

FRECKLE LTD. (formerly Knol Resources Corp.)

DATED: November 6, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS & RESULTS OF OPERATIONS

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited condensed consolidated interim financial statements ("financial statements") as of September 30, 2019 of Freckle Ltd. ("Freckle" or the "Company") and the audited consolidated financial statements of Freckle I.O.T. Ltd. and the notes to those statements as at and for the year ending December 31, 2018. The accompanying financial statements have been prepared by and are the responsibility of Freckle's management. The financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. Dollar amounts are expressed in Canadian dollars unless otherwise noted.

CAUTIONARY STATEMENT ON FORWARD-LOOKING STATEMENTS

The following MD&A contains forward-looking information and forward-looking statements. Except for statements of historical fact that addresses activities, events or developments that the Company believes, expects or anticipates will or may occur in the future, constitutes forward-looking statements. The Company cautions that this MD&A may contain forward-looking statements that involve a number of risks and uncertainties, including statements regarding the outlook for the Company's business and results of operations. Forward-looking statements include those identified by the expressions "will", "may", "should", "continue", "anticipate", "believe", "plan(s)", "estimate", "project", "expect", "intend" and similar expressions to the extent that they relate to the Company or its management. By nature, these risks and uncertainties could cause actual results to differ materially from those indicated. Forward-looking statements are provided to assist external stakeholders in understanding management's expectations and plans relating to the future as of the date of this MD&A and may not be appropriate for other purposes. Forward-looking statements are made as of the date of this MD&A and Freckle disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Readers should not place undue reliance on the Company's forward-looking statements.

OVERVIEW OF THE BUSINESS

Freckle offers tools to both advertisers and consumers to fill gaps via two core products;

- Freckle; which allows advertisers and brands to measure the effectiveness of the media they have in the market in driving a consumer to the desired location, as well as providing audience data for targeting in platforms and,
- Killi; a privacy-compliant identity ecosystem, currently comprised of a mobile application available on iOS and Android in the United States and Canada, that allows consumers more control and visibility regarding how their data is collected and compensating them for its use, while also providing advertisers and brands a compliant data source for targeting.

Through a consumer-facing mobile application called Killi, Freckle is building a community of consumers who fully and explicitly opt-in to sharing their personal data with brands in exchange for monetary

compensation. Killi's users are a community of engaged consumers who consciously take part in a global business that has historically made money from this data without including them in that transaction.

Through its media measurement services for advertisers, the Freckle product delivers full advertising attribution metrics to demonstrate to advertisers precisely which advertisements were effective in driving consumer action. Through its community of Killi users and partnerships with various data partners, Freckle can track which individual consumers were exposed to specific advertisements in specific places, such as, on social media, desktop, in search, out-of-home, etc. - and then took measurable actions, such as visiting a specific retailer.

As a by-product of the measurement solution and the information Killi is collecting, the Company is also able to package the data based on certain criteria that users can use to target specific consumers. This product is categorized as data segments.

On June 14, 2019 Freckle I.O.T. Ltd. completed the reverse takeover of Knol Resources Corp. which subsequently changed its name to Freckle Ltd.

Killi Product Highlights for Q3 2019

- Implementation of a leading international third-party survey provider, into the Killi application for USA and Canada, creating a new revenue line for the business with the potential to be high margin, recurring, and international,
- Achieved milestone of over 50% of active Killi users engaging multiple times with the aforementioned third-party survey provider since its implementation,
- Cost Per Acquisition (CPA), the cost to acquire a new Killi user, decreased 30% from Q2 2019 to Q3 2019 ,
- Average Revenue Per User (ARPU) per month improved by 18% from Q2 2019 to Q3 2019, while the Company simultaneously reduced the costs of its internal surveys by 6% over the same time frame,
- The combination of a reduced CPA plus an increased ARPU is closing the disparity between the total lifetime value (LTV) of a Killi user and its acquisition cost (CPA).

Freckle Product Highlights for Q3 2019

- Revenue is up 14% over the last quarter, up 3% compared to Q3 2018 and up 9% year to Q3 2019 over last year to Q3 2018,
- Data revenue, a higher margin product than measurement, grew 553% from the same period last year,
- Recurring revenue, year to date, increased to 72% of total revenue compared to 68% in Q2 2019,
- A successful focus on the USA market lead to a 42% increase in Q3 2019 revenue in this market,
- Announced partnership with Quan Media Group, a USA based outdoor media company for attribution services,
- Announced partnership with Giant Media, a USA based performance video media company for attribution services,
- Announced partnership with global data management platform Neustar for the distribution of Freckle audience data inside of their platform internationally,

- Secured partnership with Verizon Media Group, the holding company of AOL and Yahoo, to provide data and measurement services to various international markets including Canada, USA and Asia Pacific (APAC),
- Cash balance of \$4.2M and no outstanding debt.

