Halogen Software Inc.
Management's Discussion and Analysis

For the three month periods ended March 31, 2015 and 2014.

The following has been prepared for the purpose of providing management's discussion and analysis ("MD&A") of the results of operations and financial condition of Halogen Software Inc. ("Halogen" or the "Company") for the three month period ended March 31, 2015 and 2014. This MD&A is based on the Company's condensed consolidated interim financial statements prepared in accordance with accounting principles generally accepted in Canada, which incorporate International Financial Reporting Standards ("IFRS"), and should be read in conjunction with the unaudited condensed consolidated interim financial statements and accompanying notes thereto.

This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions, including statements regarding developments in Halogen's operations in future periods, adequacy of financial resources and future plans and objectives of Halogen. Actual results could differ materially from those discussed in these forward-looking statements due to a number of factors, including those set forth in the section entitled "Forward-Looking Statements" and elsewhere in this MD&A. There can be no assurance that such information will prove to be accurate, and readers are cautioned not to place undue reliance on this forward-looking information.

This MD&A has been prepared as of May 7, 2015. All amounts are expressed in thousands of United States Dollars ("USD") unless otherwise stated.

Additional information relating to Halogen Software Inc. is available on SEDAR at www.sedar.com.

Forward-Looking Statements

This report contains forward-looking statements that relate to the Company's current expectations and views of future events. In some cases, these forward-looking statements can be identified by words or phrases such as "may", "might", "will", "expect", "anticipate", "estimate", "intend", "plan", "indicate", "seek", "believe", "estimates", "predicts" or "likely", or the negative of these terms, or other similar expressions intended to identify forward-looking statements.

The Company has based these forward-looking statements on its current expectations and projections about future events and financial trends that it believes might affect its financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- The Company's expectations regarding its revenue, expenses and operations;
- The Company's anticipated cash needs and its needs for additional financing;
- The Company's ability to protect, maintain and enforce its intellectual property;
- Third-party claims of infringement or violation of, or other conflicts with, intellectual property rights;
- The Company's plans for and timing of expansion of its solution and services;
- The Company's future growth plans;
- The acceptance by the Company's customers and the marketplace of new technologies and solutions;
- The Company's ability to attract new customers and develop and maintain existing customers;
- The Company's ability to attract and retain personnel;
- The Company's expectations with respect to advancement of its product offering;
- The Company's competitive position and the regulatory environment in which the Company operates; and
- Anticipated trends and challenges in the Company's business and the markets in which it operates

Forward-looking statements are based on certain assumptions and analyses made by the Company in light of the experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate, and are subject to risks and uncertainties. Although we believe that the assumptions underlying these statements are reasonable, they may prove to be incorrect, and we cannot assure that actual results will be consistent with these forward-looking statements. Whether actual results, performance or achievements will conform to the Company's expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors, including the following risk factors:

- Our dependence on customer retention and renewals;
- Competition in our industry;
- Risks related to security of customer information;
- Risks related to exchange rate fluctuations;

- Risks related to privacy concerns;
- Risks related to acquiring additional capital requirements;
- Risks related to reliance on key personnel;
- Our history of losses;
- Failure to expand sales and marketing infrastructure;
- Risks related to tax matters;
- Risks related to international expansion;
- Risks related to managing our growth;
- Risks related to adoption of talent management software solutions;
- Risks related to reliance on third-party service providers;
- Risks related to global economic conditions;
- Failure to protect our intellectual property;
- Risks related to employee retention;
- Risks related to our revenue being recognized over the term of customer agreements;
- Risks related to fluctuations in quarterly operating results;
- Risks related to software defects;
- Risks related to reliance on third-party computer hardware and software;
- Risk related to our ability to innovate;
- Risks related to intellectual property infringement;
- Risks related to being named as a defendant or being otherwise involved in various legal or regulatory proceedings;
- Our use of open source software;
- Risks related managing acquisitions; and
- Risks related to hosting our customers talent management site.

If any of these risks or uncertainties materialize, or if assumptions underlying the forward-looking statements prove incorrect, actual results might vary materially from those anticipated in these forward-looking statements. Forward-looking statements in this MD&A are provided as of the date of this report, and we disclaim any obligation to update any forward-looking statements, whether as a result of new information or future events or results, except to the extent required by applicable securities laws. Accordingly, any investors or users of this document should not place undue reliance on forward-looking statements or the information contained in those statements.

Our stock is publicly traded on the Toronto Stock Exchange, or TSX under the ticker symbol “HGN”. The market price of our common shares may fluctuate significantly in response to numerous factors, many of which are beyond our control. These factors include:

- Volatility of market prices;
- Sales of shares by existing shareholders; and
- Relatively low average daily trading volume.

Overview

We are a leading provider of comprehensive software-as-a-service (“SaaS”), cloud-based talent management solutions, primarily targeted at customers in the mid-market. The foundation of every organization’s potential for success ultimately depends on the strength of its people. This is why almost all organizations want to maximize the performance and productivity of their employees, so their talent will become a sustained competitive advantage. To meet these business objectives, our customers use Halogen’s powerful suite of integrated Talent Management (“TM”) solutions to attract and retain top talent, align goals, assess and develop employees, cultivate leaders, provide feedback and recognition, enhance employee engagement, improve communication and manager-employee relationships, support a pay-for-performance culture and build talent bench strength via succession planning. We also provide industry specific configurations of our solutions for healthcare, professional services, financial services, manufacturing, education, public sector and hospitality. These vertical offerings have features and content that support industry specific practices and requirements.

