

Unaudited Condensed Interim Consolidated Financial Statements of

KNEAT.COM, INC.

September 30, 2018

(Expressed in Canadian Dollars)

kneat.com, inc.
Unaudited Interim Consolidated Statements of Financial Position

Expressed in Canadian dollars

	September 30, 2018	December 31, 2017 ^(a)
	\$	\$
Assets		
Current assets		
Cash	4,011,798	3,482,318
Accounts receivable and other (note 3)	870,786	737,372
Deferred contract acquisition costs	80,185	-
	<u>4,962,769</u>	4,219,690
Accounts receivable (note 3)	1,195,333	623,790
Deferred contract acquisition costs	22,327	-
Property and equipment (note 4)	494,180	513,402
Intangible asset (note 5)	4,335,394	3,438,163
	<u>11,010,003</u>	8,795,045
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	995,129	590,389
Loan payable and accrued interest (note 7)	979,519	12,293
Contract liabilities	300,885	396,302
Lease incentives	9,232	9,273
	<u>2,284,765</u>	1,008,257
Contract liabilities	11,376	-
Loan payable and accrued interest (note 7)	-	977,587
Lease incentives	186,621	194,398
	<u>2,482,762</u>	2,180,242
Total liabilities	2,482,762	2,180,242
Equity		
Shareholders' equity	8,527,241	6,614,803
	<u>11,010,003</u>	8,795,045

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

Going concern (note 1)
 Commitments and contingencies (note 15)

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

Approved on behalf of the Board of Directors on November 27, 2018.

“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 September 30, 2018	Three-month period ended September 30, 2017 ^(a)	Nine-month period ended September 30, 2018	Nine-month period ended September 30, 2017 ^(a)
	\$	\$	\$	\$
Revenue (note 9)	248,666	130,667	842,125	344,785
Expenses				
Amortization of intangible asset	366,860	274,099	988,014	743,121
Administrative expenses (note 10)	1,423,550	881,925	3,744,454	2,673,614
Interest expense	6,110	5,925	18,344	17,355
Interest income	(1,128)	(715)	(13,098)	(1,759)
Foreign exchange loss (gain)	393,012	110,413	86,441	(120,372)
Loss before income taxes	1,939,738	1,140,980	3,982,030	2,967,174
Income taxes (note 11)	-	-	-	-
Net loss for the period	1,939,738	1,140,980	3,982,030	2,967,174
Other comprehensive income				
Foreign currency translation adjustment to presentation currency	(164,277)	(54,998)	(35,574)	(82,311)
Comprehensive loss for the period	1,775,461	1,085,982	3,946,456	2,884,863
Loss per share – basic and diluted	0.04	0.03	0.08	0.07
Weighted-average number of common shares outstanding - Basic and diluted	51,439,763	44,563,684	48,935,791	41,806,331

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

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

kneat.com, inc.

Unaudited Interim Consolidated Statements of Changes in Equity

Expressed in Canadian dollars

	Number of Common Shares (note 8 (a))	Common Shares	Warrants	Contributed Surplus	Translation Reserve	Retained Earnings (Deficit)	Total
		\$	\$	\$	\$	\$	\$
Balance, January 1, 2017 ^(a)	39,563,684	22,941,601	67,424	937,506	161,372	(16,820,815)	7,287,088
Net loss for the period ^(a)	-	-	-	-	-	(2,967,174)	(2,967,174)
Other comprehensive income for the period	-	-	-	-	82,311	-	82,311
	-	-	-	-	82,311	(2,967,174)	(2,884,863)
Shares issued pursuant to private placement (note 8 (a))	5,000,000	3,000,000	-	-	-	-	3,000,000
Share issue costs (note 8 (a))	-	(21,745)	-	-	-	-	(21,745)
Share-based compensation expense	-	-	-	250,350	-	-	250,350
Expiry of warrants	-	-	(67,424)	67,424	-	-	-
Balance, September 30, 2017 ^(a)	44,563,684	25,919,856	-	1,255,280	243,683	(19,787,989)	7,630,830
Balance, January 1, 2018 ^(a)	44,563,684	25,919,856	-	1,325,457	185,222	(20,815,732)	6,614,803
Impact of change in accounting policy ^(a)	-	-	-	-	-	(7,687)	(7,687)
Adjusted balance, January 1, 2018	44,563,684	25,919,856	-	1,325,457	185,222	(20,823,419)	6,607,116
Net loss for the period	-	-	-	-	-	(3,982,030)	(3,982,030)
Other comprehensive income for the period	-	-	-	-	35,574	-	35,574
	-	-	-	-	35,574	(3,982,030)	(3,946,456)
Shares issued pursuant to private placement (note 8 (a))	6,871,830	6,184,647	-	-	-	-	6,184,647
Share issue costs (note 8 (a))	-	(513,215)	-	-	-	-	(513,215)
Broker warrants (note 8 (b))	-	(140,394)	140,394	-	-	-	-
Shares issued pursuant to the stock option exercise (note 8(a))	6,666	8,866	-	(5,000)	-	-	3,866
Share-based compensation expense	-	-	-	191,283	-	-	191,283
Balance, September 30, 2018	51,442,180	31,459,760	140,394	1,511,740	220,796	(24,805,449)	8,527,241

