

*Unaudited Condensed Interim Consolidated Financial Statements of*

**KNEAT.COM, INC.**

June 30, 2022

(Expressed in Canadian Dollars)

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

	<b>June 30, 2022</b>	<b>December 31, 2021</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash	19,462,587	21,562,968
Amounts receivable (note 3)	5,933,280	6,079,383
Prepayments	809,516	496,937
Deferred contract acquisition costs	1,716	3,836
	<u>26,207,099</u>	<u>28,143,124</u>
<b>Non-current assets</b>		
Amounts receivable (note 3)	1,853,831	1,215,227
Property and equipment (note 4)	7,638,978	8,479,957
Intangible asset (note 5)	15,000,000	13,442,578
	<u>15,000,000</u>	<u>13,442,578</u>
<b>Total assets</b>	<u>50,699,908</u>	<u>51,280,886</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 6)	3,623,640	3,384,937
Contract liabilities (note 7)	10,508,358	5,813,220
Loan payable and accrued interest (note 8)	-	113,242
Lease liabilities (note 9)	605,836	880,984
	<u>14,737,834</u>	<u>10,192,383</u>
<b>Non-current liabilities</b>		
Contract liabilities (note 7)	55,820	37,810
Lease liabilities (note 9)	6,326,317	6,863,848
	<u>6,326,317</u>	<u>6,863,848</u>
<b>Total liabilities</b>	<u>21,119,971</u>	<u>17,094,041</u>
<b>Equity</b>		
Shareholders' equity	29,579,937	34,186,845
	<u>29,579,937</u>	<u>34,186,845</u>
<b>Total liabilities and equity</b>	<u>50,699,908</u>	<u>51,280,886</u>

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

Approved on behalf of the Board of Directors on August 10, 2022.

*"Ian Ainsworth"*  
Director

*"Carol Leaman"*  
Director

**kneat.com, inc.****Unaudited Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**

<i>Expressed in Canadian dollars</i>	<b>Three-month period ended June 30, 2022</b>	<b>Three-month period ended June 30, 2021</b>	<b>Six-month period ended June 30, 2022</b>	<b>Six-month period ended June 30, 2021</b>
	\$	\$	\$	\$
<b>Revenue</b> (note 12)	5,548,002	3,148,736	10,747,604	5,504,118
<b>Cost of revenues</b> (note 13)	(2,264,887)	(1,394,294)	(4,193,703)	(2,661,913)
<b>Gross margin</b>	3,283,115	1,754,442	6,553,901	2,842,205
<b>Expenses</b>				
Research and development (note 13)	2,666,487	1,833,448	5,175,769	3,568,786
Sales and marketing (note 13)	1,703,420	817,664	3,003,290	1,504,217
General and administrative (note 13)	1,208,161	622,645	2,341,395	1,308,668
<b>Operating loss</b>	(2,294,953)	(1,519,315)	(3,966,553)	(3,539,466)
Interest expense	57,005	72,439	121,356	147,566
Interest income	(276)	(1,381)	(1,026)	(1,569)
Foreign exchange loss	1,282,206	136,918	2,973,265	2,113,690
<b>Loss before income taxes</b>	(3,633,888)	(1,727,291)	(7,060,148)	(5,799,153)
Income tax expense (note 14)	-	-	-	-
<b>Net loss for the period</b>	(3,633,888)	(1,727,291)	(7,060,148)	(5,799,153)
<b>Other comprehensive income</b>				
Foreign currency translation adjustment to presentation currency	629,590	96,546	1,364,024	1,119,581
<b>Comprehensive loss for the period</b>	(3,004,298)	(1,630,745)	(5,696,124)	(4,679,572)
<b>Loss per share</b> – basic and diluted (note 18)	(0.05)	(0.02)	(0.09)	(0.08)
<b>Weighted-average number of common shares outstanding</b> - Basic and diluted	77,380,273	74,302,942	77,228,662	71,749,900

