Halogen Software Inc.
Management's Discussion and Analysis

For the fiscal years ended December 31, 2015, 2014 and 2013

The following has been prepared for the purpose of providing management's discussion and analysis ("MD&A") of the financial condition of Halogen Software Inc. ("Halogen" or the "Company") as at December 31, 2015 and 2014 and results of operations for the twelve month periods ended December 31, 2015, 2014 and 2013. This MD&A is based on the Company's 2015 consolidated 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 those consolidated 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 February 25, 2016. 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 and privacy of customer information;

- Risks related to partnerships and third party integrations;
- Risks related to international expansion;
- Risks related to adoption of talent management software solutions;
- 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 exchange rate fluctuations;
- Risks related to managing our growth;
- 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 and purchases of shares by existing shareholders; and
- Relatively low average daily trading volume.

Overview

We are a leading provider of cloud-based talent management (“TM”) solutions, primarily targeted at customers in the mid-market. Halogen understands that people matter most in any organization. They are an organization’s biggest investment, and can be a company’s biggest competitive differentiator. This is why organizations want to maximize the engagement, alignment and performance of their people, so that they can deliver exceptional outcomes. Our customers use Halogen’s suite of integrated TM products, best in class content, and proven services to make performance management “a part of” their unique business rhythm, and the heart of their talent strategy.

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 a comprehensive, integrated set of software modules that provide everything our customers need to “win with talent.” The breadth of the Halogen suite supports all the key pillars of talent management – performance management, learning and development, succession, compensation and recruiting - and allows our customers to choose the specific modules that will address their specific business needs, and add more modules as their needs grow.

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, 2015, 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 leverage the investments we have made to support profitable growth in each of our target geographies and market segments. 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 the investments we have made in our customer account sales and consulting programs will continue to have a positive impact on revenue from our existing customers.

We are continuing to expand our total addressable market via our existing modules, added functionality and best-in-class partner content within our current product suite, and strategic technology partnerships that expand or complement the capabilities of our solutions to address the changing needs of our market and customers.

On an opportunistic basis, we will also 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 December 31, 2015, 2014 and 2013:

	2015	2014	2013
	(thousands of dollars except per share amounts)		
Recurring revenue	**$ 59,529**	$ 50,771	$ 42,067
Total revenue	**65,692**	56,659	47,984
Gross margin	**48,480**	40,697	35,896
Expenses	**61,822**	56,197	42,418
Income (loss) from operations	**(13,342)**	(15,500)	(6,522)
Net income (loss)	**(13,475)**	(15,384)	(12,820)
Earnings (loss) per share	**(0.61)**	(0.71)	(0.71)
Adjusted EBITDA(1)	**(2,598)**	(8,705)	(2,453)
Adjusted EBITDA per share(1)	**(0.12)**	(0.40)	(0.14)
Total assets	**59,925**	69,075	74,913
Deferred revenue	**36,922**	32,836	27,031
Cash flow provided by (used in) operating activities	**(2,017)**	(4,739)	1,637

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

In 2015, Halogen recorded recurring revenue of $59.5 million, an increase of 17% over 2014 and total revenue of $65.7 million, an increase of 16% over last year. Recurring revenue represented 91% of total revenue in 2015 compared to 90% for the same period last year. Contributing to our growth in revenue was the addition of new customers 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.

Revenue in the United States and Canada in 2015 was $58.3 million, an increase of 15% from the $50.6 million recognized in 2014. Revenue from all other markets was $7.4 million, an increase of 21% from the $6.1 million recorded in 2014. The increase in revenue in all markets is the result of new customer billings and additional sales to our existing customers.