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

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

	Nine-month period ended September 30, 2018	Nine-month period ended September 30, 2017 ^(a)
	\$	\$
Operating activities		
Net loss for the period	(3,982,030)	(2,967,174)
Charges to loss not involving cash:		
Depreciation of property and equipment	106,335	62,149
Gain on disposal of fixed assets	-	(1,552)
Share-based compensation	100,990	116,040
Interest on long-term liabilities	18,344	17,355
Amortization of the intangible asset	988,014	743,121
Amortization of deferred contract acquisition costs	35,852	-
Amortization of lease incentives	(7,109)	(6,726)
Unrealized foreign exchange gain (loss)	86,441	(120,372)
Increase in non-current accounts receivable	(11,448)	(5,038)
Increase in non-current contract liabilities	11,349	43,107
Net change in non-cash working capital related to operations (note 12)	(1,453)	366,481
Net cash used in operating activities	(2,654,715)	(1,752,609)
Financing activities		
Proceeds received upon the completion of private placement (note 8 (a))	6,184,647	3,000,000
Share issuance costs associated with private placement (note 8 (a))	(513,215)	(21,745)
Payment of interest on the loan payable	(24,526)	(23,204)
Proceeds from the issuance of shares on the exercise of options (note 8 (a))	3,866	-
Net cash provided by financing activities	5,650,772	2,955,051
Investing activities		
Additions to the intangible asset	(2,367,445)	(1,667,329)
Additions to property and equipment	(111,276)	(102,263)
Net cash used in investing activities	(2,478,721)	(1,769,592)
Effects of exchange rates on cash	12,144	111,869
Increase in cash during the period	529,480	(455,281)
Cash, beginning of period	3,482,318	4,988,601
Cash, end of period	4,011,798	4,533,320

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

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 AND GOING CONCERN

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

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

The Company’s operations have been financed through the sale of shares, issuance of debt, revenue generated from customers, and research and development tax credits. The Company has incurred significant operating losses and negative cash flows from operations since inception and has an accumulated deficit of \$24,805,449 as at September 30, 2018.

These unaudited condensed interim consolidated financial statements have been prepared on a going-concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. For the nine-month period ended September 30, 2018, the Company incurred a net loss of \$3,982,030 with negative cash flows from operations of \$2,654,715 and capitalized development cost spend of \$2,367,445 (year ended December 31, 2017 – \$3,994,917, \$2,517,396 and \$2,268,903, respectively). With limited revenue from customers and negative cash flow from operations, the Company has relied primarily on financing activities, similar to the brokered private placement that closed during the nine month period-ended September 30, 2018 (note 8(a)), to meet its working capital and operating requirements, including funds needed to further develop its software application and expand its sales function. Such circumstances create material uncertainties that may cast significant doubt as to the ability of the Company to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. Nevertheless, there can be no assurance that these initiatives will be successful or sufficient. These unaudited condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues and expenses and statement of financial position classifications that would be necessary if the going concern assumption was determined to be inappropriate and these adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these 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 November 27, 2018.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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 financial statements of the Company for the year ended December 31, 2017.