*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
	#	\$	\$	\$	\$	\$	\$
<b>Balance – December 31, 2020</b>	<b>67,416,570</b>	<b>53,663,724</b>	<b>331,881</b>	<b>2,846,703</b>	<b>(308,439)</b>	<b>(37,319,749)</b>	<b>19,214,120</b>
Net loss for the period	-	-	-	-	-	(5,799,153)	(5,799,153)
Other comprehensive income for the period	-	-	-	-	1,119,581	-	1,119,581
	-	-	-	-	1,119,581	(5,799,153)	(4,679,572)
Share issued pursuant to public equity financing	6,708,525	20,125,575	-	-	-	-	20,125,575
Shares issued pursuant to private placement	666,668	2,000,004	-	-	-	-	2,000,004
Share issuance costs pursuant to the equity financings	-	(1,647,054)	-	-	-	-	(1,647,054)
Shares issued pursuant to the option exercises	1,575,140	1,987,677	-	(677,260)	-	-	1,310,417
Shares issued pursuant to warrant exercises	168,345	215,266	(38,504)	-	-	-	176,762
Share-based compensation expense	-	-	-	350,820	-	-	350,820
<b>Balance – June 30, 2021</b>	<b>76,535,248</b>	<b>76,345,192</b>	<b>293,377</b>	<b>2,520,263</b>	<b>811,142</b>	<b>(43,118,902)</b>	<b>36,851,072</b>
<b>Balance – December 31, 2021</b>	<b>76,978,076</b>	<b>77,066,809</b>	<b>200,977</b>	<b>2,846,636</b>	<b>1,250,700</b>	<b>(47,178,277)</b>	<b>34,186,845</b>
Net loss for the period	-	-	-	-	-	(7,060,148)	(7,060,148)
Other comprehensive income for the period	-	-	-	-	1,364,024	-	1,364,024
Shares issued pursuant to option exercises	70,875	117,208	-	(47,400)	-	-	69,808
Shares issued pursuant to warrant exercises	219,566	646,272	(185,182)	-	-	-	461,090
Warrants expired	-	15,795	(15,795)	-	-	-	-
Shares issued pursuant to DSU redemption	152,506	248,447	-	(248,447)	-	-	-
Share-based compensation expense	-	-	-	558,318	-	-	558,318
<b>Balance, June 30, 2022</b>	<b>77,421,023</b>	<b>78,094,531</b>	<b>-</b>	<b>3,109,109</b>	<b>2,614,724</b>	<b>(54,238,425)</b>	<b>29,579,937</b>

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

**kneat.com, inc.****Unaudited Condensed Interim Consolidated Statement of Cash Flows***Expressed in Canadian dollars*

	<b>Six-month period ended June 30, 2022</b>	<b>Six-month period ended June 30, 2021</b>
	\$	\$
<b>Operating activities</b>		
Net loss for the period	(7,060,148)	(5,799,153)
Charges to loss not involving cash:		
Depreciation of property and equipment	433,112	414,728
Share-based compensation	558,318	350,820
Write off of property and equipment	362	-
Interest expense	121,356	147,566
Amortization of the intangible asset	2,206,889	1,636,206
Amortization of deferred contract acquisition costs	2,150	19,473
Foreign exchange loss	2,973,265	2,113,690
Increase (decrease) in non-current contract liabilities	17,662	(19,395)
Net change in non-cash working capital related to operations (note 15)	3,796,757	1,716,149
<b>Net cash provided by operating activities</b>	<b>3,049,723</b>	<b>580,084</b>
<b>Financing activities</b>		
Proceeds received from the public equity financing	-	20,125,575
Proceeds received from the non-brokered private placement	-	2,000,004
Share issuance costs associated with equity financings	-	(1,647,054)
Payment of principal and interest on the loan payable	(110,237)	(210,634)
Proceeds from the exercise of stock options	69,808	1,310,418
Proceeds from the exercise of warrants	461,090	176,761
Repayment of lease liabilities	(418,729)	(312,431)
<b>Net cash provided by financing activities</b>	<b>1,932</b>	<b>21,442,639</b>
<b>Investing activities</b>		
Additions to the intangible asset	(5,433,542)	(4,110,413)
Additions to property and equipment	(153,821)	(184,825)
Collection of research and development tax credits	912,191	-
<b>Net cash used in investing activities</b>	<b>(4,675,172)</b>	<b>(4,295,238)</b>
<b>Effects of exchange rates on cash</b>	<b>(476,864)</b>	<b>(293,465)</b>
<b>Decrease in cash during the period</b>	<b>(2,100,381)</b>	<b>17,434,020</b>
<b>Cash, beginning of period</b>	<b>21,562,968</b>	<b>8,659,085</b>
<b>Cash, end of period</b>	<b>19,462,587</b>	<b>26,093,105</b>