OBJECTIVES AND OUTLOOK

For the Killi product, the company is focused on improving the revenue earned by the consumer on a monthly basis as well as improving sustainability metrics, rather than focusing on the scale of the application in the short term. We believe a more disciplined approach to growing the user base is a better use of capital. As a result, the team is focused on reducing the disparity between the cost of acquiring a new user (CPA – cost per acquisition) and the lifetime value (LTV) of a user. By closing the CPA vs LTV disparity Killi is creeping closer to a cash flow neutral position from which it will then look to scale the application using traditional engines such as Google, Facebook, Twitter, and others. To do this initially, the Company is focused on adding additional global third-party research engines to the product as well as video monetization engines. These modules will have a two-fold impact; increase the supply of revenue-generating surveys, allowing Killi to reduce the supply and cost of Company-paid surveys while adding a new revenue-generating module, video, that will supplement surveys. The impact of both of these initiatives, scheduled for Q419, will allow for more recurring high margin revenue and reduce the disparity of our CPA vs LTV metrics that the Company is focused on. Additionally, as both modules, surveys and videos, are supported internationally, Killi will be able to expand its application to new countries with immediate revenue-generating initiatives. Looking into 2020 the company will look to add new modules to the Killi application to help with ARPU, expand to additional markets and grow the Killi product outside of the application ecosystem.

For the Freckle product the Company will continue to grow both the measurement and data segments of the business with a focus on consistent recurring revenue through platform partnerships and brand and agency agreements, as well as international expansion. Additionally, Freckle is focused on continuing to support all media channels and establishing a foothold in verticals such as TV, which are experiencing a rapid transformation towards digital. Freckle's product suite will continue to be a combination of offline measurement and data segments, that will increasingly look to onboard unique data from its sister product Killi for differentiation.

Key goals for Q4

- Expand the Killi application outside of the North American market
- Introduce an additional third-party research engine into the Killi application
- Add incentivized video module to the Killi application
- User interface (UI) refresh of the Killi application to improve engagement and user retention
- Secure and announce an international data distribution deal to expand the global presence of Freckle
- Secure and announce another significant partnership in Q4,
- Demonstrate quarter over quarter revenue growth in Q4 at similar rates realized in Q3, while sustaining current recurring revenue.

SUMMARY OF FINANCIAL AND OPERATING RESULTS

Selected Financial Information

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenue	\$ 862,723	\$ 835,103	\$ 2,445,717	\$ 2,246,029
Cost of Services	228,751	228,070	761,751	719,354
Gross Margin	633,972	607,033	1,683,966	1,526,675
Research and development	962,982	846,860	2,408,906	2,788,069
Selling	766,591	744,198	2,045,331	1,996,951
General and administrative	532,786	351,441	3,368,590	948,171
Marketing	330,153	163,949	1,030,257	173,960
Total comprehensive loss for the year	(1,982,866)	(1,476,692)	(7,107,281)	(4,359,135)

a) Revenue

The Company receives revenue from advertising agencies, brands, media platforms and other data companies for providing data, measurement and reporting to its customers. The following chart shows the breakdown of revenue by advertising channel and data provided for the period:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Digital	\$ 205,810	\$ 523,528	\$ 618,481	\$ 1,528,635
Search	182,216	128,299	611,605	241,882
Social	93,368	104,468	361,750	252,625
Data & Segments	377,979	57,868	797,379	100,892
Out-of-home	3,350	20,940	56,502	121,995
Total revenue	\$ 862,723	\$ 835,103	\$ 2,445,717	\$ 2,246,029

The Company's Q3 revenues increased by 3% (YTD 2019 – 9% increase) from the same period last year. The increase is due to an increased focus on search and data deals, verticals that are more recurring in their billing and away from channels that are more transactional and commoditized, including digital.

Recurring revenue is defined as an agency and/or brand that has worked with us for at least three months within the year. The transition to recurring revenue is important as it provides stability and predictability to the Company's top-line. It also provides insight into which products are resonating well in the market and where Freckle should focus. From 2018 to year to date 2019 the Company has transitioned to 72% recurring revenue from 30% in 2018. This can be attributed to signing larger up-front deals for both multi-product offerings and large always-on data sets. The Company's goal is to maintain the current proportion of recurring revenue, however, as we expand to additional markets and focus on other revenue streams, this may change as we onboard new clients.

