

kneat.com, inc.

Consolidated Financial Statements
December 31, 2023 and 2022
(expressed in Canadian dollars)

February 21, 2024

Management's Report

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

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

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

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

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



KPMG LLP
Tour KPMG
600 de Maisonneuve Blvd West, Suite 1500
Montréal, QC H3A 0A3
Canada
Telephone 514 840 2100
Fax 514 840 2187

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of kneat.com, inc.

Opinion

We have audited the consolidated financial statements of kneat.com, inc. (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2023 and December 31, 2022;
- the consolidated statements of loss and other comprehensive loss for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated statements, including a summary of material accounting policies (Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditor's Responsibilities for the Audit of the Financial Statements**" section of our auditor's report.

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

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



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matter to be communicated in our auditor's report.

Capitalization of development expenditures related to internally generated intangible asset

Description of the matter

We draw attention to notes 2d), 2i) and 5 of the financial statements. The Entity's intangible asset consists of the internally generated software platform, Kneat Gx. The development costs of the software platform, net of research and development tax credits, are capitalized when they can be measured reliably, the platform is technically and commercially feasible, future economic benefits are probable and the Entity intends to, and has sufficient resources to, complete development and to use or sell the product. Determining whether the development costs meet the Entity's capitalization criteria involves significant management judgement. Expenditures capitalized include the costs of direct labour and other costs that are directly attributable to preparing the asset for its intended use.

Why the matter is a key audit matter

We identified the capitalization of development expenditures related to the internally generated intangible asset as a key audit matter given the magnitude of the internally generated intangible asset and because this matter represented an area of higher assessed risk of material misstatement. In addition, significant auditor judgement was required in evaluating the results of our audit procedures due to the Entity's significant judgments involved in determining whether the development costs met the Entity's capitalization criteria.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter.

- We obtained an understanding of the new features and functionalities under development or included in a new Kneat Gx software release by reviewing management's project documentation and inquiring of senior project managers and officers.
- To evaluate the technical feasibility of the development costs capitalized, we assessed the status and progression of the new features and functionalities under development or included in a new Kneat Gx software release platform through discussion with management, senior project managers and officers and inspecting internal supporting information.



Page 3

- We evaluated the ability to generate future economic benefits from the intangible asset by comparing the Entity's business plan, as well as revenue and cash flow projections to historical actual results.
- For a sample of expenditures capitalized, other than the cost of direct labor, we evaluated if those costs fulfilled the criteria for capitalization by inspecting the underlying documentation such as invoices and assessing whether they were directly attributable to the new features and functionalities under development or included in a new Kneat Gx software release.
- For a sample of direct labor costs capitalized, we compared the amounts to the underlying payroll records and reviewed the percentage of time allocated to the new features and functionalities under development or included in a new Kneat Gx software release by inspecting the employees' timesheets.
- We evaluated the appropriateness of research and development tax credits related to the development expenditures for the internally generated intangible asset and which were applied against the related expenditures.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

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

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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



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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



Page 5

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the auditor's report is Tracy Chehab.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Montréal, Canada

February 21, 2024

kneat.com, inc.
Consolidated Statements of Financial Position
As at December 31, 2023 and 2022

Expressed in Canadian Dollars

	2023	2022
	\$	\$
Assets		
Current assets		
Cash	15,252,526	12,282,478
Amounts receivable (note 3)	11,601,558	8,914,980
Prepayments	1,138,382	931,856
	27,992,466	22,129,314
Non-current assets		
Amounts receivable (note 3)	1,650,795	1,104,624
Property and equipment (note 4)	7,209,953	7,807,042
Intangible asset (note 5)	27,642,752	19,364,904
Total Assets	64,495,966	50,405,884
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	7,874,332	5,768,054
Contract liabilities (note 7)	13,647,071	10,617,142
Lease liabilities (note 9)	535,832	588,472
	22,057,235	16,973,668
Non-current liabilities		
Contract liabilities (note 7)	41,084	949,224
Lease liabilities (note 9)	5,976,380	6,503,041
Loan payable and accrued interest (note 8)	21,657,423	-
Total Liabilities	49,732,122	24,425,933
Equity		
Shareholders' equity	14,763,844	25,979,951
Total liabilities and equity	64,495,966	50,405,884

Approved on behalf of the Board of Directors on February 21, 2024.

(signed) "Ian Ainsworth" Director

(signed) "Carol Leaman" Director

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

kneat.com, inc.**Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2023 and 2022**

(expressed in Canadian dollars)

	2023 \$	2022 \$
Revenue (note 11)	34,223,408	23,749,201
Cost of revenue	<u>(11,015,485)</u>	<u>(9,094,688)</u>
Gross profit	23,207,923	14,654,513
Expenses		
Research and development	(15,763,663)	(10,992,499)
Sales and marketing	(13,796,377)	(8,516,347)
General and administrative	<u>(7,181,784)</u>	<u>(4,920,103)</u>
Operating loss	(13,533,901)	(9,774,436)
Interest expense	(1,081,853)	(228,586)
Interest income	6,635	2,752
Foreign exchange gain	<u>545,776</u>	<u>868,693</u>
Loss before income taxes	(14,063,343)	(9,131,577)
Income tax expense (note 13)	<u>(55,891)</u>	<u>(16,611)</u>
Net loss for the year	(14,119,234)	(9,148,188)
Other comprehensive (loss) income		
Foreign currency translation adjustment to presentation currency (note 2 (c))	<u>(263,950)</u>	<u>(817,378)</u>
Comprehensive loss for the year	<u>(14,383,184)</u>	<u>(9,965,566)</u>
Loss per share - Basic and diluted (note 18)	(0.18)	(0.12)
Weighted-average number of common shares outstanding:		
Basic and diluted	77,833,268	77,444,009

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

kneat.com, inc.**Consolidated Statements of Changes in Equity
For the years ended December 31, 2023 and 2022**

(expressed in Canadian dollars)