*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**

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### **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. The Company graduated to, and began trading on, the main Toronto Stock Exchange (TSX) on November 15, 2021. As of March 31, 2022, the Company’s stock also trades in the Unites States on OTCQX. 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**

#### **a) Statement of compliance**

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 International Accounting Standards Board (“IASB”). Accordingly, certain information normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“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, 2021.

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, 2021. Refer to note 2, *Summary of Significant Accounting Policies*, of the kneat.com, inc. annual consolidated financial statements for the year ended December 31, 2021 for information on the other accounting policies, critical accounting judgments and estimates.

The Board of Directors approved these unaudited condensed interim consolidated financial statements for issue on August 10, 2022.

#### **b) Use of judgment and estimates**

The preparation of the Company’s interim financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements, and the reported amounts of revenues and expenses during the reporting periods.

Information about critical judgments in applying accounting policies and assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the interim financial statements are disclosed in Note 2 of the annual consolidated financial statements as at December 31, 2021.

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

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**3. AMOUNTS RECEIVABLE**

	June 30, 2022	December 31, 2021
	\$	\$
<b>Current</b>		
Research and development tax credits receivable	1,064,145	2,114,035
Trade debtors	4,369,054	3,273,345
Contract assets	295,153	481,659
Other debtors	5,341	5,402
Sales tax recoverable	199,587	204,942
	<hr/> 5,933,280	<hr/> 6,079,383
<b>Non-current</b>		
Research and development tax credits receivable	1,853,831	1,215,227
	<hr/> 7,787,111	<hr/> 7,294,610

**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**

**4. PROPERTY AND EQUIPMENT**

<b>Cost</b>	<b>Computers and servers \$</b>	<b>Furniture and fixtures \$</b>	<b>Right-of-use assets \$</b>	<b>Leasehold improvements \$</b>	<b>Total \$</b>
As at January 1, 2021	635,481	116,456	9,060,707	754,258	10,566,902
Additions	404,661	196,333	-	-	600,994
Effect of movements in exchange rates	(56,077)	(9,207)	(716,380)	(59,634)	(841,298)
As at December 31, 2021	984,065	303,582	8,344,327	694,624	10,326,598
Additions	124,780	9,377	-	-	134,157
Disposals	(2,224)	-	-	-	(2,224)
Effect of movements in exchange rates	(63,296)	(19,879)	(546,404)	(45,486)	(675,065)
As at June 30, 2022	1,043,325	293,080	7,797,923	649,138	9,783,466
<b>Accumulated depreciation</b>	<b>Computers and servers \$</b>	<b>Furniture and fixtures \$</b>	<b>Right-of-use assets \$</b>	<b>Leasehold improvements \$</b>	<b>Total \$</b>
<b>As at January 1, 2021</b>	321,002	56,687	480,697	254,560	1,112,946
Depreciation charge	202,458	24,651	528,708	89,392	845,209
Effect of movements in exchange rates	(30,621)	(5,033)	(53,170)	(22,690)	(111,514)
<b>As at December 31, 2021</b>	492,839	76,305	956,235	321,262	1,846,641
Depreciation charge	125,394	18,666	247,248	41,804	433,112
Disposals	(1,988)	-	-	-	(1,988)
Effect of movements in exchange rates	(35,561)	(5,541)	(69,907)	(22,268)	(133,277)
<b>As at June 30, 2022</b>	580,684	89,430	1,133,576	340,798	2,144,488
<b>Carrying amount</b>	<b>Computers and servers \$</b>	<b>Furniture and fixtures \$</b>	<b>Right-of-use assets \$</b>	<b>Leasehold improvements \$</b>	<b>Total \$</b>
<b>Balance - December 31, 2021</b>	491,226	227,277	7,388,092	373,362	8,479,957
<b>Balance – June 30, 2022</b>	462,641	203,650	6,664,347	308,340	7,638,978