The policies applied in these unaudited condensed interim consolidated financial statements are based on IFRS as of November 27, 2018, 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, 2018 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. There are no non-controlling interests; therefore all comprehensive loss is attributable to the shareholders of the Company.

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 December 31, 2017, with the exception of the changes as the result of the adoption of new accounting standards as outlined in note 2(c). Refer to Note 3, *Summary of Significant Accounting Policies*, of the kneat.com, inc. annual consolidated financial statements for the year ended December 31, 2017 for information on the other accounting policies, critical accounting judgments and estimates, as well as new accounting standards not yet effective.

b) Foreign currency translation

Items included in the unaudited condensed interim financial statements of each entity included in these unaudited condensed interim consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The unaudited condensed interim consolidated financial statements are presented in Canadian dollars. Assets and liabilities of each foreign entity are translated into Canadian dollars at the exchange rate in effect on the statement 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 income or loss, which is a component of shareholders' equity. The functional currency of Kneat Solutions Limited is the Euro (“€”) and the functional currency of Kneat Solutions Inc. is the United States Dollar (“USD”). The legal parent entity, kneat.com, inc., has a Canadian dollar functional currency.

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 statement 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 exchange rates at the transaction dates.

c) New accounting standards adopted during the period

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

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

Description of IFRS 9

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

Impact of adoption of IFRS 9

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

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

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

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

Accounting policies associated with IFRS 9

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

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

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

Impairment of financial assets at amortized cost

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

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

Description of IFRS 15

The IASB issued IFRS 15, effective for annual periods beginning on or after January 1, 2018. IFRS 15 establishes a new control-based revenue recognition model and replaces IAS 18, *Revenue* (“IAS 18”), IAS 11, *Construction Contracts* (“IAS 11”) and some revenue-related interpretations. The new standard is intended to enhance disclosures about revenue, provide more comprehensive guidance for transactions that were not previously addressed and improve guidance for multiple-element arrangements. IFRS 15 permits two methods of adoption: (i) retrospectively to each prior reporting period presented (“full retrospective method”); or (ii) retrospectively with the cumulative effect of the transition recognized at the date of initial application (“cumulative effect method”). The Company adopted the standard using the cumulative effect method and, therefore, the comparative information has not been restated and continues to be reported under IAS 18. The adoption of IFRS 15 resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements.

Impact of adoption of IFRS 15

The Company completed its analysis and has reached conclusions on key accounting impacts related to all revenue streams. The Company determined that the most significant impact relates to accounting for its installation services, which had previously been recognized as a separately identifiable service under IAS 18. Under IFRS 15, installation services now form part of the related on-premise or SaaS license delivery and thus are recognized consistently with the form of license sold to the customer. This resulted in an adjustment to opening retained earnings of \$22,587.

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

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

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

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

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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

Accounting policies associated with IFRS 15

Revenue from contracts

The Company derives its revenues under license agreements from the sale of proprietary software licenses and provides software-related services including training, installation, upgrades, consulting and maintenance, which include product support services. Revenues are recognized when control of these licenses and services is transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services.

Revenue recognition is determined through the following five steps:

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

Revenues generated by the Company include the following:

i) *On-premise licenses and installation fees*

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

ii) *SaaS license, hosting and installation fees*

SaaS license and hosting agreements (also referred to as "subscription fees") entitle the customer to utilize the Kneat Gx platform, which is hosted by the Company on a cloud server, for a specified number of users without taking possession. SaaS license and hosting fee revenue is recognized rateably over the contract term,

commencing on the date when Kneat's services are made available to the customer. Customers are typically invoiced and pay annually in advance for subscription fees upon execution of the initial contract or subsequent renewals.