	Number of common shares #	Common shares \$	Warrants \$	Contributed surplus \$	Translation reserve \$	Deficit \$	Total \$
Balance – December 31, 2021	76,978,076	77,066,809	200,977	2,846,636	1,250,700	(47,178,277)	34,186,845
Net loss for the year	-	-	-	-	-	(9,148,188)	(9,148,188)
Other comprehensive loss for the year	-	-	-	-	(817,378)	-	(817,378)
	-	-	-	-	(817,378)	(9,148,188)	(9,965,566)
Shares issued pursuant to option exercises (note 10(a))	206,305	288,465	-	(133,707)	-	-	154,758
Shares issued pursuant to warrant exercises (note 10 (a))	219,566	646,272	(185,182)	-	-	-	461,090
Warrants expired	-	15,795	(15,795)	-	-	-	-
Shares issued pursuant to DSU redemption	258,964	408,812	-	(408,812)	-	-	-
Share-based compensation expense (note 10(c))	-	-	-	1,142,824	-	-	1,142,824
Balance – December 31, 2022	77,662,911	78,426,153	-	3,446,941	433,322	(56,326,465)	25,979,951
Net loss for the year	-	-	-	-	-	(14,119,234)	(14,119,234)
Other comprehensive loss for the year	-	-	-	-	(263,950)	-	(263,950)
	-	-	-	-	(263,950)	(14,119,234)	(14,383,184)
Shares issued pursuant to option exercises (note 10(a))	349,146	532,117	-	(236,767)	-	-	295,350
Shares issued pursuant to RSU vesting (note 10(a))	286,739	832,694	-	(832,694)	-	-	-
Share-based compensation expense (note 10)	-	-	-	2,871,727	-	-	2,871,727
Balance – December 31, 2023	78,298,796	79,790,964	-	5,249,207	169,372	(70,445,699)	14,763,844

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

kneat.com, inc.**Consolidated Statements of Cash Flows****For the years ended December 31, 2023 and 2022**

(expressed in Canadian dollars)

	2023 \$	2022 \$
Operating activities		
Net loss for the year	(14,119,234)	(9,148,188)
Charges to loss not involving cash:		
Depreciation of property and equipment	786,085	900,295
Share-based compensation	2,871,727	1,142,824
Interest expense	1,081,853	228,586
Tax expense	55,891	-
Amortization of the intangible asset	6,610,930	4,795,508
Amortization of loan issuance costs	61,164	-
Amortization of deferred contract acquisition costs	-	3,939
Write-off of property and equipment	26,721	359
Impact of lease termination	(67,600)	94,769
Other non-cash adjustments	-	(120,100)
Foreign exchange gain	(545,776)	(845,999)
Increase/(decrease) in non-current contract liabilities	(905,846)	878,945
Net change in non-cash operating working capital related to operations (note 14)	2,868,609	5,063,150
Net cash (used in) provided by operating activities	(1,275,476)	2,994,088
Financing activities		
Payment of principal and interest on loans payable	(630,410)	(110,237)
Proceeds from the exercise of stock options	295,350	154,758
Proceeds from the exercise of warrants	-	461,090
Repayment of lease liabilities	(752,802)	(889,525)
Proceeds received from loan financing (note 8)	21,978,000	-
Issuance costs associated with loan financing (note 8)	(624,596)	-
Net cash provided by (used in) financing activities	20,265,542	(383,914)
Investing activities		
Additions to the intangible asset	(16,977,274)	(12,484,492)
Collection of research and development tax credits	1,185,720	904,566
Additions to property and equipment	(181,358)	(331,715)
Net cash used in investing activities	(15,972,912)	(11,911,641)
Effects of exchange rates on cash	(47,106)	20,977
Net change in cash during the year	2,970,048	(9,280,490)
Cash – Beginning of year	12,282,478	21,562,968
Cash – End of year	15,252,526	12,282,478

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

kneat.com, inc.

Notes to the Consolidated Financial Statement

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

1. Nature of operations

kneat.com, inc. (the “Company” or “kneat.com” or “Kneat”), was incorporated on December 12, 2013 under the laws of the Canada Business Corporations Act. On June 27, 2016, the Company completed a transaction (“Transaction”) with Kneat Solutions Limited whereby kneat.com acquired 100% of the issued and outstanding ordinary shares of Kneat Solutions Limited by way of a scheme of arrangement in Ireland. The Company commenced trading on the TSX Venture Exchange as kneat.com on July 5, 2016 under the symbol KSI. The Company graduated to, and began trading on, the main Toronto Stock Exchange (TSX) on November 15, 2021. kneat.com’s head office is located at Hawthorn House, Plassey Business Campus, 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 designs, develops and supplies software for data and document management within regulated environments. The Company’s current product is Kneat Gx, a configurable, off-the-shelf application focused on validation lifecycle management and testing primarily within the life sciences industry (i.e. biotechnology, pharmaceutical and medical device manufacturing).

2. Summary of material accounting policies

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

a) Statement of compliance and basis of consolidation

The consolidated financial statements of the Company and all its subsidiaries have been prepared in accordance with IFRS Accounting Standards. The Board of Directors approved these consolidated financial statements for issue on February 21, 2024. These consolidated financial statements include assets, liabilities and results of operations of the Company, including the following subsidiaries:

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

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

b) Basis of presentation

These consolidated financial statements of the Company have been prepared on a historical cost basis except for share-based payment arrangements which are initially accounted for at fair value at date of grant in accordance with IFRS 2 *Share-based Payment*, and lease liabilities, which are initially accounted for at the present value of minimum lease payments at inception of the lease in accordance with IFRS 16 *Leases*.

c) Foreign currency translation

Earnings of foreign operations are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”).

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

2. Summary of material accounting policies (continued)

c) Foreign currency translation (continued)

The functional currency of Kneat Solutions Limited is the EURO ("€") and the functional currency of Kneat Solutions Inc. is the United States dollar. The legal parent entity, kneat.com, has a Canadian dollar functional currency. The consolidated financial statements are presented in Canadian dollars.

On consolidation, assets and liabilities of each foreign entity are translated into Canadian dollars at the exchange rate in effect on the consolidated statement of financial position date. Revenue and expenses are translated at the average rate in effect during the year. Unrealized translation gains and losses are recorded as a cumulative translation adjustment, which is included in other comprehensive loss, which is a component of shareholders' equity.

Transactions in each entity in currencies other than the entity's functional currency are translated as follows: (i) monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the exchange rate prevailing at the consolidated 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 rates of exchange at the transaction dates.

d) Critical accounting judgements and estimates

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

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

Recognition of revenue

Contracts with customers often include promises to deliver multiple products and services. Determining whether these products and services represent distinct performance obligations and whether to recognize revenue over time or at a point in time may require significant judgement. In addition, the determination of the stand-alone selling price for distinct performance obligations may also require judgement. Based upon the company's 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 performance obligations can 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 liability balance at period-end.