Depreciation of property and equipment is included in the unaudited condensed interim consolidated statements of loss and comprehensive loss for \$433,112 (six-month period ended June 30, 2021 – \$414,728).



**kneat.com, inc.****Notes to the Unaudited Condensed Interim Consolidated Financial Statements****5. INTANGIBLE ASSET**

<b>Cost</b>	\$
<b>As at January 1, 2021</b>	18,053,755
Additions, net of research and development tax credits of \$1,279,767	8,306,670
Effect of movements in exchange rates	<u>(1,427,410)</u>
<b>As at December 31, 2021</b>	24,933,015
Additions, net of research and development tax credits of \$720,413	4,583,205
Effect of movements in exchange rates	<u>(1,632,667)</u>
<b>As at June 30, 2022</b>	<u>27,883,553</u>
<b>Accumulated amortization</b>	\$
<b>As at January 1, 2021</b>	8,715,151
Amortization charge	3,558,714
Effect of movements in exchange rates	<u>(783,428)</u>
<b>As at December 31, 2021</b>	11,490,437
Amortization charge	2,206,889
Effect of movements in exchange rates	<u>(813,773)</u>
<b>As at June 30, 2022</b>	<u>12,883,553</u>
<b>Carrying amount</b>	\$
<b>Balance - December 31, 2021</b>	<u>13,442,578</u>
<b>Balance – June 30, 2022</b>	<u>15,000,000</u>

Amortization of the intangible asset of \$2,206,889 (six-month period ended June 30, 2021 - \$1,636,206) is included in the unaudited condensed interim consolidated statements of loss and comprehensive loss.

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<u>June 30, 2022</u>	<u>December 31, 2021</u>
	\$	\$
Trade payables	766,177	619,201
Accruals	2,116,847	2,133,411
Employee remittances	569,673	540,257
Sales tax payable	104,511	21,201
Other payables	66,432	70,867
	<u>3,623,640</u>	<u>3,384,937</u>

**kneat.com, inc.****Notes to the Unaudited Condensed Interim Consolidated Financial Statements****7. CONTRACT LIABILITIES**

	June 30, 2022	December 31, 2021
	\$	\$
<b>Balance - Beginning of period</b>	5,851,030	3,520,643
Deferral of revenue	15,442,640	17,947,044
Recognition of deferred revenue	(10,747,604)	(15,501,350)
Effect of movements in exchange rates	18,112	(115,307)
<b>Balance - End of period</b>	10,564,178	5,851,030
Less: current portion of contract liabilities	(10,508,358)	(5,813,220)
<b>Non-current portion of contract liabilities</b>	55,820	37,810

**8. LOAN PAYABLE AND ACCRUED INTEREST**

	June 30, 2022	December 31, 2021
	\$	\$
<b>Balance - Beginning of period</b>	113,242	580,087
Interest accrual	851	12,423
Repayments	(110,237)	(458,824)
Effect of movements in exchange rates	(3,856)	(20,444)
<b>Balance - End of period</b>	-	113,242
Less: Current portion	-	(113,242)
<b>Non-current portion</b>	-	-

The loan payable was discharged in full by March 31, 2022. The interest rate on the loan was 3.0% at March 31, 2022 and December 31, 2021.