Digital offline attribution allows advertisers to measure how effective digital advertising was at driving consumers to a specific location. Revenue decreased 61% (YTD 2019 – 60% decrease) from the same time period last year. The decrease is mostly due to two large customers from 2018 not utilizing offline attribution in 2019 and a decision of the Company to focus on higher-margin, more efficient channels such as data segments and search.

Search allows advertisers to both measure and target users in the Google platform, a process that Freckle has automated. Revenue increased 42% (YTD – 153% increase) quarter over quarter due to existing customers increasing their services and onboarding new customers.

Social allows advertisers to both target certain consumers and measure offline attribution in social networking platforms including Facebook, a process that the Company has since automated. This revenue decreased 11% from Q3 2018 to Q3 2019 (YTD 2019 – 43% increase). The decrease is largely due to a few customers not renewing and one of the Company’s partnerships transacting slower than this time last year.

Data & Segments allow the Company to repurpose the data collected from its measurement product to customers for audience targeting either via a daily feed or via a one-time data transfer. This data is used by customers to advertise or make media allocation decisions. In Q3 2019 this revenue stream increased 553% over Q3 2018 (YTD 2019 – 690% increase) due to the onboarding of new clients.

For the Out-of-Home (OOH) product Freckle measures both who was exposed to an outdoor advertisement and then visited a location This revenue stream decreased 84% (YTD 2019 – 54%). The decrease period over period is due to OOH not being a core focus for the Company due to its transactional nature as well as managing fewer campaigns.

The Company also measures its revenue geographically. The following chart shows the breakdown of revenues from Canada, the U.S. and Latin America.

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
US	\$ 783,672	\$ 552,555	\$ 2,109,983	\$ 1,448,689
Canada	79,051	\$ 269,467	\$ 335,734	768,537
Mexico and Latin America	-	\$ 13,081	-	28,803
Total revenue	\$ 862,723	\$ 835,103	\$ 2,445,717	\$ 2,246,029

Revenue generated from U.S. clients in Q3 2019 was 42% higher (YTD 2019 – 46% higher) than Q3 2018. As the U.S. is a larger market, with larger advertising budgets, the Company has focused its efforts on growing this market. Canadian revenue decreased 71% (YTD 2019 – 56%) over the same time period due to a large customer from 2018 not materializing in 2019, which was offset by the introduction of a few new smaller customers and a reallocation of sales towards the larger US market. No campaigns have occurred in Mexico or Latin America in 2019. The Company plans to introduce Killi into additional global markets within the near future.

b) Cost of Services/Gross Margin

The Company's cost of services includes all third-party data services. These services include expenses related to acquire location data, match users to their various devices and point of interest information. The following charts show the cost of services breakdown and gross margin:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Location data	141,662	\$ 165,559	444,517	\$ 552,421
Cross device matching services	77,807	\$ 46,845	292,823	\$ 139,716
Other	9,282	\$ 15,666	24,411	\$ 27,217
	\$ 228,751	\$ 228,070	\$ 761,751	\$ 719,354

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Revenue	\$ 862,723	\$ 835,103	\$ 2,445,717	\$ 2,246,029
Cost of Services	\$ 228,751	\$ 228,070	\$ 761,751	\$ 719,354
Gross Margin	\$ 633,972	\$ 607,033	\$ 1,683,966	\$ 1,526,675
Gross Margin %	73%	73%	69%	68%

Gross margin remained consistent from Q3 2018 to Q3 2019, with a slight increase YTD. As the Company requires a certain level of location data to provide meaningful reporting, with the addition of Killi data and better strategic partnerships the company was able to reduce this cost by 14% (YTD 2019 – 20% reduction) quarter over quarter. Cross device matching services increased 66% (YTD 2019 – 110% increase) over the same periods due to onboarding new partners that allow Freckle to upload more data to more platforms. For the remainder of 2019 the Company expects the costs to increase with margins remaining relatively stable due to increased costs for international expansion offset by increased revenue.

c) Research and development

Research and development costs include staffing, and cloud hosting, data processing and storage, and other related costs as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Salaries, benefits, contractors and recruiting	\$ 727,747	\$ 648,998	\$ 1,813,106	\$ 2,371,447
Cloud hosting, data processing and storage	\$ 200,744	174,773	510,106	389,368
Licensing, dues, subscriptions	\$ 25,193	19,012	58,150	21,963
Other	\$ 9,298	4,077	27,544	5,291
	\$ 962,982	\$ 846,860	\$ 2,408,906	\$ 2,788,069

Salaries, benefits, contractors and recruiting (“staffing”) increased 12% (YTD 2019 – 24% decrease) from Q3 2018 to Q3 2019. The increase this quarter was due to using additional contractors that will join as full-time employees in Q4. The decrease year to date is due to the high cost of Killi development being outsourced in 2018, with no similar cost in 2019 as well as outsourcing some of our development overseas at less expensive rates and increased retention of staff overall.