For 2015, we recorded a net loss of $13.5 million. Our net loss for 2015 improved by $1.9 million as compared to 2014. The year over year improvement in our net loss is primarily related to the increased revenue and cost savings as a result of the decline of the Canadian dollar in relation to the U.S dollar, partially offset by increases in spending and the foreign exchange losses. The foreign exchange losses of $6.3 million recorded in 2015 were principally a result of losses on our foreign exchange forward contracts used to hedge our current and future Canadian dollar expenses. We are expecting to continue to have operating losses in 2016; however, we are anticipating a positive Adjusted EBITDA in 2016 as we begin to balance growing recurring revenue with profitability. While we may be expecting a net loss for 2016, we are anticipating being cash flow positive from operating activities. We believe that cash flow from operations is a better indicator of our performance than net income given how we recognize our billings into revenue over time; therefore we believe our net income is a trailing indicator of our performance, while cash flow from operations is a more immediate indicator.

With the majority of our revenue in U.S. dollars and the majority of our expenses in Canadian dollars, our business is exposed to currency fluctuations. At December 31, 2015, the Canadian to U.S. dollar exchange was 0.72 compared to 0.86 at December 31, 2014, a 16% decline. Had the foreign exchange rate remained consistent with the average rate we experienced in 2014, our current year expenses would have been approximately $8.6 million higher. In 2015, our hedging instruments resulted in foreign exchange losses that significantly offset these cost savings as we have been required to show any fair value adjustments on our forward contracts directly in operating losses. In 2016, we plan to implement hedge accounting for our forward contracts which will allow us to defer any fair value adjustments until such time that the forward contracts mature. The gain or loss on the forward contracts will be recorded in the same period and in the same line of the Statement of Operations as the underlying transactions being hedged. As a result, it is expected that our foreign exchange gain or loss will be significantly smaller than in 2015.

Key Performance Indicators

We use a number of key performance indicators to assess the performance of our business including annual recurring revenue and dollar 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.

	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**	
Constant currency change during the year	**8,562**	
Closing ARR December 31, 2015	**64,551**	**15%**
Annual currency adjustment	**(1,211)**	
Adjusted opening ARR January 1, 2016	**$ 63,340**	

Dollar retention rate is a measure we use to assess our performance with the customer base over the course of a year. Dollar retention rate is calculated by taking the ARR of customers at the beginning of a twelve-month period and dividing it by the ARR for those same customers at the end of the period, on a constant currency basis. 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. Over the last twelve months our dollar retention rate was over 100%.

Revenue

The following is a breakdown of revenue into the significant types of revenue:

	2015	2014	2013	2014 to 2015 % change	2013 to 2014 % change
		(thousands of dollars)			
Recurring	**$ 59,529**	$ 50,771	$ 42,067	17 %	21 %
Professional services	**6,163**	5,828	5,245	6 %	11 %
License	**-**	60	672	(100)%	(91)%
Total revenue	**$ 65,692**	$ 56,659	$ 47,984	16 %	18 %

We recorded total revenue in 2015 of $65.7 million, an increase of 16% from 2014. Our total revenue in 2014 was $56.7 million, which was an increase of 18% over the previous year's revenue. 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 2015, recurring revenue was $59.5 million an increase of 17% compared to 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.

In 2014 recurring revenue grew from $42.1 million to $50.8 million, which represented an increase of 21%. Increases in recurring revenue have been driven by the addition of new customers over the last two years and additional seats and module sales to our existing customers. Contributing to the growth of recurring revenue was the new customer growth in our international markets, which includes Australia, Great Britain, Netherlands and the Middle East.

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 approximately as follows:

	Three-month period ended							
	Dec. 31, 2015	Sept. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	Jun. 30, 2014	Mar. 31, 2014
				(thousands of dollars)				
Revenue								
Recurring	**$ 15,300**	$ 14,915	$ 14,542	$ 14,272	$ 13,392	$ 12,791	$ 12,250	$ 11,738
License audit	**350**	-	50	100	200	-	50	350
Total	**$ 15,650**	$ 14,915	$ 14,592	$ 14,372	$ 13,592	$ 12,791	$ 12,300	$ 12,088

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 is normally held in the third quarter of the year and typically results in higher professional services revenue and cost of revenue in that quarter.