**9. LEASE LIABILITIES**

	June 30, 2022	December 31, 2021
	\$	\$
<b>Balance - Beginning of period</b>	7,744,832	8,939,919
Repayments of lease obligations	(418,729)	(760,817)
Accreted interest	113,197	264,888
Effect of movements in exchange rates	(507,147)	(699,158)
<b>Balance - End of period</b>	6,932,153	7,744,832
Less: Current portion	(605,836)	(880,984)
<b>Non-current portion</b>	6,326,317	6,863,848

# kneat.com, inc.

## Notes to the Unaudited Condensed Interim Consolidated Financial Statements

### 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 4,000,000 common shares. As at June 30, 2022, 3,386,542 remain available for grant under the terms of the DSU plan.

DSU activity for the six-month period ended June 30, 2022 and year ended December 31, 2021 is as follows:

	June 30, 2022	December 31, 2021
	#	#
<b>Outstanding - Beginning of period</b>	693,560	583,001
Granted	72,404	110,559
Redeemed	(152,506)	-
<b>Outstanding - End of period</b>	<b>613,458</b>	<b>693,560</b>

For the six-months ended June 30, 2022, the estimated value of DSUs earned and recorded in the unaudited interim condensed consolidated statement of loss and comprehensive loss was \$157,565 and is included in general and administration expenses. During the period 152,506 DSUs were redeemed at a value of \$248,447.

### 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
	#	\$
<b>Outstanding - January 1, 2021</b>	67,416,570	53,663,724
Shares issued pursuant to the public equity financing	6,708,525	20,125,575
Shares issued pursuant to the private placement	666,668	2,000,004
Shares issuance costs pursuant to the equity financing	-	(1,647,054)
Shares issued pursuant to the stock option exercise	1,882,563	2,332,543
Shares issued pursuant to warrant exercises	303,750	592,017
<b>Outstanding - December 31, 2021</b>	<b>76,978,076</b>	<b>77,066,809</b>
Shares issued pursuant to warrant exercises	219,566	646,272
Broker warrants expired	-	15,795
Shares issued pursuant to stock option exercise	70,875	117,208
Shares issued pursuant to DSU redemption	152,506	248,447
<b>Outstanding - June 30, 2022</b>	<b>77,421,023</b>	<b>78,094,531</b>

#### Six-month period ended June 30, 2022

During the six-month period ended June 30, 2022, 219,566 broker warrants were exercised with an exercise price of \$2.10 per share for cash proceeds of \$461,090 plus an ascribed value of \$646,272. 152,506 DSUs were redeemed at an ascribed value of \$248,447 and employees exercised 70,875 options with a weighted average exercise price of \$0.67 per share for cash proceeds of \$69,808 plus an ascribed value of \$117,208.

## kneat.com, inc.

### Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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#### Year ended December 31, 2021

During the year ended December 31, 2021, 303,750 broker warrants were exercised with a weighted-average exercise price of \$1.52 per share for cash proceeds of \$461,113.

During the year ended December 31, 2021, employees exercised 1,320,515 options with a weighted average exercise price of \$0.78 per share for cash proceeds of \$982,225; and directors exercised 562,049 options with a weighted average exercise price of \$0.90 per share for cash proceeds of \$505,844.

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 exercise 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 \$1,647,054, 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.

#### b) Warrants

No warrants were granted during the six-month period ended June 30, 2022 or the year ended December 31, 2021.

The following table reconciles the warrant activity during the six-month period ended June 30, 2022 and the year ended December 31, 2021:

	Number of warrants	Weighted-average exercise price
	#	\$
<b>Outstanding - January 1, 2021</b>	539,245	1.77
Exercised	(303,750)	1.52
<b>Outstanding - December 31, 2021</b>	235,495	2.10
Exercised	(219,566)	2.10
Forfeited	(15,929)	2.10
<b>Outstanding – June 30, 2022</b>	-	-

#### c) Share-based compensation

The Company has adopted an Omnibus Equity Incentive Plan, providing the Board of Directors with the discretion to issue an equivalent number of options of up to 15% 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 June 30, 2022, 8,039,807 remain available for grant under the terms of the stock option plan.