Cloud hosting, data processing and storage increased 15% (YTD 2019 – 31%) from Q3 2018 to Q3 2019 due to the inclusion of Killi data and increased processing costs for running queries and reports.

Licensing, dues and subscriptions increased 33% (YTD 2019 – 165%) due to onboarding more tools for project management, application performance and testing.

In the remainder of 2019, the Company plans to continue to use a mix of local and international development teams to allow for scalability and velocity in the product offerings.

d) Selling and Business Development

The Company's selling and business development expenses are broken down as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Salaries, benefits and recruiting	\$ 578,242	\$ 499,886	\$ 1,554,130	\$ 1,278,386
Travel, meals and entertainment	145,151	142,284	376,941	366,008
Professional services	29,741	53,484	49,803	189,178
Licensing, dues, subscriptions	7,538	9,037	27,011	21,235
Tradeshows and other promotion	5,867	33,478	22,091	119,825
Other	52	6,029	15,355	22,319
	\$ 766,591	\$ 744,198	\$ 2,045,331	\$ 1,996,951

From Q3 2018 to Q3 2019 expenses remained relatively stable with a slight increase of 3% (YTD 2019 – 2%). Staffing costs have increased 16% (YTD 2019 – 22%) due to adding a Senior Vice President of Global Partnerships to lead the Business Development effort. Professional services have declined 44% (YTD 2019 – 74%) due to no longer having a senior sales consultant, this cost will return in Q4. In the remainder of 2019, these costs will increase as the Company onboards additional staff and contractors in North America and internationally.

e) General and administrative

The Company's general and administrative expenses are broken down as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Salaries, benefits and recruiting	\$ 296,707	\$ 151,436	\$ 650,839	\$ 417,052
Professional fees	137,675	68,271	325,719	240,462
Listing fees	-	-	2,047,427	-
Foreign exchange gains/losses	(23,668)	29,661	58,437	41,275
Establishments	57,506	44,026	149,131	125,877
Office and personnel	60,213	47,664	124,096	109,148
Other	4,353	10,383	12,941	14,357
	\$ 532,786	\$ 351,441	\$ 3,368,590	\$ 948,171

General and administrative expenses increased 52% (YTD 2019 – 255%) overall from Q3 2018 to Q3 2019.

Salaries, benefits and recruiting increased 96% (YTD 2019 – 55% increase) in the same time period. The increase is largely due to salary increases for long-term staff and higher stock-based compensation costs.

Professional fees increased 102% (YTD 2019 – 35% increase) in the same time period. The increase is due to increased accounting costs for the virtual CFO, audit and financing related costs, which is partially offset by decreased legal fees.

Listing fees largely relate to the difference between the fair value of the shares issued to Knol and the assets received. Other costs include fees paid to the exchange and the stock registrar.

Foreign exchange gains/losses decreased 180% (YTD 2019 – 42% increase) from Q3 2018 to Q3 2019 due to the company having increased funds to cover US denominated expenses as US sales increased. The increase year to date is due to prior quarter US dollar purchases and the US dollar strengthening \$0.04.

Establishment expenses increased 31% (YTD 2019 – 18%) from Q3 2018 to Q3 2019 due to an increase in rent in both Toronto and New York for additional space.

Office and personnel expenses increased 26% (YTD 2019 – 14%) largely due to an increase in insurance costs with the new Directors & Officers policy.

In the remainder of 2019, it is anticipated that these costs will increase significantly due to the additional costs associated with being listed on the TSX Venture, including but not limited to, investor relations, reporting, legal support, and increased costs for a higher headcount.

f) Marketing

The Company includes costs to acquire the Killi application users, marketing staff, promotional and other marketing costs in marketing costs and are broken down as follows:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Advertising and promotion	\$ 109,375	\$ 32,372	\$ 353,921	\$ 41,566
User acquisition and retention	156,026	32,878	458,404	32,878
Salaries, benefits and recruiting	62,745	98,557	210,340	98,557
Other	2,007	142	7,592	959
	\$ 330,153	\$ 163,949	\$ 1,030,257	\$ 173,960

Marketing became a focus in late Q2 2018 with the launch of the Killi application and on-boarding of the Vice President, Marketing, who departed this quarter. The advertising and promotional costs relate to creating content, collateral, refining the Killi user interface and promoting both Killi and Freckle. The user acquisition costs relate to spending with Google, Facebook and other platforms that target users to download the Killi application. To promote user retention the Company is currently compensating users to use their data in the Freckle measurement and data revenue streams. The Company also undertakes market research through surveys and compensates users for their responses. In Q3 2019, Killi added a third-party survey provider to increase retention and reduce internal survey costs to the Company. Killi will continue to on-board these partners in Q4 while continuing to reduce the internal costs of Killi surveys as well as explore other revenue opportunities.