In 2015, professional services revenue was $6.2 million, an increase of 6% when compared to the same period last year. The increase in revenue is the result of increased service delivery and slightly higher sales volume.

In 2013 and 2014 professional services revenue had year over year increases of 6% and 11%, respectively. 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 2015 as compared to 2014. The majority of the license revenue in the previous year was the result of billing customers for licenses that we discovered they were using through our audit process. We anticipate license revenue will be $Nil in 2016.

Gross margin

	2015	2014	2013	2014 to 2015 % change	2013 to 2014 % change
		(thousands of dollars)			
Recurring	**$ 47,190**	$ 39,227	$ 33,725	20%	16%
Professional services	**1,290**	1,424	1,522	(9)%	(6)%
License	**-**	46	649	(100)%	(93)%
Gross margin	**$ 48,480**	$ 40,697	$ 35,896	19%	13%
Gross margin %	**74%**	72%	75%		

Gross margin takes into account the cost of our hosted 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.

In 2015 our gross margin as a percentage of revenue has improved from 72% to 74% when compared to 2014. As our cost of revenue is predominantly 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. Had the foreign exchange rate remained consistent with the average rate we experienced in 2014, our current year expenses would have been approximately $1.8 million higher. The increase in total reported expenses in this area has been partially offset by the impact of foreign exchange and the increase in our revenues, which resulted in our gross margin percentage improving over last year. 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 annual margins to remain at approximately the same levels as in 2015.

Our overall gross margin as a percentage of revenue was down 3 percentage points when comparing 2014 with 2013. The margin decreased in 2014 as a result of investments to increase our service capacity. In 2014 we increased our head count by approximately 40% in our service departments, including our support, continuous advancement consulting and training. Additionally, in the third quarter of 2014 we established a new on-demand environment based in Toronto, Canada. This new on-demand environment is expected to provide greater speed and scalability on a refreshed technology platform for our current and future customers but resulted in higher costs in 2014 as we transitioned to our new technology environment. Another contributing factor to the decrease in our gross margin in 2014 was the planned drop in our license revenue when comparing 2014 with 2013. License revenue has been a traditionally high margin revenue source for us; however, our transition to a subscription revenue model meant that this revenue stream would diminish.

Sales and marketing

	2015	2014	2013	2014 to 2015 % change	2013 to 2014 % change
		(thousands of dollars)			
Sales and marketing	**$ 33,086**	$ 30,330	$ 22,248	9%	36%
As a percentage of revenue	**50%**	54%	46%		

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 the contract has occurred. Sales and marketing expenses also include marketing program expenses and allocated overhead. Marketing programs consist of advertising, events, corporate communications, brand building and product marketing activities.

Sales and marketing expenses were $33.1 million in 2015, an increase of 9% from the same period in 2014. Driving the increase in reported expenses was increased marketing program spending and slightly higher headcount costs. The increases in our spending have been partially offset by the change in currency rates. Had the foreign exchange rate remained consistent with the average rate we experienced in 2014, our current year expenses would have been approximately $3.0 million higher.

Sales and marketing expenses were $30.3 million in 2014, an increase of 36% over 2013. Driving the increase in spending was the expansion of our sales force both internationally and domestically in 2014. In 2014, we increased the headcount of our quota carrying sales force by over 55%.

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 yet we expect them to be in the mid-to-high 40’s as a percent of total revenue in 2016, assuming that the Canadian to U.S. dollar exchange rate remains at current rates.