Halogen was incorporated in 1996, and we began selling our performance management software in 2002. We have since expanded our product portfolio significantly. The Halogen TalentSpace™ suite is now comprised of 9 integrated talent management modules. Our solutions were originally sold under a perpetual-based license model; however, in late 2006, we also began selling them under a subscription-based model, giving customers a choice between the two licensing options. In early 2009, we stopped selling perpetual licenses to new customers. Since January 1, 2012, we have only sold perpetual licenses to existing legacy customers that are purchasing additional seats of products already owned under the perpetual licensing model. Therefore, we expect that revenue from perpetual licenses will remain relatively low for the foreseeable future and will become immaterial to the business.

As of December 31, 2014, we had approximately 2,150 customers worldwide. We believe this is one of the largest customer bases in the talent management marketplace. In addition, no one customer represents more than 2% of our total revenue.

We also believe that the market for TM remains large and under-penetrated, providing us with significant growth opportunities. We have focused on expanding our business to pursue this substantial market opportunity, and we plan to continue to invest in supporting our growth. We intend to grow our customer base by adding to our sales team and expanding our marketing efforts in North America, Europe and Asia Pacific, where we already have a presence, and in other geographic areas in which we currently do not have a presence. Additionally, as our solution becomes increasingly integral to our customers' success, we believe we have significant opportunities to grow our business through the sale of additional seats, modules and services to our existing customers. We believe that expanding our customer account sales and consulting programs will have a positive impact on revenue from our existing customers.

We are also making an effort to expand our total addressable market via our newest modules, added functionality and content within our current product suite and pursuing opportunities to broaden the scope of our offering that we believe would be economically beneficial to us and our customers.

On an opportunistic basis, we will consider making acquisitions of businesses, technologies and solutions that would complement our existing offerings, enhance the capabilities of our existing solution, and broaden our solution portfolio, in an effort to accelerate our growth.

Results of Operations

The following table sets forth a summary of key results of operations as at and for the periods ended March 31, 2015 and 2014:

	Three Months ended/ as at March 31,	
	2015	2014
Recurring revenue	**$ 14,372**	$ 12,088
Total revenue	**15,908**	13,530
Gross margin	**11,791**	10,211
Expenses	**16,519**	13,229
Income (loss) from operations	**(4,728)**	(3,018)
Net income (loss)	**(4,725)**	(2,956)
Earnings (loss) per share	**(0.22)**	(0.14)
Adjusted EBITDA(1)	**(286)**	(1,062)
Adjusted EBITDA per share(1)	**(0.01)**	(0.05)
Total assets	**65,173**	70,797
Deferred revenue	**32,476**	26,907
Cash flow provided by (used in) operating activities	**(58)**	(2,283)

(1) Adjusted EBITDA and Adjusted EBITDA per share are non-IFRS financial measures. Please refer to the “Adjusted EBITDA” section for more information.

In the first quarter of 2015, Halogen recorded recurring revenue of $14.4 and total revenue of $15.9 million, increases of 19% and 18% over the first quarter of 2014. Recurring revenue represented 90% of total revenue in the first quarter of this year compared to 89% for the same period last year. Contributing to our growth in revenue was the increase in our customer base over the last twelve months along with the sale of additional seats and modules to our existing customers. We rely on a subscription-based business model; therefore our revenue is dependent upon our ability to attract new customers and retain our existing customer base and expand their deployment of our solution.

In the first quarter of 2015, international revenue was $1.8 million, an increase of 35% from the $1.3 million recorded in the first quarter of last year. Revenue in the United States and Canada in the first quarter was $14.1 million, an increase of 16% from the $12.2 million recognized in the first quarter last year. Contributing to the growth in these markets was the addition of headcount in our sales and marketing team over the last twelve months in all markets. We have plans to continue to expand of our sales force both domestically and internationally in 2015 in an effort to continue growing our revenue.

For the three month period ended March 31, 2015, we recorded a net loss of $4.7 million, representing a $1.8 million increase over the same period last year. The increase in our net loss when comparing the first quarter of 2015 to the first quarter of 2014 is the result of higher spending and foreign exchange losses partially offset by the increase in our revenue. The foreign exchange losses were principally as a result of our foreign exchange forward contracts to hedge our current and future Canadian dollar expenses. We expect to continue to incur losses throughout 2015 as we are focused on growing recurring revenue and market share and not short-term profitability.

We used $58,000 of cash flow for operating purposes in the first quarter of 2015 as opposed to the $2.3 million used in the previous year. Prior to our initial public offering (“IPO”) we strived to be cash breakeven from operations; however with the additional proceeds from IPO we have been less focused on being cash breakeven from operations and more focused on investing in and growing our business. In the current quarter our cash flow from operations was impacted by the same items affecting our net loss as discussed above.

With the majority of our revenue in U.S dollars and the majority of spending in Canadian dollars our business is exposed to currency fluctuations. At March 31, 2015, the Canadian to U.S dollar exchange was 0.81 compared to 0.86 at December 31, 2014 and 0.91 at March 31, 2014. This decline in exchange rate has resulted in significant cost savings, especially in the first quarter of 2015 where the average exchange rate declined approximately 10% from the average rate in the first quarter of 2014. Our hedging strategy has resulted in foreign exchange losses that offset these cost savings in the short-term.

Key Performance Indicators

We use a number of key performance indicators to assess the performance of our business including annual recurring revenue, dollar retention rate and customer retention rate. These financial measures do not have any standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers and cannot be reconciled to a directly comparable GAAP measure.