## kneat.com, inc.

### Notes to the Unaudited Condensed Interim Consolidated Financial Statements

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The following table reconciles the stock option activity during the six-month period ended June 30, 2022 and the year ended December 31, 2021:

	Number of options	Weighted-average exercise price
	#	\$
<b>Outstanding - January 1, 2021</b>	3,682,918	1.20
Granted	1,219,103	3.42
Exercised	(1,882,564)	0.82
Forfeited	(202,322)	2.59
<b>Outstanding - December 31, 2021</b>	2,817,135	2.31
Granted	322,000	3.51
Exercised	(70,875)	0.98
Forfeited	(108,372)	2.85
<b>Outstanding – June 30, 2022</b>	2,959,888	2.46

For the six-month period ended June 30, 2022, the estimated value of options earned and recorded in the unaudited condensed interim consolidated statements of loss and comprehensive loss was \$400,753 (six-month period ended June 30, 2021 – \$229,848).

The following are the weighted-average assumptions used in calculating the value of the stock options granted during the six-month period ended June 30, 2022 and the year ended December 31, 2021

	June 30, 2022	December 31, 2021
Risk-free interest rate	1.45%	0.80%
Expected life	4.5 years	4.5 years
Expected volatility	65.12%	69.95%
Expected dividend per share	0.0%	0.0%
Weighted-average exercise price	\$3.51	\$3.42
Weighted-average fair value	\$1.85	\$1.87

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

The following table summarizes information relating to outstanding and exercisable stock options as at June 30, 2022:

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price
February 1, 2023	0.6	129,900	129,900	\$ 0.80
April 25, 2023	0.8	5,000	5,000	\$ 0.85
November 1, 2023	1.3	50,000	50,000	\$ 1.02
December 18, 2023	1.5	67,782	67,782	\$ 0.97
January 3, 2024	1.5	292,670	292,670	\$ 1.00
March 7, 2024	1.7	225,000	225,000	\$ 1.06
April 4, 2024	1.8	10,000	10,000	\$ 1.22
May 13, 2024	1.9	30,000	30,000	\$ 1.30
September 23, 2024	2.2	200,000	133,333	\$ 1.52
January 1, 2025	2.5	70,000	46,666	\$ 2.84
February 6, 2025	2.6	40,000	36,667	\$ 2.84
April 22, 2025	2.8	20,000	10,000	\$ 1.94
August 26, 2025	3.2	269,375	144,594	\$ 2.50
October 1, 2025	3.3	3,500	1,313	\$ 2.55
November 26, 2025	3.4	200,000	50,000	\$ 2.20
May 27, 2026	3.9	122,000	30,500	\$ 2.98
August 12, 2026	4.1	817,661	-	\$ 3.45
September 23, 2026	4.2	85,000	-	\$ 4.10
January 07, 2027	4.5	280,000	-	\$ 3.60
February 24, 2027	4.7	42,000	-	\$ 2.93
		<u>2,959,888</u>	<u>1,263,425</u>	

**kneat.com, inc.****Notes to the Unaudited Condensed Interim Consolidated Financial Statements****12. REVENUE**

Revenue consists of the following:

	Three-month period ended June 30, 2022	Three-month period ended June 30, 2021	Six-month period ended June 30, 2022	Six-month period ended June 30, 2021
	\$	\$	\$	\$
SaaS license fees	3,889,834	1,721,112	7,188,190	3,011,907
On-premise licenses fees	77,715	438,886	766,133	572,540
Maintenance fees	220,733	227,436	434,226	447,914
Professional services and other	1,359,720	761,302	2,359,055	1,471,757
	<u>5,548,002</u>	<u>3,148,736</u>	<u>10,747,604</u>	<u>5,504,118</u>

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

	Three-month period ended June 30, 2022	Three-month period ended June 30, 2021	Six-month period ended June 30, 2022	Six-month period ended June 30, 2021
	\$	\$	\$	\$
North America	3,946,983	2,078,042	7,585,863	3,911,700
Europe	1,485,409	978,871	2,983,386	1,492,456
Asia	115,610	91,823	178,355	99,962
	<u>5,548,002</u>	<u>3,148,736</u>	<u>10,747,604</u>	<u>5,504,118</u>

In the three-month period ended June 30, 2022, revenue from 1 customer amounts to 10% or more of the Company's total revenue (June 30, 2021 – 2). In the six-month period ended June 30, 2022, revenue from 1 customer amounts to 10% or more of the Company's total revenue (June 30, 2021 – 1).

