, 2021 or the year ended December 31, 2020.

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 unaudited condensed interim 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.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

The table below presents the classification of the Company’s financial assets and liabilities as at March 31, 2021 and December 31, 2020:

	Financial assets and liabilities at amortized cost \$ Mar 31,2021	Financial assets and liabilities at amortized cost \$ Dec 31, 2020
Financial assets:		
Cash	6,847,712	8,659,085
Amounts receivable	7,066,442	5,832,811
Financial liabilities:		
Accounts payables and accrued liabilities	1,315,344	1,546,863
Loan payable	509,680	580,087

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 March 31, 2021 and December 31, 2020, the Company’s financial assets exposed to credit risk amounted to the following:

	March 31, 2021	December 31, 2020
	\$	\$
Cash	6,847,712	8,659,085
Amounts receivable*	4,679,322	3,366,955

*includes trade debtors, contract assets, other debtors & prepayments

During the three-month period ended March 31, 2021 and the year ended December 31, 2020, the Company did not hold any financial assets that were impaired. Trade debtors of \$4,105,921 are included in amounts receivable as at March 31, 2021 (December 31, 2020 – \$2,437,585). 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 Canada, Ireland and the United States. The long-term credit rating, as determined by Standard and Poor’s was A, 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

kneat.com, inc.

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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 March 31, 2021:

	Within 1 year	2-3 years	4-5 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,315,344	-	-	-	1,315,344
Lease payments	886,410	1,744,722	1,316,733	2,033,844	5,981,709
Loan payable	509,680	-	-	-	509,680
	<u>2,711,434</u>	<u>1,744,722</u>	<u>1,316,733</u>	<u>2,033,844</u>	<u>7,806,733</u>

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 \$41,391,611 as at March 31, 2021. For the three-month period ended March 31, 2021, the Company incurred a net loss of \$4,071,862 with negative cash flows from operations of \$698,151 and capitalized development cost spend of \$1,998,238 (2020 - \$465,423, \$826,568 and \$1,309,816, 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 11(a)). Also, in April 2021, the Company closed a public equity financing for gross proceeds of \$20,125,575 and a concurrent non-brokered private placement for gross proceeds of \$2,000,000 (note 20, *Subsequent events*). However, there can be no assurance that, in the future, the Company will be able to raise funding on favorable terms, if at all.

During 2020 and the first three months of 2021, 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 COVID-19 and the actions being taken by governments, businesses and individuals to limit this pandemic may adversely impact our operations, 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, inclusive of the proceeds from the public equity financing and concurrent non-brokered private placement in April 2021, when combined with the proceeds from customer receipts, will be sufficient to fund operations for at least twelve months from the reporting date of the unaudited condensed interim consolidated financial statements. However, judgement is required to forecast cash flows over future periods. Management has the ability to reduce or delay certain cash outflows were it to be necessary.

f) Currency risk

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

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

The Company is exposed to currency risk on cash, intercompany balances, accounts payable and accrued liabilities balances, and the loan payable balance that are held in currencies that are not in the transacting entities functional currencies. As at March 31, 2021, a 5% decrease in the exchange rate between the functional currencies and foreign currencies would increase the net loss by approximately \$1.9 million for the three-month period ended March 31,

2021; a 5% increase would decrease the net loss by approximately \$1.9 million for the three-month period ended March 31, 2021. 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⁾

	Three-month period ended March 31, 2021			Three-month period ended March 31, 2020		
	As reported	Exchange rate effect	5% Stronger	As reported	Exchange rate effect	5% Stronger
	\$	\$	\$	\$	\$	\$
Revenues	2,355,382	117,769	2,473,151	954,530	47,726	1,002,256
Expenses	(6,427,244)	(199,409)	(6,626,653)	(1,419,953)	(138,091)	(1,558,044)
Net loss	(4,071,862)	(81,640)	(4,153,502)	(465,423)	(90,365)	(555,788)

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

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 unaudited condensed interim consolidated statements of financial position. The Company holds a loan payable with a fixed interest rate. This is privately-issued, with no secondary market. It is 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 March 31, 2021 and December 31, 2020 the Company had no financial instruments that were measured and recognized on the unaudited condensed interim consolidated statement of financial position at fair value. In addition, there were no transfers between levels during the period.

18. LOSS PER SHARE

Basic and diluted net loss per share was calculated as follows:

	March 31, 2021	March 31, 2020
	\$	\$
<i>Numerator:</i>		
Net loss for the year attributable to ordinary shareholders	(4,071,862)	(465,423)
<i>Denominator:</i>		
Weighted average number of ordinary shares in issue	68,651,605	61,715,909
Loss per share (basic and diluted)	<u>(0.06)</u>	<u>(0.01)</u>

The Company's potential ordinary shares, which include stock options and warrants to purchase shares of common stock, have been excluded from the computation of diluted net loss per share as the effect would be to reduce the net loss per share. Therefore, the calculation of basic and diluted net loss per share is the same. The Company excluded the following potential ordinary shares, presented based on amounts outstanding at each year end, from the computation of diluted net loss per share because including them would have had an anti-dilutive effect.

	March 31, 2021	March 31, 2020
Options to purchase common shares	2,221,612	3,285,138
Warrants to purchase common shares	370,900	670,881

19. 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 has committed to purchase certain services which will result in the Company paying \$253,690 within one year and \$234,633 in two to three years.

The Company has employment arrangements with the Chief Executive Officer, Chief Information Officer and Chief Product Officer 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.

20. SUBSEQUENT EVENTS

On April 28, 2021, the Company closed a public equity financing for gross proceeds of \$20,125,575 and a concurrent non-brokered private placement for gross proceeds of \$2,000,000. This resulted in the issuance of 7,375,193 common shares of the Company at an issue price of \$3.00 per common share. Directors of the Company subscribed to 333,334 common shares for gross proceeds of \$1,000,002. 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 \$120,000 in cash finders' fees. The Company incurred share issuance costs of \$1,630,827, including commissions, professional and regulatory fees. The 666,668 common shares issued in connection with the non-brokered private placement were subject to a statutory four-month hold period in accordance with applicable securities laws.