Annual recurring revenue ("ARR") is a measure we use to assess the performance of the business over time. ARR is a measure of the predictable and recurring elements of our contracts with customers that are in effect at the reporting date. ARR includes the elements of our contracts that relate to the ongoing subscription, maintenance and hosting services measured on an annualized basis and excludes all one-time services. We calculate ARR on a constant currency basis throughout the year. At the beginning of each fiscal year we make an adjustment to the opening ARR balance to reflect a new foreign exchange rate to use for that entire year. We believe a constant currency is a more meaningful way to measure business performance as we typically bill our customers annually and as such a change in foreign exchange rates does not have an immediate impact on our financial results. ARR is an important measure for us to predict our recurring revenue for future reporting periods. One quarter of our ARR is expected to be recorded as recurring revenue in the next fiscal quarter but revenue will be impacted positively by new customers, new seats and modules sold to existing customers and increases in prices charged to customers and will be impacted negatively by customers who terminate their contract or reduce the number of seats or modules.

The change in our ARR on an annual basis was as follows:

	ARR	Constant currency % Growth
	(thousands of dollars)	
Closing ARR December 31, 2012	**$ 37,745**	
Annual currency adjustment	**-**	
Adjusted opening ARR January 1, 2013	**37,745**	
Constant currency change during the year	**8,441**	
Closing ARR December 31, 2013	**46,186**	22%
Annual currency adjustment	**(264)**	
Adjusted opening ARR January 1, 2014	**45,922**	
Constant currency change during the year	**10,853**	
Closing ARR December 31, 2014	**56,775**	24%
Annual currency adjustment	**(786)**	
Adjusted opening ARR January 1, 2015	**55,989**	

Dollar retention rate and customer retention rate are two measures we use to assess our performance with the customer base over the course of a year. Dollar retention rate is calculated by taking the annual recurring revenue of customers at the beginning of a twelve-month period and dividing it into annual recurring revenue for those same customers at the end of the period. A dollar retention rate of over 100% indicates that the gains from selling additional seats and modules to our current customers and increasing the prices we charge is greater than the impact of customer losses or customers dropping seats or modules. The customer retention rate is calculated as the percentage of customers at the beginning of a twelve-month period that remain customers at the end of the period.

Over the last twelve months our dollar retention rate was over 100% and our customer retention rate was approximately 90%.

Revenue

The following is a breakdown of revenue into our principle categories of revenue:

	Three months ended March 31,		
	2015	2014	% change
Recurring	**$ 14,372**	$ 12,088	19%
Professional services	**1,536**	1,382	11%
License	**-**	60	(100%)
Total revenue	**$ 15,908**	$ 13,530	18%

We recorded total revenue in the first quarter of 2015 of $15.9 million, an increase of 18% from the same period of 2014. Revenue is analyzed by category as follows:

Recurring revenue

Recurring revenue is derived from annual subscription fees from customers using our TM solution, as well as the maintenance, support and hosting charges from our legacy perpetual license customers. Also included in recurring revenue is additional annual consulting and support services customers may purchase beyond the standard support that is included in the basic subscription fees.

In the first quarter of 2015, recurring revenue was $14.4 million, an increase of 19% over the first quarter of 2014. Increases in recurring revenue have been driven by the addition of new customers over the last twelve months and additional seats and module sales to our existing customers. Our recurring revenue was also impacted in the first quarter of 2015 by approximately $100,000 for additional licenses used in 2014 by our customers that were not billed until 2015, as compared to approximately $350,000 in the first quarter last year. Our standard contract allows us to audit our customers' use of the software to determine if additional licenses are being used over and above the number contracted. In this case, we will charge customers for the additional licenses and recognize the amount relating to prior periods immediately into revenue. As result, each year our recurring revenue includes revenue for additional licenses used in a prior period but not billed until the current period.

The impact of license audits on our revenue for the last 8 quarters is as follows:

	Three-month period ended							
	Mar. 31, 2014	Dec. 31, 2014	Sept. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Sept. 30, 2013	Jun. 30, 2013
Revenue								
Recurring	**$ 14,272**	$ 13,392	$ 12,791	$ 12,250	$ 11,738	$ 11,236	$ 10,689	$ 10,035
License audit	**100**	200	-	50	350	-	-	100
Total	**$ 14,372**	$ 13,592	$ 12,791	$ 12,300	$ 12,088	$ 11,236	$ 10,689	$ 10,135

Professional services revenue

Professional services are comprised of one-time consulting services, including implementation services, billable expenses, technical services and training. Customers must use the services within 12 months of signing a contract. Also included in professional services is revenue from our annual customer conference. This conference has normally been held in the third quarter of the year and results in higher professional services revenue and cost of revenue in that quarter.

In the three month period ended March 31, 2015, professional services revenue was $1.5 million, an increase of 11% when compared to the same period last year. The increase in revenue is a combination of a higher volume of sales and also increased service delivery.

License revenue

Since early 2009, no new customers have been able to purchase perpetual licenses. Further, beginning in 2012, we no longer sold perpetual licenses to existing customers when purchasing new modules (i.e. existing customers could only purchase a perpetual license for additional seats of existing modules). License revenue was down 100% in the first quarter of 2015 as compared to the same period last year. The majority of the license revenue in the previous year was the result of billing customers for licenses they were using through our audit process. We anticipate license revenue will not be significant in 2015.

Gross margin

	Three months ended March 31,		
	2015	2014	% change
Recurring	**$ 11,245**	$ 9,640	17%
Professional services	**546**	516	6%
License	**-**	55	(100%)
Gross margin	**$ 11,791**	$ 10,211	15%
Gross margin %	**74%**	75%	

Gross margin takes into account the cost of our secure data facilities where we physically host our on-demand solution, our customer support department and our technical services and training departments. The expenses within these departments consist primarily of salaries, contract fees, other employee benefits and amortization. We also include allocated overhead costs and any travel costs incurred in the process of providing services. Some of these travel-related expenditures are charged back to the customer and recorded as professional services revenue. The third quarter of each year also includes the revenue and costs associated with our annual customer conference.