Research and development ("R&D")

	2015	2014	2013	2014 to 2015 % change	2013 to 2014 % change
		(thousands of dollars)			
R&D – gross	**$ 12,750**	$ 12,233	$ 10,900	4%	12%
Less: SR&ED tax credit	**-**	(42)	(945)	(100)%	(96)%
R&D – net	**$ 12,750**	$ 12,191	$ 9,955	5%	22%
As a percentage of revenue	**19%**	22%	21%		

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

R&D expenses in 2015 were $12.8 million, an increase of 5% when compared to the same period last year. Consistent with our discussions above, the majority of the expenses in this area are denominated in Canadian dollars and as a result, we are seeing reported expenses decrease, which is more than offset by additional year over year spending. Had the foreign exchange rate remained consistent with the average rate we experienced in 2014, our current year expenses would have been approximately $1.7 million higher. The higher expenses in R&D is the result of increased headcount over the past two years as a result of our effort to expand our product portfolio and introduce new features into our existing products.

In May 2013, as a result of our initial public offering, we lost the majority of the refundable Scientific Research & Experimental Development ("SR&ED") tax credit which was reducing our net R&D costs. The loss of this tax credit and an increase in headcount were the primary reasons for the 22% increase in spending when comparing 2014 to 2013. 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 expanded our development workforce outside of the Ottawa area in order to broaden our talent base.

R&D expenses as a percentage of revenue has decreased from 22% in 2014 to 19% in 2015. We anticipate costs in this area to be approximately 17% to 19% of revenue in 2016 assuming that the Canadian to U.S. dollar exchange rate remains at current rates.

General and administrative

	2015	2014	2013	2014 to 2015 % change	2013 to 2014 % change
		(thousands of dollars)			
General and administrative	**$ 9,660**	$ 10,934	$ 8,825	(12)%	24%
As a percentage of revenue	**15%**	19%	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 $9.7 million in 2015, which was 12% lower than in 2014. The decline of the Canadian dollar in relation to the U.S. dollar resulted in reported expenses decreasing when comparing 2015 and 2014. Had the foreign exchange rate remained consistent with the average rate we experienced in 2014, our current year expenses would have been approximately $2.1 million higher.

General and administrative costs were $10.9 million in 2014, which was 24%, higher than in 2013. The increased expenses was due primarily to increased headcount, consulting costs and other administrative costs in order to support the growth in the rest of our business. Beginning in 2014, we have been reexamining our sales and use tax position in various state jurisdictions of the United States; the work to date has resulted in us recording approximately $300,000 of expense in 2014 related to unremitted taxes.

General and administrative costs were 15% of revenue in 2015 as compared to 19% in 2014 and 18% in 2013. The improvement has been the result of higher revenues and the positive impact on expenses of the weakening Canadian dollar. The Company expects general and administrative costs to increase in absolute dollars in 2016 but to remain at approximately 15% to 17% of revenue through 2016 assuming that the Canadian to U.S. dollar exchange rate remains at current rates.

Operating income (loss) and Net income (loss)

	2015	2014	2013	2014 to 2015 % change	2013 to 2014 % change
		(thousands of dollars)			
Operating income (loss)	**$ (13,342)**	$ (15,500)	$ (6,522)	(14)%	(138)%
Net income (loss)	**$ (13,475)**	$ (15,384)	$ (12,820)	(12)%	(20)%

In 2015 we continued to allow our spending to outpace our revenue in order to grow revenue and market share as we were not focused primarily on profitability. The strengthening U.S. dollar throughout 2015 resulted in significantly lower recorded expenses despite our increased spending; however, we recorded a significant foreign exchange loss due to the forward contracts we hold to hedge this exposure. The result is that we incurred an operating loss of $13.3 million and a net loss of $13.5 million, an improvement of 14% and 12% compared to 2014, respectively. In 2016, we will be implementing hedge accounting on our currency forward contracts, which will defer the amount of foreign exchange gains or losses we show on our consolidated statement of operations, since fair value adjustments on the forward contracts will be deferred until the hedging instrument matures. In accordance with hedge accounting rules, the gain or loss on forward contracts will be recorded in the same period and on the same line of the Statement of Operations as the item being hedged. As a result, we expect the foreign exchange gain or loss showing on the 2016 Statement of Operations to be significantly smaller than in 2015.