For the three-month period ended June 30, 2022, the Company's top 10 customers made up 65% of the Company's revenues (June 30, 2021 – 78%). For the six-month period ended June 30, 2022, the Company's top 10 customers made up 64% of the Company's revenues (June 30, 2021 – 44 %).

**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 June 30, 2022	Three-month period ended June 30, 2021	Six-month period ended June 30, 2022	Six-month period ended June 30, 2021
	\$	\$	\$	\$
Amortization of the intangible asset	1,145,799	860,834	2,206,889	1,636,206
Depreciation of plant and equipment	212,524	204,718	433,112	414,728
Salaries, wages and benefits	3,460,102	2,155,552	6,389,362	4,344,276
Share-based compensation	232,714	166,090	558,318	350,820

**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:

	Six-month period ended June 30, 2022	Six-month period ended June 30, 2021
	\$	\$
Loss before income taxes	(7,060,148)	(5,799,153)
Statutory rate	29%	29.5%
Tax recovery at statutory rate	(2,047,443)	(1,710,750)
Recovery for losses and deductible temporary differences not recognized in current and prior years	1,092,088	1,339,478
Permanent differences and other	467,268	(201,684)
Foreign tax rate variance	488,087	572,956
Income tax recovery	-	-

**15. SUPPLEMENTAL CASH FLOW INFORMATION**

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

	Six-month period ended June 30, 2022	Six-month period ended June 30, 2021
	\$	\$
Increase in amounts receivable and other	(1,323,483)	(464,449)
Increase in accounts payable and accrued liabilities	412,567	538,320
Increase in contract liabilities	4,707,673	1,642,278
	3,796,757	1,716,149

**16. RELATED PARTY TRANSACTIONS**

During the six months ended June 30, 2022, the Company issued 72,404 DSUs to members of the Board of Directors who are not employees or officers of the Company (note 10) (six months ended June 30, 2021 – 75,162).

During the three months ended March 31, 2022, a director of the Company resigned from the Board and redeemed a total of 152,506 DSUs.

On February 1, 2021, a director of the Company exercised 33,333 stock options at an exercise price of \$0.90 per common share for gross proceeds of \$30,000.

On January 22, 2021, directors of the Company exercised a total of 528,716 stock options at an exercise price of \$0.90 per common share for gross proceeds of \$475,844.



**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:

	June 30, 2022	December 31, 2021
	\$	\$
Equity	29,579,937	34,186,845
Less: cash	(19,462,587)	(21,562,968)
	<u>10,117,350</u>	<u>12,623,877</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 six-month period ended June 30, 2022 or the year ended December 31, 2021.

**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, the non-current amount receivable, although not due in the current year, does not have a fair value that differs significantly from its carrying value. The loan payable was cleared in March 2022.

The table below presents the classification of the Company’s financial assets and liabilities as at June 30, 2022 and December 31, 2021:

	Financial assets and liabilities at amortized cost June 30, 2022	Financial assets and liabilities at amortized cost Dec 31, 2021
	\$	\$
<b>Financial assets:</b>		
Cash	19,462,587	21,562,968
Amount receivable	4,669,548	3,760,406
<b>Financial liabilities:</b>		
Accounts payables and accrued liabilities	3,623,640	3,384,937
Loan payable	-	113,242

**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 June 30, 2022 and December 31, 2021, the Company's financial assets exposed to credit risk amounted to the following:

	June 30, 2022	December 31, 2021
	\$	\$
Cash	19,462,587	21,562,968
Amounts receivable and other*	5,479,064	4,257,343

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

During the six-month period ended June 30, 2022 and the year ended December 31, 2021, the Company did not hold any financial assets that were impaired. Trade debtors of \$4,369,054 are included in amounts receivable as at June 30, 2022 (December 31, 2021 – \$3,273,345). Trade debtors are monitored on a regular basis, with reference to the Expected Credit Loss (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 AA-, 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.