Our overall gross margin as a percentage of revenue is relatively flat in the first quarter of 2015 as compared to the first quarter of 2014. We continue to make investments in our service delivery capacity and our on-demand environment in our effort to provide a world class customer experience and expect our margins to remain above 70%. Spending in this area has increased by 15% when comparing the first quarter of 2015 with the first quarter of 2014; however our revenues have increased by 18% and as a result we have been able to maintain our gross margin percentage. As our cost of revenue spending is predominantly done in Canadian dollars our margin has been positively impacted by the decline in value of the Canadian Dollar in relation to the U.S dollar.

Sales and marketing

	Three months ended March 31,		
	2015	2014	% change
Sales and marketing	**$ 7,447**	$ 6,985	7%
As a percentage of revenue	**47%**	52%	

Sales and marketing expenses consist primarily of salaries and related expenses for our sales and marketing staff, including commission payments, which are fully expensed once the effective date of a contract has occurred. Sales and marketing expenses also include marketing program expenses, payments to partners and allocated overhead. Marketing programs consist of advertising, events, corporate communications, brand building and product marketing activities.

Sales and marketing expenses were $7.4 million in the first quarter of 2015, an increase of 7% over the same period in 2014. Driving the increase in spending was the expansion of our sales force both internationally and domestically over the last twelve months. The increase in costs over the last twelve months from increased headcount has been partially offset by the change in currency rates and some marketing program activities being delayed to the second quarter of 2015.

As a percentage of revenue, sales and marketing expenses will fluctuate in any given period depending on the timing of program spending. We plan to continue to invest in sales and marketing by expanding our domestic and international selling and marketing activities, building brand awareness and sponsoring additional marketing events. We anticipate expenditures in this area to continue to increase in absolute dollars and we expect spending in this area to be approximately 50% of total revenue for the remaining quarters of 2015, assuming that the Canadian to U.S dollar exchange rate remains at current rates.

Research and development ("R&D")

	Three months ended March 31,		
	2015	2014	% change
R&D	**$ 3,195**	$ 2,783	15%
As a percentage of revenue	**20%**	21%	

R&D expenses include the costs of our research and development team and product management team. Costs mainly consist of salaries and other benefits, consulting costs and allocated overhead.

R&D expenses in the first quarter of 2015 were $3.2 million, an increase of 15% when compared to the first quarter of last year. The growth in spending was driven by higher headcount and thus higher compensation costs. The increase in headcount was the result of our effort to expand our product portfolio and introduce new features into our existing products. Contributing to the increase in headcount related cost was the addition of software developers in the third quarter of 2014. These developers are based out of Quebec City and expand our development workforce outside of the Ottawa area in order to broaden our talent base. Consistent with our discussion above, the majority of the spending in this area is Canadian dollar denominated and as a result we are seeing cost savings in our U.S dollar reported results, which is offsetting the additional year over year spending.

R&D expenses as a percentage of revenue were similar in the first quarters of 2015 and the first quarter of 2014. We anticipate expenditures to increase in this area in absolute dollars and remain relatively the same as a percentage of revenue, provided there is no significant change to foreign exchange rates.

General and administrative

	Three months ended March 31,		
	2015	2014	% change
General and administrative	**$ 2,563**	$ 2,392	7%
As a percentage of revenue	**16%**	18%	

General and administrative expenses consist of salaries and related expenses for finance, legal, human resources and information systems personnel, legal costs, professional fees, other corporate expenses and allocated overhead.

General and administrative costs were $2.6 million in the three month period ended March 31, 2015, which was 7%, higher than in the same period of 2014. The increased spending was due to increased headcount and consulting costs; however, the increase in spending has been partially offset by cost savings due to the change in foreign exchange rates.

General and administrative costs were 16% of revenue in the first quarter of 2015 and 18% of revenue in the first quarter of 2014. The Company expects general and administrative costs to increase in absolute dollars over time and remain relatively consistent in 2015 as a percentage of revenue provided there is no significant change to foreign exchange rates.

Income (loss)

	Three months ended March 31,		
	2015	2014	% change
Operating income (loss)	**$ (4,728)**	$ (3,018)	(57%)
Net income (loss)	**$ (4,725)**	$ (2,956)	(60%)

In the first quarter of 2015 we continued to incur operating losses as we are focused on investing in the business to grow revenue and market share and not short-term profitability. Our operating loss increased by $1.7 million to $4.7 million in the first quarter of 2015 when compared to the first quarter of 2014 and our net loss increased by $1.8 million to $4.7 million. The increase in both our operating income and our net income in 2015 as compared to last year is due to the increase in expenses discussed above and $2.2 million of additional foreign exchange losses. The foreign exchange losses were principally, as a result of our foreign exchange forward contracts to hedge our Canadian dollar expenses and holding Canadian cash. As noted, the decline in value of the Canadian dollar in relation to the U.S dollar has had a significant positive impact on our U.S dollar reported expenses. These cost savings have been offset by the exchange losses on our forward currency contracts.

In general, the nature of our business is such that the majority of our cash inflows are recorded as deferred revenue that is recognized ratably rather than as revenue recognized on receipt and, as a result, our IFRS net losses will tend to be higher than our cash losses.

Adjusted EBITDA

Limitations on the use of non-IFRS financial measures

Adjusted EBITDA and Adjusted EBITDA per share do not have uniform definitions. Our definitions will likely differ from the definitions used by other companies, including peer companies, and therefore comparability may be limited. Thus, our non-IFRS measures of Adjusted EBITDA and Adjusted EBITDA per share should be considered in addition to, not as a substitute for, or in isolation from, measures prepared in accordance with IFRS.