In 2014, we incurred an operating loss and net loss due to the focus on investing in the business to grow revenue and market share and not profitability. Our operating loss was $15.5 million in 2014 compared to a loss of $6.5 million in 2013 and our net loss was $15.4 million compared to $12.8 million in 2013. The increase in 2014 as compared to 2013 is due to the increase in expenses discussed above.

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)

	2015	2014	2013	2014 to 2015 % change	2013 to 2014 % change
	(thousands of dollars except per share amounts)				
Net income (loss)	**$ (13,475)**	$ (15,384)	$ (12,820)	(12)%	20%
Loss related to change in fair market value of redeemable preferred shares	**-**	-	6,434	-	(100)%
Interest (income) expense and other, net	**(81)**	(229)	(210)	(65)%	9%
Foreign Exchange (gain) loss	**6,326**	2,742	1,390	131%	97%
Income tax expense	**214**	113	74	89%	53%
Depreciation and amortization	**3,961**	3,314	2,281	20%	45%
Share-based compensation	**457**	739	398	(38)%	86%
Adjusted EBITDA	**$ (2,598)**	$ (8,705)	$ (2,453)	(70)%	255%
Adjusted EBITDA per share	**$ (0.12)**	$ (0.40)	$ (0.14)	(70)%	186%

Adjusted EBITDA has improved in 2015 when compared to 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 from 0.86 to 0.72 over the last twelve months. The increase in revenue and the change in exchange rates has offset the year over year expenditure increases we have made, which helped to improve our Adjusted EBITDA. We expect to have a positive Adjusted EBITDA for 2016 assuming the U.S to Canadian exchange rate remains approximately 0.72 cents in 2016.

Key Balance Sheet Items

		As at December 31, 2015		As at December 31, 2014
		(thousands of dollars)		
Total Assets	**$**	**59,925**	$	69,075
Total Liabilities		**48,386**		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 December 31, 2015		As at December 31, 2014
		(thousands of dollars)		
Trade and other receivables (net)	**$**	**12,458**	$	12,386
Days sales outstanding ("DSO")		**54 days**		58 days

As at December 31, 2015, our trade receivables balance was $12.5 million, which was up 1% from the prior year. The change in trade receivables is mainly attributable to growth in our business over the last year, partially offset by slightly better collections in the year.

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 December 31, 2015	As at December 31, 2014
	(thousands of dollars)	
Deferred revenue	**$ 36,922**	$ 32,836

As at December 31, 2015 we had $36.9 million of deferred revenue, which was up 12% from the December 31, 2014 balance of $32.8 million. The increase was mainly attributed to the new business generated in the last twelve months. Impacting the growth in our deferred revenue has been the appreciation of the U.S. dollar in relation to other currencies we bill our customers, mainly the Canadian dollar. The result of this appreciation is that we record lower U.S. dollar billings from these customers. Had the foreign exchange rate remained consistent with the average rate we experienced in 2014, our deferred revenue balance would have been approximately $0.6 million higher resulting in a 14% increase year over year. 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 December 31, 2015, we had received approximately same amount of prepayments as compared to the same time last year at approximately $600,000. Since the amount of prepayments may not be 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 December 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							
	Dec. 31, 2015	Sep. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	Jun. 30, 2014	Mar. 31, 2014
	(thousands of dollars except per share amounts)							
Revenue								
Recurring	**$ 15,650**	$ 14,951	$ 14,592	$ 14,372	$ 13,592	$ 12,791	$ 12,300	$ 12,088
Professional service	**1,504**	1,643	1,480	1,536	1,498	1,619	1,329	1,382
License	**-**	-	-	-	-	-	-	60
Total revenue	**17,154**	16,558	16,072	15,908	15,090	14,410	13,629	13,530
Gross margin	**12,895**	12,195	11,599	11,791	10,746	9,891	9,849	10,211
Expenses excluding fx	**14,342**	13,601	14,348	13,205	14,490	13,486	13,319	12,160
Foreign exchange (gain) loss	**1,144**	2,407	(539)	3,314	1,134	1,407	(868)	1,069
Income (loss) from operations	**(2,591)**	(3,813)	(2,210)	(4,728)	(4,878)	(5,002)	(2,602)	(3,018)
Net income (loss)	**(2,632)**	(3,838)	(2,280)	(4,725)	(4,871)	(4,986)	(2,571)	(2,956)
Earnings (loss) per share*	**(0.12)**	(0.17)	(0.10)	(0.22)	(0.22)	(0.23)	(0.12)	(0.14)