Internally generated intangible asset

The Company capitalizes certain costs incurred for the development of its Kneat Gx software platform in accordance with IAS 38, *Intangible Assets*. The capitalized costs include the costs directly attributable to preparing the intangible asset for its intended use, net of any qualifying research and development tax credits which are subject to audit by tax authorities. Management estimates the expected term over which the Company will receive benefits from the software application to be five years.

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

2. Summary of material accounting policies (continued)

d) Critical accounting judgements and estimates (continued)

A change in this estimate would have a significant impact on the carrying value of the intangible asset, the amounts receivable for the research and development tax credit and the amortization and expenses recognized in the consolidated statements of loss and comprehensive loss. The Company also applies judgment in determining the specific development costs that meet the Company's capitalization criteria.

Other areas of uncertainty are related to the incremental borrowing rate inherent in leases, estimation of expected credit losses, the measurement and recoverability of property, plant and equipment and the measurement of the grant date fair value of share-based arrangements.

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

e) Revenue recognition

Revenue from contracts

The Company derives its revenues under license agreements from the sale of proprietary software subscriptions and licenses and provision of 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 are transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services.

Revenues generated by the Company include the following:

i) Software as a service ("SaaS") license fees

SaaS license agreements (also referred to as "subscription fees") entitle the customer to utilize the Kneat Gx platform, which is hosted by the Company on a cloud server, for a specified number of users without taking possession. SaaS license fee revenue is recognized rateably over the contract term, commencing on the date when Kneat's services are made available to the customer. Customers are typically invoiced and pay annually in advance for subscription fees upon execution of the initial contract or subsequent renewals.

ii) On-premise license fees

On-premise license fees entitle the customer to deploy the Kneat Gx platform on the customers' own servers. Revenues from on-premise perpetual license sales are recognized at a point in time, upon delivery or go-live, 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.

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.

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

2. Summary of material accounting policies (continued)

e) Revenue recognition (continued)

iv) Professional services and other

The Company provides consulting, training, process mapping, project management and other services to its customers that are distinct from the sale of licenses. Revenues from such services are generally recognized at the point in time when performance obligations are satisfied. The Company also performs services related to implementation. Services related to implementation are not a distinct performance obligation and thus are recognized consistent with the licenses to which they relate but are classified as professional services in the consolidated statements of loss and comprehensive loss.

Contracts with multiple performance obligations

Many of the Company's contracts involve multiple performance obligations that include licenses, maintenance and professional services. The Company evaluates each product and service in a contract to determine if they represent distinct performance obligations and determines whether to recognize revenue over time or at a point in time. 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.

Contract liabilities

Contract liabilities consist of deferred revenue for payments received and payments due in advance of revenue recognition from contracts with customers and are recognized in the consolidated statements of loss and comprehensive loss as revenue recognition criteria are met.

Contract assets

Contract assets consist of amounts earned but not yet billed as of the year-end date.

f) Income taxes and other taxes

Current income taxes

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

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

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

(expressed in Canadian dollars)

2. Summary of material accounting policies (continued)**f) Income taxes and other taxes (continued)***Deferred income taxes*

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

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

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

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

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

Research and development tax credits

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

Research and development tax credits claimed in the current and prior years are subject to government review which could result in adjustments to the carrying value of the related assets or to comprehensive loss.

In Ireland, a company can claim to have these tax credits paid in installments by the Irish tax authorities in each year (50% in year one, 30% in year two and 20% in year three), or a company can elect to treat part or all of each instalment in each year as an overpayment of tax to offset tax liabilities for that year, instead of having it paid out in cash.

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

2. Summary of material accounting policies (continued)

g) Leases

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

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

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

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

h) Property and equipment

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

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

The estimated useful lives, residual values and depreciation method are reviewed annually, with the effect of any changes in estimate accounted for on a prospective basis. No changes to estimates were made in 2023 or 2022. The Company depreciates the cost of property and equipment on a straight-line basis over their estimated useful lives at the following rates or terms:

Computers and servers	33.3% per annum
Leasehold improvements	Shorter of 12.5% per annum or remaining lease term
Right-of-use-asset	Lease term
Furniture and fixtures	12.5% per annum

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

2. Summary of material accounting policies (continued)

i) Intangible asset

Expenditures on research activities undertaken with the prospect of gaining new technical knowledge and understanding is recognized in the consolidated statements of loss and comprehensive loss as an expense as incurred.

The intangible asset consists of the internally generated software platform, Kneat Gx. The development costs of the software platform, net of research and development tax credits, are capitalized as they can be measured reliably, the platform is technically and commercially feasible, future economic benefits are probable and the Company intends to, and has sufficient resources to, complete development and to use or sell the product. Expenditures capitalized include the cost of direct labour and other costs that are directly attributable to preparing the asset for its intended use.

The intangible asset is amortized based on the cost of the asset less its residual value. Amortization is charged to the consolidated statements of loss and comprehensive loss on a straight-line basis over the estimated useful economic life, from the date the asset is available for use, at an annual rate of 20%.

The estimated useful life, residual value and amortization rate are reviewed annually and no changes to these estimates were made in 2023 or 2022.

j) Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which they are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date. During the years ended December 31, 2023, and December 31, 2022, there were no impairments or reversals of impairments recorded.

k) Employee benefits

Defined contribution plans

The Company operates a defined contribution pension plan for employees. A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution pension plans are recognized as an expense through the consolidated statements of loss and comprehensive loss as incurred or capitalized to the intangible asset.

Short-term benefits

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

(expressed in Canadian dollars)

2. Summary of material accounting policies (continued)**l) Share-based payments**

The Company has a share-based compensation plan. Awards of options under this plan are recognized based on the estimated fair value of the options at the grant date, with a corresponding credit to contributed surplus in equity. Fair value is estimated using the Black-Scholes pricing model. If the options are subject to a vesting period, the estimated fair value is recognized over this period on a graded vesting basis, based on the Company's estimate of the options that will eventually vest. Option pricing models require the use of assumptions, including the expected volatility. The Company uses historical price data of comparable entities in the estimate of future volatilities. Cash consideration received on the exercise of options is credited to share capital together with the amounts originally recorded as share-based compensation related to the exercised options.

Awards of Restricted Stock Units (RSUs) under the share-based compensation plan are measured at their fair value as of the date of grant with no subsequent revaluation. The fair value is recognised over the vesting period on a graded vesting basis.

The Company has a Deferred Share Unit ("DSU") plan where DSUs may be granted to members of its Board of Directors or officers of the Company. DSUs typically vest over a three- or four-year period, will be settled through the issuance of common shares, and cannot be redeemed until the holder is no longer a director or officer of the Company.