There are inherent limitations with non-IFRS measures; we compensate for these limitations by reconciling Adjusted EBITDA to the most comparable IFRS financial measure. Management encourages investors and others to review our financial information in its entirety, not to rely on any single financial measure, and to view our non-IFRS financial measures in conjunction with the most comparable IFRS financial measures. Adjusted EBITDA per share is calculated by dividing the Adjusted EBITDA by the weighted average number of shares outstanding in each period.

Reconciliation to IFRS net income (loss)

	Three months ended March 31,		
	2015	2014	% change
Net income (loss)	**$ (4,725)**	$ (2,956)	60%
Interest (income) expense and other, net	**(29)**	(67)	(57%)
Foreign Exchange (gain) loss	**3,314**	1,069	210%
Income tax expense	**26**	5	420%
Depreciation and amortization	**971**	747	30%
Share-based compensation	**157**	140	12%
Adjusted EBITDA	**$ (286)**	$ (1,062)	(73%)
Adjusted EBITDA per share	**$ (0.01)**	$ (0.05)	

Adjusted EBITDA has improved in the first quarter of 2015 when compared to the first quarter of 2014. The 2015 results have been impacted by the decline of the Canadian dollar in relation to the U.S dollar with the exchange rate moving 0.91 to 0.79 over the last twelve months. The increase in revenue and the change in exchange rates has offset the year over year spending increases we have made, which helped to improve our adjusted EBITDA. We expect to incur losses in our adjusted EBITDA for the foreseeable future as we use our cash resources to grow the business internationally and domestically.

Key Balance Sheet Items

	As at March 31, 2015	As at December 31, 2014
Total Assets	**$ 65,173**	$ 69,075
Total Liabilities	**43,372**	42,618

Our balance sheet has several key items that are necessary to analyze in order to gain a full understanding of our financial results. The following analysis explains those items.

Trade receivables

	As at March 31, 2015	As at December 31, 2014
Trade receivables (net)	**$ 10,181**	$ 12,386
Days sales outstanding (“DSO”)	**60 days**	58 days

As at March 31, 2015, our trade receivables balance was $10.2 million, which was down 18% from the beginning of the year. The change in trade receivables is mainly attributable to the timing of when our customers renew throughout the year and when new sales are completed. Our DSO increased slightly from 58 days at March 31, 2014 and 58 days at December 31, 2014 to 60 days at March 31, 2015.

Our business model requires a significant amount of our bookings to be recorded as deferred revenue; therefore, a traditional DSO calculation is not representative of our true collections strength. As a result, we calculate DSO by dividing our receivables balance by our bookings for the current quarter. We define bookings as current period revenue plus the change in deferred revenue. We have a diverse group of customers, not one of whom represents greater than 5% of the total receivables balance and, as a result, we feel that our collections risk is relatively low.

Deferred revenue

	As at March 31, 2015	As at December 31, 2014
Deferred revenue	**$ 32,476**	$ 32,836

As at March 31, 2015 we had $32.5 million of deferred revenue, which was up 21% from the March 31, 2014 balance of $26.9 million. The increase was mainly attributed to the new business generated in the last twelve months. Our business model results in us billing our customers in advance of providing the service and, as a result, the majority of business is first recorded in deferred revenue and then recognized in revenue over the service period. The change in our deferred revenue from period to period is affected by two main elements. The first element is billings in the period, including new business generated in the period and renewals. Since the fourth quarter of the year has always tended to have the highest number of new customer deals, the fourth quarter has the highest number of customer renewals and conversely the first quarter has the lowest number of renewals. Our fourth quarter renewals represent approximately 30% of all our annual renewals and as a result, the increase in deferred revenue is most significant in the fourth quarter, with the first quarter deferred revenue normally decreasing sequentially, as was the case in the first quarter of 2015. The second element affecting our deferred revenue balance is the amount of money received from customers who are paying their renewal in advance of the month in which they renew. As at March 31, 2015, we had received approximately $200,000 more in prepayments as opposed to last year. Since the amount of prepayments is not consistent from period to period, our deferred revenue can fluctuate over time.

Summary of Quarterly Results

The following table sets out a selected summary of quarterly results for the eight most recently completed quarters to March 31, 2015.

In the opinion of management, this information has been prepared on the same basis as our annual consolidated audited financial statements, and all necessary adjustments, consisting only of normal recurring adjustments, have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with the audited consolidated financial statements and the notes to those statements. The operating results for any quarter should not be relied upon as any indication of results for any future period.

	Three-month period ended							
	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	Jun. 30, 2014	Mar. 31, 2014	Dec. 31, 2013	Sept. 30, 2013	Jun. 30, 2013
	(thousands of dollars except per share amounts)							
Revenue								
Recurring	**$ 14,372**	$ 13,592	$ 12,791	$ 12,300	$ 12,088	$ 11,236	$ 10,689	$ 10,135
Professional service	**1,536**	1,498	1,619	1,329	1,382	1,255	1,508	1,199
License	**-**	-	-	-	60	118	143	115
Total revenue	**15,908**	15,090	14,410	13,629	13,530	12,609	12,340	11,449
Gross margin	**11,791**	10,746	9,891	9,849	10,211	9,590	8,860	8,595
Expenses excluding fx	**13,205**	14,490	13,486	13,319	12,160	10,916	10,334	10,116
Foreign exchange (gain) loss	**3,314**	1,134	1,407	(868)	1,069	777	(691)	902
Income (loss) from operations	**(4,728)**	(4,878)	(5,002)	(2,602)	(3,018)	(2,103)	(783)	(2,423)
Net income (loss)	**(4,725)**	(4,871)	(4,986)	(2,571)	(2,956)	(2,066)	(718)	(2,730)
Earnings (loss) per share	**(0.22)**	(0.22)	(0.23)	(0.12)	(0.14)	(0.10)	(0.03)	(0.16)

We expect our expenses to continue to increase as we make investments to grow our business and ensure that we have an appropriate infrastructure to support our existing and future customers' needs. With the decline in value of the Canadian dollar in relation to the U.S dollar, in the first quarter of 2015 we have seen cost savings in our expenses, which are offsetting some of the increases we made in our spending.