** Number of shares in the earnings per share calculation has been adjusted for the share consolidation in all periods presented.*

With the decline in value of the Canadian dollar in relation to the U.S. dollar in 2015 we have seen cost savings in our expenses, which are offsetting some of the increases we made in our investments in the business. We expect our expenses excluding fx to modestly 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.

We have recorded losses in each of the last eight quarters and anticipate having losses through 2016 as we continue to make investments to grow our business with a focus on growth in revenue and market share. While we anticipate net losses in 2016, we are focused on reducing these losses over time.

Liquidity and capital resources

	As at December 31, 2015	As at December 31, 2014
	(thousands of dollars)	
Total cash, cash equivalents and investments	**$ 36,133**	$ 44,247

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 and 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 December 31, 2015, the Company had cash totaling $36.1 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:

	2015	2014	2013
		(thousands of dollars)	
Operating activities	**$ (2,017)**	$ (4,739)	$ 1,637
Investing activities	**(3,176)**	11,854	(19,261)
Financing activities	**(1,900)**	167	51,889
Effect of exchange rates on cash and cash equivalents	**(1,021)**	(440)	(543)
Increase (decrease) in cash and cash equivalents	**(8,114)**	6,842	33,722
Beginning cash and cash equivalents	**44,247**	37,405	3,683
Ending cash and cash equivalents	**$ 36,133**	$ 44,247	$ 37,405

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, depreciation and amortization, and changes in non-cash working capital items, was $2.0 million in 2015 (2014 – cash used of $4.7 million). The year over year improvement in our cash used from operations is the result of increased revenues and the favourable impact of foreign currency translation on our Canadian denominated expenses, partially offset by increased spending when compared to the prior year.

In 2014, the main item driving an increased use of cash from operations compared with 2013 was our net loss incurred in the year resulting from increased headcount and spending.

Cash provided by (used in) investing activities

Cash used in investment activities was $3.2 million in 2015, which consisted primarily of the purchase of equipment and software for internal usage.

Cash provided by investment activities was $11.9 million in 2014. The proceeds were the result of the maturity of investments in the period, partially offset by the purchase of equipment and software. Capital purchases consisted mainly of hardware and software for internal use and in our on-demand environment.

Cash provided by (used in) financing activities

Cash used in financing activities in 2015 is the result of the repurchase of common shares through a normal course issuer bid offset by new shares issued through the exercise of options.

Cash provided by financing activities in 2014, consisted of the proceeds received from the exercise of stock options partially offset by the repayment of long-term debt. As of the end of 2014, we had no long-term debt on our balance sheet.

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 include 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%. 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 2016, we expect our cash balance to decrease modestly as we continue to fund the growth in our business but at a lower rate than in 2015.

Contractual obligations

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

	December 31, 2015	December 31, 2014
	(thousands of dollars)	
Less than 1 year	**$ 2,779**	$ 3,956
1 year to 5 years	**3,713**	10,204
More than 5 years	**—**	—
	$ 6,492	$ 14,160

We lease approximately 110,000 square feet of office space in five 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 2015, 2014 or 2013 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 December 31, 2015. As the majority of our revenue is amortized into income over a period of time, the impact on our operating results is low as any uncollectible amounts tend to affect trade receivables and deferred revenue as opposed to revenue.