All services received in exchange for the grant of DSUs are measured at their fair values as of the date of grant with no subsequent revaluation. The fair value is recognized over the vesting period on a graded vesting basis.

Compensation expense is classified consistent with directors' fees or salaries and is recognized over the vesting period in the consolidated statement of loss and comprehensive loss.

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

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

m) Loss per share

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

Diluted loss per share for the years presented is the same as basic loss per share. The Company's potential ordinary shares, which include stock options and warrants to purchase shares of common stock, RSUs and DSUs, have been excluded from the computation of diluted net loss per share as the effect would be anti-dilutive.

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

2. Summary of material accounting policies (continued)

n) Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material. There were no material provisions recorded within the consolidated financial statements as at December 31, 2023 and 2022.

o) Interest income and interest expense

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

p) Segment information

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

q) Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of a financial instrument. Financial assets and financial liabilities are initially measured at fair value.

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

Financial instrument	Classification
Cash	Amortized cost
Trade debtors and contract assets	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Loan payable	Amortized cost

Impairment of financial assets at amortized cost

The Company recognizes an allowance using the expected credit loss ("ECL") model on financial assets classified as amortized cost. The Company has no experience of material credit losses and no assets are credit impaired. As a result, the Company has elected to use the simplified approach for measuring ECL by using a 12-month expected loss allowance for all accounts receivable.

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

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

2. Summary of material accounting policies (continued)

r) Going Concern

The 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 obligations during the normal course of operations. See note 17 (e) for certain judgements in making this assessment.

s) New accounting standards and amendments to accounting standards adopted during the year

The following newly effective IFRS Accounting Standards and amendments to IFRS Accounting Standards became effective for Company for the first time during the financial year ended December 31, 2023.

- IFRS 17 Insurance Contracts – Effective on or after January 1, 2023
- Amendments to IFRS 17 – Effective on or after January 1, 2023
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) – Effective on or after January 1, 2023
- Definition of Accounting Estimate (Amendments to IAS 8) – Effective on or after January 1, 2023
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction – Amendments to IAS 12 Income Taxes – Effective on or after January 1, 2023
- Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments to IFRS 17) – Effective on or after January 1, 2023

The adoption of these new IFRS Accounting Standards and amendments to IFRS Accounting Standards did not have a material impact on reported financial results for the year ended December 31, 2023. The adoption of the amendments to IAS 1 has resulted in amendments to Note 1 of the consolidated financial statements for the year ended December 31, 2023 which focus on the disclosure of material rather than significant accounting policies.

t) New accounting standards and amendments to accounting standards which are not yet effective

The following new or revised IFRS Accounting Standards and amendments to IFRS Accounting Standards will be adopted for the purposes of the preparation of future financial statements, where applicable. While under review, we do not anticipate that the adoption of these new or revised standards will have a material impact on our reported financial results.

- Classification of liabilities as current or non-current (Amendments to IAS 1) – Effective on or after January 1, 2024
- Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) – Effective on or after January 1, 2024
- Non-current Liabilities with Covenants (Amendments to IAS 1) – Effective on or after January 1, 2024.

kneat.com, inc.**Notes to the Consolidated Financial Statement (continued)****For the years ended December 31, 2023 and 2022**

(expressed in Canadian dollars)

3. Amounts receivable

	2023	2022
	\$	\$
Current		
Trade debtors	6,690,224	4,938,869
Research and development tax credits receivable	4,192,531	3,564,875
Contract assets	262,548	44,866
Other debtors	83,689	7,786
Sales tax receivable	372,566	358,584
	<u>11,601,558</u>	<u>8,914,980</u>
Non-current		
Research and development tax credits receivable	1,650,795	1,104,624
	<u>13,252,353</u>	<u>10,019,604</u>

kneat.com, inc.**Notes to the Consolidated Financial Statement (continued)****For the years ended December 31, 2023 and 2022**

(expressed in Canadian dollars)

4. Property and equipment

	Computers and servers \$	Furniture and fixtures \$	Right-of-use assets \$	Leasehold improvements \$	Total \$
Cost					
As at January 1, 2022	984,065	303,582	8,344,327	694,624	10,326,598
Additions	375,217	10,096	-	-	385,313
Disposals	(114,360)	-	(380,500)	(253,496)	(748,356)
Effect of movements in exchange rates	6,655	1,858	51,071	4,251	63,835
As at December 31, 2022	1,251,577	315,536	8,014,898	445,379	10,027,390
Additions	181,497	-	-	-	181,497
Disposals	(167,841)	(109,044)	(216,967)	(234,165)	(728,017)
Effect of movements in exchange rates	11,142	3,328	84,577	4,700	103,747
As at December 31, 2023	1,276,375	209,820	7,882,508	215,914	9,584,617
Accumulated depreciation					
As at January 1, 2022	492,839	76,305	956,235	321,262	1,846,641
Depreciation charge	277,415	37,120	475,639	110,121	900,295
Disposals	(113,981)	-	(335,234)	(138,937)	(588,152)
Effect of movements in exchange rates	18,623	2,587	33,624	6,730	61,564
As at December 31, 2022	674,896	116,012	1,130,264	299,176	2,220,348
Depreciation charge	320,221	28,836	409,659	27,369	786,085
Disposals	(166,988)	(83,042)	(173,568)	(232,825)	(656,423)
Effect of movements in exchange rates	7,025	1,309	13,085	3,235	24,654
As at December 31, 2023	835,154	63,115	1,379,440	96,955	2,374,664
Carrying amount					
Balance, December 31, 2022	576,681	199,524	6,884,634	146,203	7,807,042
Balance, December 31, 2023	441,221	146,705	6,503,068	118,959	7,209,953

Depreciation of property and equipment is included in the consolidated statements of loss and comprehensive loss for \$786,085 (2022 - \$900,295).

On November 21, 2022, the Company terminated a lease agreement relating to office property situated at units 5 and 6 Castletroy Business Park, Castletroy, Limerick, Ireland. On June 1, 2023, the Company terminated a lease agreement relating to office property situated and Unit 7, Castletroy Business Park, Castletroy, Limerick, Ireland.