We have recorded losses in each of the last eight quarters and anticipate having losses for the foreseeable future as we continue to make investments to grow our business with a focus on growth in revenue and market share rather than short-term profitability.

Liquidity and capital resources

	As at March 31, 2015	As at December 31, 2014
Total cash, cash equivalents and investments	**$ 43,037**	$ 44,247

Halogen's primary source of cash flow has traditionally come from the sales of our software and services; however, an initial public offering in 2013 significantly increased our cash reserves.

Our approach to managing liquidity is to ensure, to the extent possible, that we will always have sufficient liquidity to meet liabilities as they come due. We do so by continuously monitoring cash flow and actual versus budgeted expenses. Furthermore, the Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business. At March 31, 2015, the Company had cash and investments totaling $43.0 million. As a result, we believe there is sufficient liquidity in order to meet our current and planned financial obligations.

The following is a summary of our cash flows provided by (used in) operating activities, investing activities and financial activities for the periods indicated:

	Three months ended/ as at March 31,	
	2015	2014
Operating activities	**$ (58)**	$ (2,283)
Investing activities	**(292)**	4,444
Financing activities	**(87)**	-
Effect of exchange rates on cash and cash equivalents	**(773)**	(7)
Increase (decrease) in cash and cash equivalents	**(1,210)**	2,154
Beginning cash and cash equivalents	**44,247**	37,405
Ending cash and cash equivalents	**$ 43,037**	$ 39,559

Cash provided by (used in) operating activities

Cash flow used in operations, which is generally the net income or loss adjusted for non-cash items, such as unrealized foreign exchange gains or losses, depreciation and amortization, and changes in non-cash working capital items, was $58,000 in the first quarter of 2015 (2014 – cash used of $2.2 million). In the first quarter of 2015 the main item impacting our cash used from operations was our net losses for the period; however this was almost offset by the add back of our unrealized foreign exchange loss and the decrease of our account receivable balance in the period.

Cash provided by (used in) investing activities

Cash used in investment activities was $292,000 in the first three months of 2015, which consisted primarily of the purchase of equipment and software for internal usage.

Cash provided by (used in) financing activities

Cash used in financing activities in the first quarter 2015, consisted primarily of cash used to repurchase our common shares through a normal course issuer bid.

Use of initial public offering proceeds

In our prospectus, dated May 10, 2013 we outlined our plan with respect to how we intend to use the net proceeds from our treasury offering as follows:

- Approximately 25% of the net proceeds is intended to grow our operations, including:
  - to strengthen our North American sales and marketing operations, including by engaging additional sales and marketing personnel in our North American offices and expanding on existing marketing programs;
  - to expand our presence in the United Kingdom and Australia, including by engaging additional sales and marketing personnel in our UK and Australian offices, expanding on existing marketing programs and engaging additional service personnel as the offices grow; and
  - to expand our operations into geographic locations outside of the ones in which we currently operate, including opening one or more additional offices over the next 24 months in a business-English area and one or more offices between one and three years following the closing in non-business English areas.

  We anticipate these amounts will be spent over the next two to three years, with most of the funds being spent in 2014 and 2015 as we hire additional employees and expand our marketing programs. The Company has not yet determined the number of employees that it will hire, or the allocation of new employees to our offices.
- Approximately 10% of the net proceeds are intended to be used for product development over the next two years with a view to adding additional modules, functionality and content to our current product suite. These funds will be used primarily to hire additional software developers, quality assurance analysts, user-interface specialists and product architects, as well as any additional management personnel required to oversee the expanded product development activities.
- Approximately 55% of the net proceeds are intended to be used for balance sheet strength. We believe a higher level of current assets on our balance sheet will help to address any concerns our customers might have regarding the financial viability of the Company. This amount does not include any allocation for working capital or general corporate purposes. The Company intends to invest this amount in accordance with its formal investment policy, with capital preservation as the primary focus, for at least two years following the closing of the Offering.

- Approximately 10% of the net proceeds are intended to be used for working capital and general corporate purposes, which includes a reserve for selective acquisitions of, or investments in, new products, technologies and businesses that expand, complement or are otherwise related to our current business. Any such acquisitions or investments will be made in accordance with our growth strategy. Although we may, from time to time, evaluate potential acquisition and investment opportunities, we have no agreements or commitments with respect to any particular transaction of this nature.

With the proceeds from our IPO we intended to grow both our quota carrying sales force and our product development team. Since our IPO in May 2013 we have grown our sales department by more than 75% and our product development team by approximately 15%, with additional headcount still expected to be added in the current year. As well, the proceeds continue to provide strength to our balance sheet. We expect to continue to use the proceeds received as we described above. In 2015 we expect our cash and investment balance to decrease as we continue to fund the growth in our business.

Contractual obligations

The following table sets forth contractual obligations as of March 31, 2015 and December 31, 2014:

	March 31, 2015	December 31, 2014
Less than 1 year	**$ 3,673**	$ 3,956
1 year to 5 years	**8,522**	10,204
More than 5 years	**—**	—
	$ 12,195	$ 14,160

We lease approximately 110,000 square feet of office space in six locations around the world. The leases we currently hold expire between August 2016 and January 2019. The majority of the lease commitments relate to our head office in Ottawa, Canada, the lease of which expires in November 2017.