SELECT QUARTERLY RESULTS

	2019			2018			2017			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	862,723	755,615	827,379	862,015	835,103	941,835	469,091	321,626	415,298	86,547
Cost of services	228,751	288,710	244,290	287,651	228,070	271,400	219,885	447,090	286,323	139,096
Gross profit	633,972	466,905	583,089	574,364	607,033	670,435	193,023	(125,464)	128,974	(52,549)
Total Operating expenses	2,592,512	4,431,046	1,829,526	1,626,913	2,106,448	2,143,354	1,657,349	1,081,063	948,668	820,874
Loss from operating activities	(1,958,540)	(3,964,141)	(1,246,437)	(1,052,549)	(1,499,415)	(1,472,919)	(1,408,143)	(1,206,526)	(819,694)	(873,423)

CASH FLOWS

The Company's cash position was \$4,157,942 September 30, 2019, \$50,314 at September 30, 2018.

	Nine months ended September 30,	
	2019	2018
Cash flows used in operating activities before working capital	\$ (5,008,988)	\$ (4,288,556)
Changes in working capital	(230,013)	184,505
Cash flows used in operating activities	(5,239,001)	(4,104,051)
Cash flows provided by financing activities	9,215,918	4,097,921
Cash flows used in investing activities	(11,943)	(29,861)
Foreign currency translation difference	61,837	21,341
Increase in cash	\$ 4,026,811	\$ (14,650)

Operating activities:

Cash spent on operating activities increased 28% from YTD Q3 2018 to YTD Q3 2019. This is largely due to the increased marketing efforts, increased expenses to support a public company and revenue not yet growing at the pace of expenses.

Over the past nine months the company has burned an average of \$583,000 per month as it ramps up to support its strategic plans to grow the business and top line in 2019.

Financing activities:

Cash received from financing activities increased 125% from YTD Q3 2018 to YTD Q3 2019. The increase is largely due to joint non-brokered financing transactions and the funds received from taking over Knol, resulting in net funds less issuance costs of \$8,591,831.

Investing activities:

Cash spent on investing activities relates to computers and related equipment.

REVERSE TAKEOVER AND PRIVATE PLACEMENT TRANSACTIONS

On June 14, 2019, the Company completed a three-cornered amalgamation among the Company, Freckle I.O.T. Ltd. and a wholly owned subsidiary of the Company incorporated solely for the purpose of completing the amalgamation, resulting in Freckle I.O.T. Ltd. becoming a direct, wholly owned subsidiary

of the Company (the “Reverse Takeover” or “RTO”). The amalgamation constituted a reverse acquisition of the Company by Freckle I.O.T. Ltd. (being the legal subsidiary) as the accounting acquirer.

Pursuant to the terms of the Agreement:

- On completion of the RTO, the Company changed its name to Freckle Ltd.
- The Company’s pre-RTO share capital was consolidated on the basis of 2.2278588 pre-consolidation shares for each new share in the Resulting Issuer (the “Consolidation”);
- Each issued and outstanding common share of Freckle was cancelled and replaced with one common share of the Freckle Ltd.; and
- All share purchase options and warrants in Freckle I.O.T. Ltd. and post-Consolidation options in the Company are exercisable for common shares in Freckle Ltd.

The cost of the RTO was determined as follows:

Fair value of share-based consideration (25,000,000 shares at \$0.20)	5,000,000
Cash	(3,050,000)
Trade and other receivables	(38,994)
Trade and other liabilities	37,687
Stock options (583,519 options)	52,423
<u>Transaction Costs</u>	<u>2,001,116</u>

Without significant operating activities, the Company did not meet the accounting definition of a business pursuant to IFRS 3, *Business Combinations*, and the Transaction was accounted for as an acquisition of the net assets of the Company by Freckle I.O.T. Ltd. in exchange for shares in the Resulting Issuer under IFRS 2, *Share-based payments*. The excess of the fair value of the consideration provided over the net assets received was expensed in the current period as part of listing costs. For accounting purposes, these Financial Statements reflect a continuation of the financial position, operating results and cash flows of the Company’s legal subsidiary, Freckle I.O.T. Ltd.

In connection with the RTO, the Company issued, by way of a joint brokered private placement financing (the “Brokered Financing”) a total of 25,145,000 subscription receipts (the “Subscription Receipts”). The Subscription Receipts were sold in two tranches on March 28, 2019 and April 15, 2019 for \$0.20 per Subscription Receipt for total gross proceeds of \$5,029,000. Each Subscription Receipt was converted, at no additional cost, into one common share in the Resulting Issuer upon completion of the Transaction.