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

5. Intangible asset

Cost	\$
As at January 1, 2022	24,933,015
Additions, net of research and development tax credits of \$2,285,304	10,897,877
Effect of movements in exchange rates	152,600
As at December 31, 2022	35,983,492
Additions, net of research and development tax credits of \$2,472,294	14,702,993
Effect of movements in exchange rates	379,715
As at December 31, 2023	51,066,200
Accumulated amortization	\$
As at January 1, 2022	11,490,437
Amortization charge	4,795,508
Effect of movements in exchange rates	332,643
As at December 31, 2022	16,618,588
Amortization charge	6,610,930
Effect of movements in exchange rates	193,930
As at December 31, 2023	23,423,448
Carrying amount	\$
Balance, December 31, 2022	19,364,904
Balance, December 31, 2023	27,642,752

Amortization of the intangible asset is included in the consolidated statements of loss and comprehensive loss. In addition to the capitalized development costs, the Company incurred research costs of \$214,082 (2022 - \$147,908) which were expensed through the consolidated statements of loss and comprehensive loss as they did not meet the criteria for capitalization. Research costs consist primarily of employee salaries, wages and benefits.

6. Accounts payable and accrued liabilities

	2023	2022
	\$	\$
Current		
Trade payables	1,397,599	1,000,425
Accruals	5,144,433	3,740,185
Employee remittances	1,161,123	885,996
Sales tax payable	47,415	15,627
Income tax payable	32,923	15,525
Other payables	90,839	110,296
	7,874,332	5,768,054

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

7. Contract liabilities

	2023	2022
	\$	\$
As at January 1	11,566,366	5,851,030
Deferral of revenue	36,406,912	28,234,225
Recognition of deferred revenue	(33,634,666)	(22,803,479)
Effect of movements in exchange rate	(650,457)	284,590
As at December 31	13,688,155	11,566,366
Less: current portion	(13,647,071)	(10,617,142)
Non-current portion	41,084	949,224

An amount of \$9,861,634 relating to the contract liability balance at December 31, 2022 has been recognized in revenue in 2023 (2022 - \$5,683,331).

8 Loan payable and accrued interest

	2023	2022
	\$	\$
Balance beginning of period	-	113,242
New borrowings	21,978,000	-
Capitalized loan issuance costs	(624,596)	-
Interest and fees accrual	873,265	851
Principal and interest repayments	(630,410)	(110,237)
Amortization of loan issuance costs	61,164	-
Effect of movements in exchange rate	-	(3,856)
As at December 31	21,657,423	-
Less: current portion	-	-
Non-current portion of loan payable and accrued interest	21,657,423	-

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

8 Loan payable and accrued interest (continued)

On June 26, 2023 the Company secured up to €15 million (\$22.0 million) in secured debt financing from IPF Partners (the “IPF Facility”). This new IPF facility consists of three term commitments or tranches of €5 million each to be availed of by Kneat Solutions Limited. The Company drew down the first, second and third tranches of the facility on June 30, 2023, September 22, 2023 and December 22, 2023, respectively. The first and second tranches mature on December 31, 2027 with the first principal payments to be made on March 31, 2025. The third tranche matures March 31, 2028, with the first principal payment to be made on June 30, 2025. Each of the facilities carries an annual cash interest of three-month EURIBOR + 7.0% payable quarterly, and capitalized interest of 2.0% accrued and capitalized quarterly, in addition to customary structuring and exit fees. The total cash cost of the arrangement is dependent on whether the debt is repaid on each maturity date or earlier. The IPF Facility is guaranteed by the Company and its U.S. wholly owned subsidiary, and is secured by a perfected, sole first-priority security interest in all existing and after acquired tangible and intangible assets of Kneat Solutions Limited, the Company and its U.S. wholly owned subsidiary. The IPF Facility is also subject to a financial covenant in the form of a minimum cash balance held in favour of the lender in an amount sufficient to cover the higher of the last six months and next six months cash runway subject to a cap of €2 million, €4 million and €6 million on tranche one, two and three respectively. At December 31, 2023 the minimum cash balance to be held was \$8.8 million (€6 million). The Company was in compliance with the financial covenant as of December 31, 2023. The Company had a loan payable in prior years that was discharged in full by March 31, 2022. The interest rate on the loan was 3.0% at March 31, 2022.

9. Lease liabilities

	2023 \$	2022 \$
Balance - Beginning of year	7,091,513	7,744,832
Repayments of lease obligations	(752,802)	(889,525)
Accreted interest	211,411	222,968
Termination of lease	(112,568)	(61,360)
Effects of movements in exchange rates	74,658	74,598
Balance - End of year	6,512,212	7,091,513
Less: Current portion	(535,832)	(588,472)
Non-current portion	5,976,380	6,503,041

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

10. Share capital

a) Common shares

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

	Number of shares #	Amount \$
Outstanding – January 1, 2022	76,978,076	77,066,809
Shares issued pursuant to stock option exercise	206,305	288,465
Shares issued pursuant to warrant exercises	219,566	646,272
Broker warrants expired	-	15,795
Shares issued pursuant to DSU redemptions	258,964	408,812
Outstanding – December 31, 2022	77,662,911	78,426,153
Shares issued pursuant to stock option exercise	349,146	532,117
Shares issued pursuant to RSU vesting	286,739	832,694
Outstanding – December 31, 2023	78,298,796	79,790,964

During the year ended December 31, 2023, employees exercised 349,146 options with a weighted average exercise price of \$1.03 per share for cash proceeds of \$295,350 plus an ascribed value of \$236,767. During the year ended December 31, 2023, 311,184 RSUs vested of which 286,739 common shares with an ascribed value of \$832,694 were issued to employees and 24,445 common shares will be issuable to U.S. employees within one year pending the removal of their restrictive legends.

During the year ended December 31, 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 \$185,182. 258,964 DSUs were settled at an ascribed value of \$408,812 and employees exercised 206,305 options with a weighted average exercise price of \$0.91 per share for cash proceeds of \$154,758 plus an ascribed value of \$133,707.

b) Warrants

No warrants were granted during the year ended December 31, 2023, or the year ended December 31, 2022.

The following table reconciles the warrant activity during the years ended December 31, 2023 and December 31, 2022:

	Number of warrants #	Weighted-average exercise price \$
Outstanding – January 1, 2022	235,495	2.10
Granted	-	-
Exercised	(219,566)	2.10
Forfeited	(15,929)	-
Outstanding – December 31, 2022 & December 31, 2023	-	-

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

10. Share capital (continued)

c) Share-based compensation – Stock Options

The Company has adopted an Omnibus Equity Incentive Plan, providing the Board of Directors with the discretion to grant and issue an equivalent number of stock options of up to 6% of the issued and outstanding share capital of the Company.

Stock options are granted with an exercise price of not less than the closing share price of the date preceding the date of grant. As at December 31, 2023, 2,475,482 stock options remain available for grant under the terms of the Omnibus Equity Incentive Plan.