Off-balance sheet arrangements

We enter into agreements with customers that include limited intellectual property indemnifications that are customary in our industry. These guarantees generally require that we compensate the other party for certain damages and costs incurred as a result of third-party intellectual property claims arising from these transactions. The nature of the intellectual property indemnification obligations prevents us from making a reasonable estimate of the maximum potential amount we could be required to pay to our customers. Historically, we have not made any significant indemnification payments under such agreements and no amount has been accrued in the accompanying condensed consolidated financial statements with respect to these indemnification obligations.

Transactions with related parties

We did not have any transactions during the first quarter of 2015 or 2014 that would be considered to be between the Company and a related party.

Financial Instruments and Other Instruments

Halogen recognizes financial assets and liabilities when it becomes a party to the contractual provisions of the instrument. On initial recognition, financial assets and liabilities are measured at fair value plus transaction costs directly attributable to the financial asset and liabilities, except for financial assets or liabilities at fair value through profit or loss (“FVTPL”), whereby the transaction costs are expensed as incurred.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Our credit risk is primarily attributable to our trade receivables, short-term investments and foreign exchange contracts.

The nature of our subscription-based business results in payments being received in advance of the majority of the services being delivered; as a result, our credit risk exposure is very low. In addition, our diverse customer base ensures that there is no concentration of credit risk as no customer represents more than 5% of the total trade receivables balance as at March 31, 2015.

Foreign exchange risk

Our presentation and functional currency is US dollars and all of the amounts in this management discussion and analysis are in US dollars unless otherwise indicated. We derive most of our revenue from customers who pay in US dollars. Our head office and most of our employees are located in Ottawa, Canada, and as such a significant amount of our expenses are paid in Canadian dollars. We also bill customers and incur expenses in the Euro, Pound Sterling and Australian dollars. As a result, we are exposed to currency risk on these transactions. Also, additional earnings volatility arises from the translation of monetary assets and liabilities denominated in foreign currencies at the rate of exchange on each date of the Consolidated Statements of Financial Position, the impact of which is reported as foreign exchange gain or loss in operating expenses.

Our objective in managing currency risk is to minimize the exposure to currencies other than our functional currency. We do so by matching foreign denominated assets with foreign denominated liabilities. We utilize derivative financial instruments, principally in the form of foreign exchange forward contracts, to hedge a portion of our exposure to foreign currency cash flows, thereby reducing but not eliminating the impact of changes in exchange rates. All forward contracts have a maturity of less than one year and are not used for speculative purposes. As we do not account for these forward contracts using hedge accounting, these instruments are measured at fair value, with changes recognized in earnings at each reporting date. Further, we incur a significant amount of expenses in Canadian dollars and we hedge this risk by holding Canadian dollar denominated cash in addition to purchasing foreign exchange forward contracts.

In the first quarter of 2015, we have recorded a foreign exchange loss of $3.3 million (2014 – loss of $1.1 million), which was the result of the value of the Canadian dollar declining in relation to the U.S. dollar, with the exchange rate moving from 0.86 to 0.79 between December 31, 2014 and March 31, 2015. When the Canadian dollar declines in relation to the U.S. dollar, our operating expenses will be lower; however, in the short term, the savings are less than the loss on the foreign exchange forward contracts and Canadian dollar denominated cash held.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. We believe that interest rate risk is low as the majority of investments are made in short-term fixed rate instruments.

Capital management

Our objective in managing capital is to ensure sufficient liquidity to pursue our growth strategy, to fund research and development to enhance existing product offerings as well as to develop new offerings, and to provide sufficient resources to meet day-to-day operating requirements, while at the same time taking a conservative approach towards financial leverage and management of financial risk. In managing the capital structure, we take into consideration various factors, including the growth of the business and related infrastructure and the up-front cost of taking on new customers. The officers and senior management of the Company are responsible for managing the capital and do so through monthly meetings and regular review of financial information. The Board of Directors is responsible for overseeing this process. We manage capital to ensure that there are adequate capital resources while maximizing the return to shareholders through the optimization of the cash flows from operations and capital transactions.

Critical Accounting Policies and Estimates

The application of IFRS requires that Halogen make estimates that affect its reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements and the reported amounts of revenue and expenses during the period. Halogen bases its estimates on historical experience and on various other assumptions that Halogen believes to be reasonable in the circumstances. The Company evaluates its estimates and assumptions on an ongoing basis. Halogen's actual results may differ significantly from these estimates.

The significant accounting policies and estimates are discussed below:

Revenue

We report our revenue under three categories, namely, recurring revenue, professional services revenue and license revenue. Recurring revenue is derived primarily from annual subscription fees from customers using our talent management solution. Recurring revenue also includes maintenance, support and hosting charges from legacy perpetual license customers. Also included in recurring revenue are additional annual support and training services customers may purchase beyond the standard support that is included in the basic subscription fees. Professional services are comprised of one-time consulting services, including implementation services, conversion services, billable expenses, technical services and training. License revenue relates only to our legacy perpetual license customers who are purchasing additional licenses for software they have previously purchased.