As part of the March 28, 2019 tranche Freckle I.O.T. Ltd. issued directly 7,500,000 shares and 7,500,000 warrants to certain investors for gross proceeds of \$1,500,000 that came directly to Freckle I.O.T. Ltd. on that date. The terms, commission and other fees were consistent with the Subscription Receipts financing. The costs were proportionally allocated to share capital and warrants based on the fair value of the investment.

In addition to the transaction costs above, upon the completion of the above transactions the following additional costs were incurred and deducted from equity: cash fees of \$521,620 (7% (3.5% for certain investors) of funds raised in the private placements and an advisory fee of \$125,000), legal fees of \$466,856 and the brokers received a total of 1,983,100 Compensation Warrants (7% (3.5% for certain investors) of shares issued in the private placements) fair valued at \$222,672 (see note 9 for the valuation

assumptions). The costs were proportionately allocated to share capital and warrants based on the fair value of the investment.

USE OF PROCEEDS

The funds raised, associated fees, and amounts held in escrow related to the placements are as follows:

Closing gross proceeds	6,529,000
Funds received from Knol	3,050,000
Less: fees and commissions	987,169
Funds available for use by the Company	8,591,831

The intended use of the funds is as follows:

	Financing	Actual expenditures as of September 30, 2019
General and administrative	\$ 500,000	\$ 382,969
Business development and Marketing	3,000,000	2,297,813
Current employee costs	1,000,000	765,938
Transaction expenses	987,169	987,169
General working capital	3,104,662	-
Total use of funds	\$ 8,591,831	\$ 4,433,889

ACCOUNTING POLICIES

IFRS 16 Leases

Effective January 1, 2019, the Company adopted IFRS 16, which is based on a single lessee accounting model to determine how to recognize, measure, and present leases. A summary of the Company's structure and status of the implementation of IFRS 16 is described below.

Commencing January 1, 2019, the Company's accounting policy under IFRS 16 is as follows:

Upon entering a lease arrangement, the Company determines whether the agreement transfers the right to control the use of an identified asset within the context of the agreement, in exchange for regular payments.

The Company has elected to use the Modified Retrospective Approach under IFRS 16. Under this approach, the Company may be required to record an opening balance adjustment for leases previously recognized under IAS 17, Leases ("IAS 17") and IFRIC 4, Determining Whether an Arrangement Contains a Lease (IFRIC 4). The Company has also elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously identified under IAS 17 and IFRIC 4. Finally, on transition, the Company has elected to use the practical expedient to not include initial direct costs associated with the lease in calculating the opening right-of-use asset value.

The Company leases a vehicle and office space. In adopting IFRS 16, the Company has elected to use the short-term lease recognition exemption which is applied by the class of assets. The Company has also

elected to use the low dollar value practical expedient, which unlike the short-term recognition exemption, is applied on an asset-by-asset basis. For those right-of-use assets which Company has taken the election the lease expense has been accounted for on a straight-line basis over the remaining lease term.

On initial recognition the Company's incremental borrowing rate will be used as the discount rate in determining right-of-use asset value. The Company's incremental borrowing rate will continue to be used for any leases entered into after initial recognition, unless the discount rate implicit in the lease is known, in which case it will be used to determine the present value of the future lease payments.

Subsequent to initial recognition, the lease liability will be measured at amortized cost using the effective interest method. The liability can be remeasured throughout the term of the lease if any of the following would cause a significant change in the present value of the future lease payments:

- change in an index or discount rate;
- change in the Company's estimate of the amount expected to be payable under a residual value guarantee;
- changes in the Company's assessment of whether it will exercise a purchase, extension or termination option.

The right-of-use asset will subsequently be measured at its net book value. The deemed cost of the asset will be amortized over the shorter of its expected useful life and the term of the lease on a straight-line basis.

The Company has elected to use the short-term lease recognition exemption and the low dollar value practical expedient. As a result, the Company has not recorded a transitional adjustment as all of the Company leases are less than one year or are of low dollar value.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Group has relied on its historic assessment as to whether leases were onerous immediately before the date of the initial application of IFRS 16.

CRITICAL JUDGMENTS, ESTIMATES AND ASSUMPTIONS

The Company's management makes judgments in its process of applying the Company's accounting policies in the preparation of its consolidated financial statements. In addition, the preparation of financial data requires that the Company's management make assumptions and estimates of effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

The critical judgments, estimates and assumptions applied in the preparation of the Company's consolidated financial statements are reflected in note 3r of the Company's audited annual consolidated financial statements for the year ended December 31, 2018.