iii) *Maintenance fees*

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

iv) *Professional services and other*

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

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

v) *Contracts with multiple performance obligations*

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

Deferred contract acquisition costs

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

Contract liabilities

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

Critical accounting judgements and estimates associated with IFRS 15

As noted above, contracts with customers often include promises to deliver multiple products and services. Determining whether these products and services represent distinct performance obligations may require significant judgment. In addition, the determination of the stand-alone selling price for distinct performance obligations may also require judgment and estimates. As the Company does not have a significant history of generating revenue, management uses judgement, based on customer specific contracts and comparable sales, to determine the appropriate stand-alone selling value for each performance obligation. In addition, certain of these performance obligations have a term of more than one year and thus the identification and stand-alone selling price of the individual performance obligations impacts the timing of revenue recognition. A change in the stand-alone selling price allocated to each performance obligation could materially impact the revenue recognized in the current and future periods and the contract asset and liability balance at period-end.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

Impact of adopting IFRS 15 on the current period

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

Statement of financial position

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

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

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

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

<i>Statement of loss and comprehensive loss for the three-month period ended September 30, 2018</i>	As reported	IFRS 15 adjustments	Amount without IFRS 15
	\$	\$	\$
Revenue	248,666	82,387	331,053
Expenses			
Amortization of intangible asset	366,860	-	366,860
Administrative expenses	1,423,550	33,168	1,456,718
Interest expense	6,110	-	6,110
Interest income	(1,128)	-	(1,128)
Foreign exchange loss	393,012	-	393,012
Loss (income) before income taxes	1,939,738	(49,219)	1,890,519
Income tax recovery	-	-	-
Net loss (income) for the period	1,939,738	(49,219)	1,890,519
Other comprehensive loss (income)	(164,277)	560	(163,717)
Comprehensive loss (income) for the period	1,775,461	(48,659)	1,726,802
Loss per share – Basic and diluted	0.04		0.04

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

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

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

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

3. ACCOUNTS RECEIVABLE AND OTHER

	September 30, 2018	December 31, 2017
	\$	\$
Current		
Research and development tax credits receivable	508,477	533,127
Trade debtors	64,458	49,226
Amounts earned but not invoiced	27,175	-
Other debtors	42,435	24,434
Sales tax recoverable	80,843	50,505
Prepayments	147,398	80,080
	870,786	737,372
Non-current		
Research and development tax credits receivable	1,195,333	623,790
	2,066,119	1,361,162

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

4. PROPERTY AND EQUIPMENT

Cost	Property and equipment	Leasehold improvements	Total
	\$	\$	\$
As at January 1, 2017	189,078	226,756	415,834
Additions	102,548	158,151	260,699
Write-offs	(5,138)	-	(5,138)
Effect of movements in exchange rates	13,841	17,729	31,570
As at December 31, 2017	300,329	402,636	702,965
Additions	88,914	-	88,914
Effect of movements in exchange rates	(3,625)	(1,765)	(5,390)
As at September 30, 2018	385,618	400,871	786,489
Accumulated depreciation	Property and equipment	Leasehold improvements	Total
	\$	\$	\$
As at January 1, 2017	66,564	27,722	94,286
Depreciation charge	63,657	26,923	90,580
Write-offs	(3,248)	-	(3,248)
Effect of movements in exchange rates	5,574	2,371	7,945
As at December 31, 2017	132,547	57,016	189,563
Depreciation charge	67,856	38,479	106,335
Effect of movements in exchange rates	(2,340)	(1,249)	(3,589)
As at September 30, 2018	198,063	94,246	292,309
Carrying amount	Property and equipment	Leasehold improvements	Total
	\$	\$	\$
Balance, December 31, 2017	167,782	345,620	513,402
Balance, September 30, 2018	187,555	306,625	494,180

5. INTANGIBLE ASSET

Cost	\$
As at January 1, 2017	4,170,824
Additions, net of research and development tax credits of \$607,535	1,822,606
Effect of movements in exchange rates	297,122
As at December 31, 2017	6,290,552
Additions, net of research and development tax credits of \$591,861	1,924,653
Effect of movements in exchange rates	(77,584)
As at September 30, 2018	8,137,621
Accumulated amortization	\$
As at January 1, 2017	1,681,214
Amortization charge	1,043,186
Effect of movements in exchange rates	127,989
As at December 31, 2017	2,852,389
Amortization charge	988,014
Effect of movements in exchange rates	(38,176)
As at September 30, 2018	3,802,227
Carrying amount	\$
Balance, December 31, 2017	3,438,163
Balance, September 30, 2018	4,335,394