The majority of our transactions relate to the rendering of services and, as such, we only recognize revenue when the following conditions are met:

1. The amount of revenue can be measured reliably;
2. It is probable that the economic benefits associated with the transaction will flow to the entity;
3. The stage of completion of the transaction at the end of the reporting period can be measured reliably; and
4. The costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

We sell our software and services on a stand-alone basis or as a multiple-element transaction with separately identifiable components, also known as a bundled transaction. Where we enter into an agreement involving a bundled transaction, we record each of the separate components at their relative fair value and recognize the revenue on an appropriate basis for each of the separate components. A delivered element is considered a separate unit of accounting if it has value to the customer on a stand-alone basis. We determine the fair value of each of the components sold based on the selling price when they are sold separately. When the fair value cannot be determined based on when it was sold separately, we determine a value that most reasonably reflects the selling price that might be achieved in a stand-alone transaction.

Recurring revenue

Recurring revenue involves the performance of an indeterminate number of acts over the contract period and, as a result, the revenue from these services is recognized ratably over the contract term. The contract term begins when the service is made available to the customer.

Professional services revenue

The majority of our professional services contracts are on a time and material basis. This revenue is recognized by the stage of completion of the arrangement as the services are rendered using the percentage of completion method or when the milestones are achieved. Training revenue is recognized as the services are performed. The services are separate units of accounting because they have stand-alone value to the customer and are sold separately by us.

License revenue

License revenue involves the delivery of perpetual licenses to our customers; therefore, once we have transferred the significant risks and rewards of ownership to the customer, we recognize the associated revenue.

Valuation of deferred income tax assets

As at March 31, 2015 and December 31, 2014, we have not recorded any of the potential deferred income tax asset totaling $14.3 million and $14.1 million, respectively. We only record a deferred income tax asset to the extent it is probable we will be able to utilize the components of the deferred tax asset to reduce taxes otherwise owing within a reasonable time frame. Due to the fact that the Company has a history of losses, we do not expect to record these deferred tax assets in the near future until we change our focus from growing market share to profitability.

Share-based compensation

We have a share-based compensation plan, which is described in Note 13 to the annual financial statements. We account for all share-based payments using the fair value-based method. We use a Black-Scholes option pricing model to determine fair value of share options at the grant date, electing to use the minimum value valuation model. This pricing model requires management to make highly subjective assumptions with respect to volatility, dividend yield, expected life and risk-free interest rate. Changes in the input assumptions can materially affect the fair value estimate and, therefore, the existing models do not necessarily provide a reliable measure of the fair value of our share options. Each part of an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense for each partial award is recorded on a straight-line basis over the vesting period based on the Company's estimate of share options that will ultimately vest. On exercise of share options, the related amount in reserves is transferred to share capital.

Controls and Procedures

Disclosure Controls and Procedures

The Company's CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures for the Company. The Company maintains a set of disclosure controls and procedures designed to provide reasonable assurance that information required to be publicly disclosed is recorded, processed, summarized and reported on a timely basis.

Internal Controls Over Financial Reporting

The Company's internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's management is responsible for establishing and maintaining adequate ICFR for the Company. Management, including the CEO and CFO, does not expect that the Company's ICFR will prevent or detect all errors and all fraud or will be effective under all future conditions. A control system is subject to inherent limitations and even those systems determined to be effective can provide only reasonable, but not absolute, assurance that the control objectives will be met with respect to financial statement preparation and presentation.

CSA National Instrument 52-109 requires the CEO and CFO to certify that they are responsible for establishing and maintaining ICFR for the Company and that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. The CEO and CFO are also responsible for disclosing any changes to the Company's internal controls during the most recent period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. There have been no changes in the Company's internal control over financial reporting during the period that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

Adoption of New Accounting Standards

There have been no significant changes in our accounting policies in the current year.

Future changes in accounting policies

The following is a list of standards and amendments that have been issued but not yet adopted by Halogen:

IFRS 9: Financial instruments

Issued in July 2014, IFRS 9, replaces IAS 39 Financial instruments: recognition and measurement ("IAS 39"). IFRS 9 simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications that were permitted under IAS 39. IFRS 9 also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 also adds guidance on the classification and measurement of financial liabilities and introduces a new hedge accounting model IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. We are in the process of assessing the impact of this standard on our financial statements.

IFRS 15: Revenue from Contracts with Customers

Issued in May 2014, IFRS 15 establishes principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The main principle of this standard is that an entity shall recognize revenue to depict the transfer of promised services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those services. Adoption of this IFRS is mandatory for annual reporting periods beginning on or after January 1, 2017, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its financial statements.

Outstanding Share Information

The Company has one class of shares consisting of an unlimited number of Class A common shares with no stated par value. Changes in the number of common shares and options outstanding are summarized as follows:

Class of Security	Number outstanding at December 31, 2014	Net issues, (grants, repurchases, cancelations, exercises) during the year	Number outstanding at March 31, 2015	Net issues, (grants, repurchases, cancelations, exercises) during the year	Number outstanding at May 7, 2015
Common shares	21,903,908	(12,166)	**21,891,742**	(54,343)	**21,837,399**
Stock options	1,295,387	148,766	**1,444,153**	-	**1,444,153**

On March 13, 2015 we commenced a normal course issuer bid ("NCIB") to be made in the open market through the facilities of the Toronto Stock Exchange ("TSX"). This NCIB allows us to repurchase 6,843 common shares on any trading day up to maximum of 600,000 common shares. As at March 31, 2015 we had repurchased and cancelled 13,400 common shares for total cash consideration of $92,000. From March 31, 2015 to May 7, 2015, we purchased and cancelled an additional 54,343 common shares for cash consideration of $397,000.

The Company's outstanding common shares decreased by 12,166 shares in the first quarter of 2015 as a result of the NCIB and partially offset by the exercise of 1,234 stock options. The Company's outstanding stock options increased by 149,000 stock options in the first three months of 2015 as a result of 150,000 options being granted less 1,234 options that were exercised.