RISK FACTORS AND UNCERTAINTIES

The Company is focused on expanding its business internally through international expansion, growth with existing customers and scaling Killi to achieve continued growth and profitability. Nevertheless, the Company's future results will depend on its ability to find financing and to continuously introduce new products and enhancements to its customers. There are other additional risks and uncertainties, including:

- Increasing Competition
- Evolving Business Model
- Need to Manage Growth
- Dependency on Key Personnel
- Future Capital Needs
- Foreign Exchange Exposure
- Cybersecurity
- Privacy Regulations.

These risks remain unchanged from the MD&A that accompanies the December 31, 2018 audited financial statements please refer to that document for further information.

SHARE CAPITAL

The company had the following outstanding:

	As at September 30, 2019	As at December 31, 2018
Common shares	216,521,909	114,629,627
Warrants	24,191,477	14,708,377
Stock Options	7,539,852	6,983,000

As of the date of this MD&A the Company had 216,521,909 shares, 24,191,477 warrants and 8,214,852 stock options of which 3,566,519 were exercisable, including the grant of 1,000,000 options to the new CFO, Andrew Elinesky. The Company has also proposed to the Board to issue an additional 445,000 stock options to employees at a price of \$0.20.

FINANCIAL INSTRUMENTS AND FINANCIAL RISKS

The Company has exposure to counterparty credit risk, liquidity risk and market risk associated with its financial assets and liabilities. The Company's risk management program seeks to minimize potential adverse effects on the Company's financial performance and ultimately shareholder value. The Company manages its risks and risk exposures through a combination of insurance, a system of internal controls and sound business practices.

The Company's financial instruments and the nature of the risks which they may be subject to are set out in the following table.

	Risks			
	Credit	Liquidity	Market	
			Foreign Exchange	Interest Rate
Cash	Yes		Yes	
Trade receivables	Yes		Yes	
Trade and other liabilities		Yes	Yes	
Related party demand loan		Yes		

Financial Instruments and Currency Risk

The carrying values of cash, trade receivables and trade and other liabilities approximate their fair values due to their relatively short periods to maturity.

	As at September 30, 2019		
	CAD	USD	Total
Financial assets:			
Financial assets at amortized cost			
Cash	\$ 4,115,299	\$ 42,643	\$ 4,157,942
Trade receivables	166,247	929,627	1,095,874
Total financial assets	\$ 4,281,546	\$ 972,269	\$ 5,253,816

Financial liabilities			
Financial liabilities at amortized cost			
Trade and other liabilities	\$ 355,096	\$ 966,081	\$ 1,321,177
Total financial liabilities	\$ 355,096	\$ 966,081	\$ 1,321,177

	As at December 31, 2018		
	CAD	USD	Total
Financial assets:			
Financial assets at amortized cost			
Cash	\$ 124,969	\$ 6,162	\$ 131,131
Trade receivables	68,746	764,417	833,163
Total financial assets	\$ 193,715	\$ 770,579	\$ 964,294

Financial liabilities			
Financial liabilities at amortized cost			
Trade and other liabilities	\$ 319,828	\$ 888,403	\$ 1,208,231
Related party demand loan	8,225,383	-	8,225,383
Total financial liabilities	\$ 8,545,211	\$ 888,403	\$ 9,433,614

A 10% weakening against the Canadian dollar against the US dollar would have had the following effects (a 10% strengthening against the US dollar would have had the opposite effect):

	As At	As At
	September 30, 2019	December 31, 2018
USD	\$ (619)	\$ 11,782

Credit risk

Credit risk arises from cash held with banks and trade receivables and these financial assets are subject to the expected credit loss model. The maximum exposure to credit risk is equal to the carrying value of the financial assets. The objective of managing counterparty credit risk is to prevent losses on financial assets. The Company minimizes the credit risk of cash by depositing with only reputable financial institutions and minimizes the credit risk of trade receivables by monitoring the counterparty's creditworthiness and setting exposure limits.

Trade accounts receivables

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sale over a period of 24 months before June 30, 2019. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the creditworthiness for current and future customers and the GDP and the unemployment rate of the countries in which the Company sells goods into to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at June 30, 2019, December 31, 2018 was determined as follows for trade receivables:

Trade receivables are the result of billings of services performed. The Company's credit risk arises from the possibility that a counterparty which owes the Company money is unable or unwilling to meet its obligations in accordance with the terms and conditions in the contracts with the Company, which would result in a financial loss for the Company.