In addition to the capitalized development costs, the Company incurred research costs of \$21,486 for the nine-month period ended September 30, 2018 (nine-month period ended September 30, 2017 – \$6,252) which were expensed through the unaudited condensed interim consolidated statements of 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

	September 30, 2018	December 31, 2017
Current	\$	\$
Trade payables	228,107	101,846
Accruals	190,869	102,137
Accrued directors' fees (note 13)	294,938	211,671
Social insurance cost payable	129,421	106,978
Sales tax payable	7,142	-
Other payables	144,652	67,757
	<u>995,129</u>	<u>590,389</u>

7. LOAN PAYABLE AND ACCRUED INTEREST

	September 30, 2018	December 31, 2017
	\$	\$
Balance – Beginning of period	989,880	934,210
Interest accrual	18,344	23,371
Interest repayment	(24,527)	(23,371)
Effects of movements in exchange rates	(4,178)	55,670
Balance – End of period	<u>979,519</u>	<u>989,880</u>
Less: Current portion	(979,519)	(12,293)
Non-current portion	<u>-</u>	<u>977,587</u>

On June 27, 2016, Enterprise Ireland and kneat.com executed a loan agreement whereby Enterprise Ireland agreed to exchange its cumulative redeemable convertible preference shares in Kneat Solutions Limited, comprised of 232,000 convertible preference shares and 300,000 A convertible preference shares plus accrued interest, for a loan payable to Enterprise Ireland on the third anniversary of the merger effective date, being June 27, 2019. The interest rate is 3% on the principal balance of €532,000, not compounded and payable annually. Management has determined that the underlying terms of the loan payable do not differ substantially from the terms of the cumulative redeemable convertible preference shares and thus it has been accounted for as a modification of the original financial liability. As at September 30, 2018, the loan payable and accrued interest balance on the unaudited condensed interim consolidated statement of financial position was comprised of a principal balance of \$796,297 and accrued interest of \$183,222 (December 31, 2017 – principal balance of \$799,804 and accrued interest of \$190,076).

8. SHARE CAPITAL

a) Common shares

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

	Number of shares	Amount
	#	\$
Outstanding, January 1, 2017	39,563,684	22,941,601
Shares issued pursuant to the private placement	5,000,000	3,000,000
Shares issuance costs pursuant to the private placement	-	(21,745)
Outstanding, December 31, 2017	<u>44,563,684</u>	<u>25,919,856</u>
Shares issued pursuant to the private placement	6,871,830	6,184,647
Shares issuance costs pursuant to the private placement	-	(513,215)
Broker warrants	-	(140,394)
Shares issued pursuant to the stock option exercise	6,666	8,866
Outstanding, September 30, 2018	<u>51,442,180</u>	<u>31,459,760</u>

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

As at December 31, 2017, 17,048,720 common shares of the Company were subject to an escrow agreement pursuant to the terms of the Transaction. On January 4, 2018, these shares were released from escrow in accordance with the escrow agreement. As at September 30, 2018, no shares were held in escrow.

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

Private placement financings

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

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

b) Warrants

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

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

The following table reconciles the warrant activity during the nine-month period ended September 30, 2018 and the year ended December 31, 2017:

	Number of warrants	Weighted-average exercise price
	#	\$
Balance, January 1, 2017	267,857	0.90
Expired	(267,857)	0.90
Balance, December 31, 2017	-	-
Granted	356,977	0.90
Balance, September 30, 2018	356,977	0.90

As at September 30, 2018, 356,977 broker warrants are outstanding, exercisable at \$0.90 per share into common shares of the Company and expiring on October 10, 2019.

c) Share-based compensation

The Company has 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. Stock options are granted with an exercise price of not less than the closing share price the date preceding the date of grant. As at September 30, 2018, 2,658,713 remain available for grant under the terms of the stock option plan.

kneat.com, inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**

The following are the weighted-average assumptions used in calculating the value of the stock options granted during the nine-month period ended September 30, 2018 and the year ended December 31, 2017:

	September 30, 2018	December 31, 2017
Risk-free interest rate	2.08%	1.11%
Expected life	4.5 years	4.5 years
Expected volatility	114%	116%
Expected dividend per share	0.0%	0.0%
Weighted-average exercise price	\$0.84	\$0.60

The following table reconciles the stock option activity during the nine-month period ended September 30, 2018 and the year ended December 31, 2017:

	Number of options #	Weighted-average exercise price \$
Balance, January 1, 2017	1,985,859	0.86
Granted	554,000	0.60
Forfeited	(241,083)	0.79
Balance, December 31, 2017	2,298,776	0.80
Granted	238,000	0.84
Exercised	(6,666)	0.58
Forfeited	(44,605)	0.83
Balance, September 30, 2018	2,485,505	0.80

For the nine-month period ended September 30, 2018, the estimated value of options earned during the period and recorded in the unaudited condensed interim consolidated statement of loss and comprehensive loss was \$100,990 (nine-month period ended September 30, 2017 – \$116,040). The estimated value of options earned during the nine-month period ended September 30, 2018 and recorded as an addition to the intangible asset was \$90,293 (nine-month period ended September 30, 2017 – \$134,310).

The following table summarizes information relating to outstanding and exercisable stock options as at September 30, 2018:

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price
March 19, 2019	0.5	200,000	200,000	\$ 0.90
January 2, 2020	1.3	66,667	66,667	\$ 0.90
November 10, 2020	2.1	33,333	33,333	\$ 0.90
July 4, 2021	2.8	1,235,584	1,107,850	\$ 0.90
September 26, 2021	3.0	10,587	7,940	\$ 0.90
October 3, 2021	3.0	216,000	72,000	\$ 0.55
January 11, 2022	3.3	180,334	60,111	\$ 0.58
February 1, 2022	3.3	100,000	33,333	\$ 0.57
April 4, 2022	3.5	100,000	33,333	\$ 0.57
May 29, 2022	3.7	15,000	5,000	\$ 0.68
November 1, 2022	4.1	100,000	-	\$ 0.70
February 1, 2023	4.3	198,000	-	\$ 0.80
April 25, 2023	4.6	5,000	-	\$ 0.85
September 17, 2023	5.0	25,000	-	\$ 1.16

kneat.com, inc.**Notes to the Unaudited Condensed Interim Consolidated Financial Statements****9. REVENUE**

Revenue has been earned from the following sources:

	Three-month period ended September 30, 2018	Three-month period ended September 30, 2017	Nine-month period ended September 30, 2018	Nine-month period ended September 30, 2017
	\$	\$	\$	\$
SaaS license and hosting fees	35,051	18,311	83,392	44,846
On-premise licenses fees	89,170	-	245,431	-
Maintenance fees	67,805	51,891	188,551	161,750
Professional services and other	56,640	60,465	324,751	138,189
	<u>248,666</u>	<u>130,667</u>	<u>842,125</u>	<u>344,785</u>

10. EXPENSES BY NATURE

	Three-month period ended September 30, 2018	Three-month period ended September 30, 2017	Nine-month period ended September 30, 2018	Nine-month period ended September 30, 2017
Included in administrative expenses:	\$	\$	\$	\$
Audit and accounting fees	56,906	15,026	110,145	46,997
Cloud hosting and other services	67,163	45,667	170,423	133,883
Consultancy fees	43,119	41,388	127,424	129,439
Depreciation of plant and equipment	36,783	24,123	106,335	62,149
Director and key management salaries and benefits	173,019	171,927	524,736	513,805
Employee salaries, wages and benefits	654,551	385,447	1,625,899	1,020,403
Gain on disposal of fixed assets	-	(1,572)	-	(1,552)
Other administrative costs	170,589	66,438	405,044	269,214
Professional fees	34,806	20,898	81,064	77,885
Rent and rates	12,331	9,899	36,470	29,277
Research and development tax credit recovery	(3,490)	(1,996)	(5,372)	(5,038)
Sales, marketing and advertising	87,300	55,333	230,037	131,349
Securities and regulatory fees	14,583	14,128	50,001	45,056
Share-based compensation	28,229	7,283	100,990	116,040
Travel expenses	47,661	27,936	181,258	104,707
	<u>1,423,550</u>	<u>881,925</u>	<u>3,744,454</u>	<u>2,673,614</u>