The following table reconciles the stock option activity during the years ended December 31, 2023 and 2022

	Number of options #	Weighted-average exercise price \$
Outstanding – January 1, 2022	2,817,137	2.31
Granted	443,500	3.38
Exercised	(206,305)	0.91
Forfeited	(164,192)	2.64
Outstanding – December 31, 2022	2,890,140	2.57
Granted	-	-
Exercised	(349,146)	1.03
Forfeited	(298,548)	2.81
Expired	(20,000)	1.02
Outstanding – December 31, 2023	2,222,446	2.79

There were no shares options granted during the year ended December 31, 2023. The following are the weighted-average assumptions used in calculating the value of the stock options granted during the year ended December 31, 2022:

	2022
Risk-free interest rate	1.87%
Expected life	4.5 years
Expected volatility	65.26%
Expected dividend per share	0.0%
Weighted-average share price	\$ 3.38
Weighted-average fair value	\$ 1.80

For the year ended December 31, 2023, the estimated value of options earned and recorded in the consolidated statements of loss and comprehensive loss was \$741,523 (2022: \$784,508).

kneat.com, inc.**Notes to the Consolidated Financial Statement (continued)****For the years ended December 31, 2023 and 2022**

(expressed in Canadian dollars)

10. Share capital (continued)**c) Share-based compensation – Stock Options (continued)**

The following table summarizes information related to outstanding and exercisable stock options as at December 31, 2023

Expiry date	Weighted-average remaining contractual life (in years)	Number of options outstanding	Number of options exercisable	Weighted-average exercise price \$
January 3, 2024	0.0	13,670	13,670	1.00
March 7, 2024	0.2	225,000	225,000	1.06
April 4, 2024	0.3	10,000	10,000	1.22
September 23, 2024	0.7	200,000	200,000	1.52
January 1, 2025	1.0	40,000	40,000	2.84
February 6, 2025	1.1	40,000	40,000	2.84
April, 22, 2025	1.3	20,000	20,000	1.94
August 26, 2025	1.7	240,795	197,576	2.50
October 1, 2025	1.8	3,500	2,625	2.55
November 26, 2025	1.9	200,000	150,000	2.20
May 27, 2026	2.4	20,000	12,500	2.98
August 12, 2026	2.6	707,481	393,886	3.45
September 23, 2026	2.7	85,000	47,813	4.10
January 7, 2027	3.0	280,000	122,500	3.60
February 24, 2027	3.2	42,000	18,375	2.93
August 12, 2027	3.6	95,000	39,615	3.05
		<u>2,222,446</u>	<u>1,533,560</u>	

d) Share-based compensation - Deferred Share Units (DSUs) & Restricted Share Units (RSUs)

The maximum number of common shares which the Company is entitled to issue from treasury in connection with the redemption of DSUs and RSUs granted under the Company's Omnibus Equity Incentive Plan is 9% of the issued and outstanding share capital of the Company. As at December 31, 2023, 4,233,951 remain available for grant under the terms of the Omnibus Equity Incentive Plan.

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

10. Share capital (continued)

d) Share-based compensation - Deferred Share Units (DSUs) & Restricted Share Units (RSUs) (continued)

DSU activity for the years ended December 31, 2023 and December 31, 2022 is as follows:

	2023 #	2022 #
Outstanding - Beginning of year	512,551	693,560
Granted	86,999	108,182
Redeemed	-	(258,964)
Forfeited	-	(30,227)
Outstanding - End of year	<u>599,550</u>	<u>512,551</u>

86,999 DSUs with a weighted-average fair value of \$2.87 per unit were granted in the year ended December 31, 2023 and 108,182 DSUs with a weighted-average fair value of \$2.83 per unit were granted in the year ended December 31, 2022. For the year ended December 31, 2023, the estimated value of DSUs earned and recorded in the consolidated statements of loss and comprehensive loss was \$223,394 and is included in general and administration expenses (2022: \$152,217). During the year ended December 31, 2022 258,964 DSUs with a carrying value of \$408,812 were settled with directors upon resignation from the board of directors.

RSU activity for the years ended December 31, 2023 and December 31, 2022 is as follows:

	2023 #	2022 #
Outstanding - Beginning of year	926,863	-
Granted	1,729,921	926,863
Vested	(311,184)	-
Forfeited	(132,209)	-
Outstanding - End of year	<u>2,213,391</u>	<u>926,863</u>

1,729,921 RSUs with a weighted-average fair value of \$2.72 per unit were granted in the year ended December 31, 2023 and 926,863 RSUs with a weighted-average fair value of \$2.86 per unit were granted in the year ended December 31, 2022. For the year ended December 31, 2023, the estimated value of RSUs earned and recorded in the consolidated statements of loss and comprehensive loss was \$1,906,810 (December 31, 2022 - \$206,099). RSUs typically vest over a three-year period and will be settled through the issuance of common shares. RSUs are measured at their fair values as of the date of grant with no subsequent revaluation. The fair value is recognized over the vesting period on a graded vesting basis.

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

11 Revenue

Revenue consists of the following:

	2023	2022
	\$	\$
SaaS license fees	30,066,905	17,340,601
On-premise license fees	436,126	868,797
Maintenance fees	277,199	804,043
Professional services and other	3,443,178	4,735,760
	<u>34,223,408</u>	<u>23,749,201</u>

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

	2023	2022
	\$	\$
North America	22,910,929	17,455,177
Europe	11,057,232	6,033,541
Asia Pacific	255,247	260,483
	<u>34,223,408</u>	<u>23,749,201</u>

In the year ended December 31, 2023, revenue from 1 customer amounts to 10% or more of the Company's total revenue. (December 31, 2022 – 1).

For the year ended December 31, 2023, the Company's top 10 customers made up 53% of the Company's revenues. (December 31, 2022 - 55%).

12. Expenses by nature

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

	2023	2022
	\$	\$
Amortization of the intangible asset	6,610,930	4,795,508
Depreciation of plant and equipment	786,085	900,295
Salaries, wages and benefits	24,182,812	15,608,945
Share-based compensation	<u>2,871,727</u>	<u>1,142,824</u>

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

13. Income taxes

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

	2023 \$	2022 \$
Loss before income taxes	(14,063,343)	(9,131,577)
Statutory rate (Canadian federal and provincial)	29.00%	29.00%
Tax recovery at statutory rate	(4,078,369)	(2,648,157)
Recovery for losses and deductible differences not recognized in current and prior years	1,509,442	1,340,955
Permanent differences and other	133,334	92,150
Foreign tax rate variance	2,491,484	1,231,663
Income tax expense	55,891	16,611

At December 31, 2023, the Company has unused non-capital losses in Canada of \$7.3 million (2022 - \$7.1 million) available for carry-forward purposes which expire from 2036 to 2043.