The carrying amount of trade receivables are reduced through the use of an allowance for credit loss and the amount is recognized in the consolidated statement of loss in general and administrative expenses. When a receivable balance is considered uncollectible, it is written off against the allowance for credit loss. Subsequent recoveries of amounts previously written off reduce general and administrative expenses in the statement of loss and comprehensive loss. As of September 30, 2019, it was determined that no allowance for credit loss was required.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by continuously monitoring forecasts and actual cash flows and taking the necessary actions to maintain enough liquidity for operations and for growth objectives.

The following table details the Company's contractual maturities (including interest payments where applicable) for its financial liabilities as at September 30, 2019 and December 31, 2018:

	Not later than one month	Later than one month and not later than three months	Later than three months and not later than one year	Later than one year and not later than five years	Total
As at September 30, 2019					
Trade and other liabilities	\$ 1,321,177	-	-	-	\$ 1,321,177
	<u>\$ 1,321,177</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,321,177</u>
As at December 31, 2018					
Trade and other liabilities	\$ 1,208,231	-	-	-	\$ 1,208,231
	<u>\$ 1,208,231</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,208,231</u>

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates will affect the fair value of a financial instrument or its future cash flows.

CAPITAL MANAGEMENT

The Company's objective in managing capital is to ensure sufficient liquidity to develop technology, engage in sales and marketing activities, while at the same time taking a conservative approach toward financial leverage and management of financial risk. In previous years, the Company's capital is composed entirely of debt from the CEO and Founder's related company. The loans have been converted to common shares. During the previous year and this year to date, the Company actively sought external financing through private placements to help manage working capital requirements and prepare the Company for a go public transaction. In the upcoming years the Company will utilize the capital markets as well as revenue to manage its capital obligations.

The Company also uses capital to finance operating losses, advance the product offerings, and increase market presence. The Company currently funds these requirements from cash raised through demand loans from the CEO and Founder and private placements as required.

The Company's objectives when managing capital are to ensure that the Company will continue to have enough liquidity to fund operations and proceed with rapid deployment throughout the advertising market.

CONTRACTUAL OBLIGATIONS

The Company has a non-cancellable contracts for rent, cost of services and a leased automobile, the commitments are as follows:

	As at September 30, 2019
Less than one year	\$ 80,593
Between one and five years	-

During the nine months ended September 30, 2019 \$437,985 was expensed to general and administration, cost of services and wages and benefits.

OFF BALANCE SHEET ARRANGEMENTS

The company does not have any off-balance sheet arrangements.

PROPOSED TRANSACTIONS

The Company continually reviews potential merger, acquisition, investment and other joint venture and strategic alternative transactions that could enhance shareholder value. However, there are no proposed transactions currently under examination.

RELATED PARTY TRANSACTIONS

The following is a summary of related party transactions that occurred during the:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Funds received from the Shareholder ⁽ⁱ⁾	-	488,983	624,087	1,323,644
Salaries and taxable benefits ⁽ⁱⁱ⁾	68,748	33,094	131,246	46,248
Stock based compensation ⁽ⁱⁱⁱ⁾	3,443	-	3,443	-
Expense reimbursements (advances)	-	-	-	(6,232)

⁽ⁱ⁾ The CEO and Founder has provided funding in the form of convertible demand loans. On February 28, 2019, \$8,225,383 of the balance was all converted to common shares at a rate of \$0.20, with the remaining \$624,087 being converted on April 22, 2019.

⁽ⁱⁱ⁾ The Company provides a salary and leased automobile to the CEO and Founder.

⁽ⁱⁱⁱ⁾ The Company issued 50,000 options to the CEO & Founder as part of his Board compensation, the options expire in 5 years, immediately vest and expire 30 days after the Board position is vacated.

Compensation for key management personnel, outside of the CEO and Founder listed above, was as follows for the period:

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Salaries and benefits	404,470	116,827	1,025,022	116,827
Share based compensation	34,609	18,772	113,724	18,772
Total key management compensation	439,079	135,599	1,138,746	135,599

COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current period. Business development salaries, benefits and other employee related expenses in the amount of \$212,635 for the nine months ended September 30, 2019 (\$56,183 for the nine months ended September 30, 2018), previously included in cost of sales were reclassified to selling and business development on the statement of loss and comprehensive loss as these costs are not directly linked to current period sales.

MANAGEMENT'S STATEMENT OF RESPONSIBILITY

The accompanying consolidated financial statements of Freckle I.O.T. Ltd. and all information contained herein are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts that are based on management's best estimates that have been made using careful judgement. The financial statements have been prepared by management in accordance with International Financial Reporting Standards. Financial and operating data elsewhere in the report are consistent with the information contained in the financial statements. Although no cost-effective system of internal controls will prevent or detect all errors and irregularities, these systems are designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use, transactions are properly recorded, and the financial records are reliable for preparing financial statements.