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 June 30, 2022:

	Within 1 year	2-3 years	4-5 years	Over 5 years	Total
	\$	\$	\$	\$	\$
Accounts payable and accrued liabilities	3,623,640	-	-	-	3,623,640
Lease payments	814,752	1,441,205	873,091	5,669,115	8,798,163
	4,438,392	1,441,205	873,091	5,669,115	12,421,803

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 \$54,238,425 as at June 30, 2022. For the six-month period ended June 30, 2022, the Company incurred a net loss of \$7,060,148 with positive cash flows from operations of \$3,049,723 and capitalized development cost spend of \$5,303,618 (30 June 2021 - \$5,799,153, \$580,084 and \$4,110,413, respectively).

**Notes to the Unaudited Condensed Interim Consolidated Financial Statements**

As the Company continues to incur losses and consumes cash, 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 and marketing functions.

The Company has a history of being able to raise funds on the capital markets to meet its ongoing requirements and 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 (note 11(a)). 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 2021 and the first six months of 2022, financial markets have been negatively impacted by the ongoing COVID-19 coronavirus pandemic. 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, 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.

The Company is exposed to currency risk on cash, intercompany balances, accounts payable and accrued liabilities balances that are held in currencies that are not in the transacting entities functional currencies.

As at June 30, 2022 the impact on monetary assets and liabilities of a 5% decrease in the exchange rate between the functional currencies and foreign currencies would increase the net loss by approximately \$3.2 million for the three-month period ended June 30, 2022; a 5% increase would decrease the net loss by approximately \$3.2million for the three-month period ended June 30, 2022. 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: <sup>(1)</sup>

	Six-month period ended June 30, 2022			Six-month period ended June 30, 2021		
	As reported	Exchange rate effect	5% Stronger	As reported	Exchange rate effect	5% Stronger
Revenues	\$ 10,747,604	\$ 537,380	\$ 11,284,984	\$ 5,504,118	\$ 275,206	\$ 5,779,324
Expenses	(17,807,752)	(690,778)	(18,498,530)	(11,303,271)	(436,673)	(11,739,944)
Net loss	(7,060,148)	(153,398)	(7,213,546)	(5,799,153)	(161,467)	(5,960,620)

- (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. Up until March 2022, the Company held a loan payable with a fixed interest rate. This was privately-issued, with no secondary market. As a result, the Company was not exposed to cash flow interest rate risk on its loan payable. It was measured at amortized cost. This loan payable balance was fully cleared as of March 31, 2022.

**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 June 30, 2022 and December 31, 2021 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:

	Three-month period ended June 30, 2022	Three-month period ended June 30, 2021	Six-month period ended June 30, 2022	Six-month period ended June 30, 2021
<i>Numerator:</i>				
Net loss for the year attributable to ordinary shareholders	(3,633,888)	(1,727,291)	(7,060,148)	(5,799,153)
<i>Denominator:</i>				
Weighted average number of ordinary shares in issue	77,380,273	74,302,942	77,228,662	71,749,900
Loss per share (basic and diluted)	<u>(0.05)</u>	<u>(0.02)</u>	<u>(0.09)</u>	<u>(0.08)</u>

The Company's potential ordinary shares, which include stock options, DSUs 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 period end, from the computation of diluted net loss per share because including them would have had an anti-dilutive effect.

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Options to purchase common shares	2,959,888	2,201,277
Warrants to purchase common shares	-	370,900
Deferred share units (DSUs)	613,458	658,163

**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 \$1,621,433 within one year and \$1,586,415 in two to three years.

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

The Company performed a review of events subsequent to the unaudited condensed interim consolidated statements of financial position date through to the date the condensed interim consolidated financial statements were issued and determined that there were no such events requiring recognition or disclosure in the financial statements.