At December 31, 2023, the Company has unused state non-capital losses in the USA of \$1.9 million that expire from 2036 – 2039 and unused Federal non-capital losses in the USA of \$1.8 million that can be used indefinitely with an 80% limitation in the year of utilization (2022 - \$1.9 million that expire from 2036 – 2037 and \$2.3 million that can be used indefinitely).

The Company also has unused non-capital loss carry-forwards in Ireland of \$58 million (2022 - \$44 million) that have no expiration date, however, the use of these carry-forwards is restricted to taxable income from operations.

At December 31, 2023, the Company has no unrecognized deferred tax liabilities (2022 - \$nil) for taxes that would be payable on unremitted earnings as it is probable that any temporary differences will not reverse in the foreseeable future. At December 31, 2023 the Company has \$10.8 million of unrecognized deferred tax assets (2022 - \$10.4 million).

	2023 \$	2022 \$
Property and equipment	76,635	77,296
Intangible asset	493,770	1,294,285
Unrealized foreign exchange losses	84,722	184,516
Share issuance costs	251,898	456,859
Deferred amounts	(6,522)	254,039
Non-capital loss carry-forward	9,869,185	8,164,401
	10,769,688	10,431,396

There are no income tax consequences attached to the payment of dividends in 2023 or 2022 by the Company to its shareholders as the Company did not pay dividends during these years.

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

14. Supplemental cash flow information

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

	2023	2022
	\$	\$
Increase in amounts receivable and prepayments	(2,300,725)	(1,613,841)
Increase in accounts payable and accrued liabilities	2,012,284	2,322,242
Increase in contract liabilities	3,157,050	4,354,749
	<u>2,868,609</u>	<u>5,063,150</u>

15. Related party transactions

During the year ended December 31, 2023, the Company granted 86,999 DSUs to members of the Board of Directors who are not employees or officers of the Company (note 10) (December 31, 2022 – 108,182). Directors of the Company also resigned from the Board during the year ended December 31, 2022. A total of 258,964 DSUs were settled with these directors. In addition, one director forfeited 30,227 DSUs during the year ended 31 December 2022

During the year ended December 31, 2023, the Company granted 153,229 RSUs to members of the Board of Directors (note 10) (December 31, 2022 – 112,887) and 317,317 RSUs to Key Management (December 31, 2022 – 309,976).

16. Key management compensation

Key management includes the Company's directors, Chief Executive Officer, Chief Financial Officer, Chief Information Officer, Chief Product Officer, Chief Technology Officer, Senior VP Sales, Chief People and Culture Officer and SVP of Operations. Compensation awarded to key management is summarized as follows:

	2023	2022
	\$	\$
Salaries and other benefits (expensed)	2,791,318	2,026,056
Salaries and other benefits (capitalized)	300,490	318,205
Share-based compensation (expensed)	823,174	231,423
	<u>3,914,982</u>	<u>2,575,684</u>

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

17. Financial instruments and risk management

a) Capital management

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

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

	2023	2022
	\$	\$
Equity	14,763,844	25,979,951
Debt	21,657,423	-
Less: Cash	<u>(15,252,526)</u>	<u>(12,282,478)</u>
	<u>21,168,741</u>	<u>13,697,473</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, return capital to shareholders or raise debt funding. In the year ended December 31, 2023, the Company signed the IPF Facility allowing for debt funding of up to €15 million (\$22.0 million) and drew down the first, second and third tranches of this facility on June 30, 2023, September 22, 2023 and December 22, 2023, respectively. The IPF Facility is subject to a financial covenant in the form of a minimum cash balance held in favour of the lender in an amount sufficient to cover the higher of the last six months and next six months cash runway subject to a cap of €2 million, €4 million and €6 million on tranche one, two and three respectively. At December 31, 2023 the minimum cash balance that the Company must maintain at all times is \$8.8 million (€6 million). No other changes were made to the objectives, policies or processes for managing capital during the year ended December 31, 2023 or the year ended December 31, 2022.

b) Fair values of financial instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The carrying amounts reported in the consolidated statements of financial position for cash, amounts receivable and accounts payable and accrued liabilities approximate their fair values based on the immediate or short-term maturities of these financial instruments. In addition, non-current amounts receivable and the loan payable, although not due in the current year, do not have fair values that differ significantly from their carrying values. The fair value of the loan payable does not differ materially from the carrying value as the debt bears interest at variable rates.

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

17. Financial instruments and risk management (continued)

b) Fair values of financial instruments (continued)

The table below presents the classification of the Company's financial assets and liabilities as at December 31, 2023 and December 31, 2022:

	Financial assets and liabilities at amortized cost \$ 2023	Financial assets and liabilities at amortized cost \$ 2022
Financial assets:		
Cash	15,252,526	12,282,478
Trade & Other Debtors & Contract Assets	7,036,461	4,991,521
Financial liabilities:		
Accounts payables and accrued liabilities	7,874,332	5,768,054
Loan payable	21,657,423	-

c) Financial risk management objectives

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

d) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date. At December 31, 2023 and 2022, the Company's financial assets exposed to credit risk amounted to the following:

	2023 \$	2022 \$
Cash	15,252,526	12,282,478
Amounts receivable and other*	7,036,461	5,923,377

*includes trade debtors, contract assets & other debtors

During the years ended December 31, 2023 and 2022, the Company did not hold any significant financial assets that were past due or impaired. Trade debtors of \$6,690,224 are included in amounts receivable as at December 31, 2023 (2022 - \$4,938,869).

Trade debtors are monitored on a regular basis, with reference to the ECL impairment model, in order to minimize material aging and to ensure adequate collection. Historically there have been no trade debtor collection issues. There were no material impairment losses recorded during the year and the provision for expected credit losses recorded at both December 31, 2023 and December 31, 2022 was also immaterial. The Company does not believe it is subject to significant concentration of credit risk.