11. 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 tax provision due to the following:

	Nine-month period ended September 30, 2018	Nine-month period ended September 30, 2017
	\$	\$
Loss before income taxes	(3,982,030)	(2,967,174)
Statutory rate	16.21%	15.87%
Tax recovery at statutory rate	(645,487)	(470,891)
Recovery for losses and deductible temporary differences not recognized in current and prior years	586,380	440,617
Permanent differences and other	59,107	30,274
Income tax recovery	<u>-</u>	<u>-</u>

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

12. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Nine-month period ended September 30, 2018	Nine-month period ended September 30, 2017
	\$	\$
Decrease (increase) in accounts receivable and other	(161,417)	618,831
Increase (decrease) in accounts payable and accrued liabilities	288,275	(452,867)
Increase (decrease) in contract liabilities	(128,311)	200,517
	<u>(1,453)</u>	<u>366,481</u>

13. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

14. 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:

	September 30, 2018	December 31, 2017
	\$	\$
Equity	8,527,241	6,614,803
Less: cash	(4,011,798)	(3,482,318)
	<u>4,515,443</u>	<u>3,132,485</u>

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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 nine-month period ended September 30, 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 unaudited condensed interim consolidated statements of financial position for cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values based on the immediate or short-term maturities of these financial instruments. In addition, the loan payable does not have a fair value that differs significantly from its 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.

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 September 30, 2018 and December 31, 2017, the Company's financial assets exposed to credit risk amounted to the following:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
	\$	\$
Cash	4,011,798	3,482,318
Accounts receivable	269,492	153,740

During the nine-month period ended September 30, 2018 and the year ended December 31, 2017, the Company did not hold any financial assets that were past due or impaired. Trade debtors of \$64,458 are included in accounts receivable as at September 30, 2018 (December 31, 2017 – \$49,226). Trade debtors are monitored on a regular basis in order to minimize material aging and to ensure adequate collection.

Cash is held with reputable banks in Ireland and Canada. The long-term credit rating, as determined by Standard and Poor's was BBB+ and AA- respectively.

e) Liquidity Risk

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

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

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the remaining contractual maturities of the Company's financial liabilities as at September 30, 2018:

	Within 1 year	2-3 years	4-5 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	987,986	-	-	-	987,986
Loan payable	979,519	-	-	-	979,519
	1,967,505	-	-	-	1,967,505

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.

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

g) Interest Rate Risk

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

An immaterial amount of interest rate exposure exists in respect of cash balances and the loan payable on the unaudited condensed interim consolidated statement of financial position. The Company holds a loan payable with a fixed interest rate. The loan payable is privately-issued, with no secondary market. It is measured at amortized cost and bears a fixed interest rate. As a result, the Company is not exposed to cash flow interest rate risk on its loan payable.

h) Fair Value Measurements Recognized in the Statement of Financial Position

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 September 30, 2018 and December 31, 2017, the Company had no financial instruments that were measured and recognized on the consolidated statement of financial position at fair value. In addition, there were no transfers between levels during the period.

15. 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.

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Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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

Payments due by period as of September 30, 2018:				
Within 1 year	2-3 years	4-5 years	Over 5 years	Total
\$	\$	\$	\$	\$
92,967	185,934	156,185	-	435,086

Lease incentives relate to the reimbursement of fit out costs from the lessor and to the reduced rent period. A reduction of the total lease expense of \$6,926 was recognized for the nine-month period ended September 30, 2018 in relation to the reimbursement of the fit out costs from the lessor (year ended December 31, 2017 - \$9,275). The Company also leases computer equipment under finance lease agreements, with lease terms of three to five years.

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

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

16. SUBSEQUENT EVENTS

On November 1, 2018, 100,000 stock options were granted to an employee of the Company. The stock options are exercisable at a price of \$1.02 per share and expire on November 1, 2023.

Subsequent to period end, 25,000 stock options were forfeited following the resignation of an employee which will result in the reversal of \$nil of share-based compensation in future periods.