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

17. Financial instruments and risk management (continued)

d) Credit risk (continued)

The below table provides an analysis of aging of trade debtors as at December 31, 2023 and December 31, 2022:

December 31, 2023

	Current	1-30 days	31-60 days	61-90 days	>90 days	Total
	\$	\$	\$	\$	\$	\$
Trade debtors	6,078,322	597,109	9,039	8,588	(2,834)	6,690,224

December 31, 2022

	Current	1-30 days	31-60 days	61-90 days	>90 days	Total
	\$	\$	\$	\$	\$	\$
Trade debtors	3,345,157	1,563,062	30,355	295	—	4,938,869

Cash is held with reputable banks in Ireland, the United States and Canada. The long-term credit rating, as determined by Standard and Poor's, was BBB, AA- 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 December 31, 2023:

	Within 1 year	2-3 years	4-5 years	Over 5 years	Total	Carrying Value
Accounts payable and accrued liabilities	7,874,332	-	-	-	7,874,332	7,874,332
Lease payments (undiscounted)	728,260	1,076,560	949,907	5,455,458	8,210,185	6,512,212
IPF Facility payable (undiscounted)*	2,500,645	15,056,296	14,997,093	-	32,554,034	21,657,423
	<u>11,103,237</u>	<u>16,132,856</u>	<u>15,947,000</u>	<u>5,455,458</u>	<u>48,638,551</u>	<u>36,043,967</u>

*includes principal and interest payments. Interest payable was calculated using the EURIBOR rate as of December 2023

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

17. Financial instruments and risk management (continued)

e) Liquidity risk (continued)

The Company's operations to date have been financed through the sale of shares, issuance of debt and revenue generated from customers. The Company has incurred significant operating losses and negative cash flows from operations since inception and has an accumulated deficit of \$70,445,699 as at December 31, 2023. For the year ended December 31, 2023, the Company incurred a net loss of \$14,119,234 and capitalized development cost spend of \$17,175,287 (2022 - \$9,148,188 and \$13,183,181 respectively). As the Company incurs losses from operations, the Company has relied on financing activities to meet its working capital and operating requirements, including funds needed to further develop its software and expand its sales function.

On June 26, 2023, the Company announced that it had secured up to €15 million (\$22.0 million) in secured debt financing. This new IPF facility consists of three term commitments or tranches of €5 million each to be availed of by Kneat Solutions Limited. Each tranche matures 18 quarters from its initial drawdown date. On June 30, 2023, September 22, 2023 and December 22, 2023, the Company drew down the first, second and third tranches, respectively. Refer to note 8.

The Company has a history of being able to raise funds on the capital markets to meet its ongoing requirements and on February 14, 2024, the Company closed a public equity financing for gross proceeds of \$20,000,110 (note 20, *Subsequent events*). However, there can be no assurance that, in the future, the Company will be able to raise funding on favorable terms, if at all.

During 2023 and 2022, financial markets have been negatively impacted by economic instability due to factors including the impact of international conflicts, rising inflation and interest rates. These factors 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 financial statements.

f) Currency risk

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

The Company is exposed to currency risk on its cash balances, amounts receivable, loan payable, intercompany balances and accounts payable and accrued liabilities that are held in currencies that are not in the transacting entity's functional currencies.

For the year ended December 31, 2023, the impact on monetary assets and liabilities of a 5% decrease in the exchange rate between the functional currencies and foreign currencies (weakening of the Euro/USD versus CAD) would increase the net loss by approximately \$4.5 million; a 5% increase would decrease the net loss by approximately \$4.5 million (strengthening of the Euro/USD versus CAD). The Company currently does not hedge its currency risk.

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

17. Financial instruments and risk management (continued)

f) Currency risk (continued)

The majority of the Company's revenues and expenses are denominated in Euro and the United States dollar. As a result, revenues and expenses are affected by a change in the value of the Euro and the United States dollar relative to the Canadian dollar.

The following table summarizes the effects on revenues, expenses and the net loss as a result of a 5% strengthening of the Euro and the United States dollar when compared to the Canadian dollar ⁽¹⁾

	Year ended December 31, 2023			Year ended December 31, 2022		
	As reported	Exchange rate effect	5% Stronger	As reported	Exchange rate effect	5% Stronger
	\$	\$	\$	\$	\$	\$
Revenue	34,223,408	1,711,170	35,934,578	23,749,201	1,187,460	24,936,661
Expenses	(48,342,642)	(2,402,145)	(50,744,787)	(32,897,389)	(1,590,682)	(34,488,071)
Net loss	(14,119,234)	(690,975)	(14,810,209)	(9,148,188)	(403,222)	(9,551,410)

(1) A 5% weakening of the Euro and USD when compared to the Canadian dollar would have an equal and opposite impact on the Company's revenues, expenses and net loss as presented in the table.

g) Interest risk

Interest risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates. An immaterial amount of interest rate exposure exists in respect of cash balances on the consolidated statements of financial position. Interest rate exposure exists in respect of the IPF Facility on the consolidated statement of financial position due to the variable interest rate (EURIBOR + 7.0%) that applies to this loan. During the year ended December 31, 2023, a change of 100 basis points in the EURIBOR rate would have resulted in an increase or decrease to interest expense of approximately \$39,000 assuming all other variables, in particular foreign currency exchange rates, remain constant.

h) Fair value hierarchy

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

At December 31, 2023 and 2022, the Company had no financial instruments that were measured and recognized on the consolidated statements of financial position at fair value. In addition, there were no transfers between levels during the years.

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

18. Loss per share

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

	2023 \$	2022 \$
<i>Numerator:</i>		
Net loss for the year attributable to ordinary shareholders	(14,119,234)	(9,148,188)
<i>Denominator:</i>		
Weighted average number of ordinary shares in issue	77,833,268	77,444,009
Loss per share (basic and diluted)	(0.18)	(0.12)

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

	2023	2022
Options to purchase common shares	2,222,446	2,890,140
Restricted share units (RSUs)	2,213,391	926,863
Deferred share units (DSUs)	599,550	512,551

19. Commitments and contingencies

The Company may from time to time be 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 \$1,209,023 within 1 year and \$353,512 in two to three years thereafter.

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

kneat.com, inc.

Notes to the Consolidated Financial Statement (continued)

For the years ended December 31, 2023 and 2022

(expressed in Canadian dollars)

20. Subsequent events

On February 14, 2024 the Company announced the closing of its previously announced bought deal offering ("the Offering") of common shares with a syndicate of investment dealers led by Cormark Securities Inc ("the Underwriters"). Pursuant to the Offering, the Company issued a total of 6,153,880 common shares at a price of \$3.25 per common share for gross proceeds of \$20,000,110, which includes the exercise, in full, by the Underwriters of the over-allotment option granted by the Company to purchase up to an additional 802,680 common shares at a price of \$3.25 per common share.