Foreign exchange risk

Our presentation and functional currency is U.S. dollars and all of the amounts in this management discussion and analysis are in U.S. dollars unless otherwise indicated. We derive most of our revenue from customers who pay in U.S. 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 fiscal 2015, we have recorded a foreign exchange loss of $6.3 million (2014 – loss of $2.7 million, 2013 – loss of $1.4 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 0.8599 to 0.7225 between December 31, 2014 and December 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, these amounts are less than the loss on the foreign exchange forward contracts and Canadian dollar denominated cash held. In 2016 we will be adopting hedge accounting for our foreign exchange forward contracts which will allow us to defer any fair value adjustments to when the hedging instrument matures as opposed to recognizing the expense immediately into income. The adoption of this accounting approach should result in lower foreign exchange gains or losses on a quarterly basis and less volatility in the Net Loss.

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.

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 December 31, 2015, we have not recorded any of the potential deferred income tax asset totaling $13.8 million. 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 become profitable.

Share-based compensation

We have a share-based compensation plan, which is described in Note 12 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. The CEO and CFO have evaluated the Company's disclosure controls and procedures as of February 25, 2016 and have determined that such disclosure controls and procedures are effective.

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. The Company's management, under the supervision of the CEO and CFO, has evaluated the effectiveness of the Company's ICFR based on the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As at February 25, 2016, management assessed the effectiveness of the Company's ICFR and concluded that such ICFR is effective and that there are no material weaknesses in the Company's ICFR that have been identified by management. There have been no changes in the Company's internal control over financial reporting that occurred 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:

<u>IFRS 9: Financial instruments</u>

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, 2018, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its financial statements.

IFRS 16: Leases

Issued in January 2016, IFRS 16 Introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This IFRS, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2019, 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, options and performance and restricted share units ("PRSU") outstanding are summarized as follows:

Class of Security	Number outstanding at December 31, 2014	Net issues, (grants, repurchases, cancelations, exercises) during the period	Number outstanding at December 31, 2015	Net issues, (grants, repurchases, cancelations, exercises) during the period	Number outstanding at February 25, 2016
Common shares	21,903,908	(23,966)	**21,879,942**	(64,267)	**21,815,675**
Stock options	1,295,387	268,688	**1,564,075**	(30,899)	**1,533,176**
PRSUs	-	176,000	**176,000**	(2,000)	**174,000**

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 December 31, 2015 we had repurchased and cancelled 376,743 common shares for total cash consideration of U.S. $2.4 million.

The Company's outstanding common shares decreased by 23,966 shares in 2015 as a result of the exercise of 307,777 stock options and 45,000 RSUs, offset by the shares purchased as part of the NCIB. The Company's outstanding stock options increased by 268,688 stock options in 2015 as a result of 1,023,500 million options being granted less the 307,777 options that were exercised and 447,035 options being forfeited.

In June 2015, the shareholders of the Company approved an increase in the aggregate number of share options that may be issued under the 2009 Share Option Plan by 1,600,000 options. As at December 31, 2015 there are 1,193,795 options available for issuance under the 2009 plan.

Also in June 2015, the shareholders of the Company approved the creation of a new PRSU plan. Under the PRSU plan a maximum of 400,000 common shares are available for issuance as either performance based share units or restricted share units. Share units may be awarded to any director, officer or employee of the Company or its affiliates. Each performance share unit will vest on the date or dates designated for that unit, conditional on any vesting conditions being met. Participants in PRSU plan may elect to redeem their share units either by the corporation issuing the participant one common share for each whole vested share unit or, subject to the consent by the Company, elect to receive an amount in cash. The cash amount is equal to the number of vested share units to be redeemed multiplied by the fair market value of the common shares otherwise issuable on redemption of the share units.

In 2015 there were 205,000 share units granted under the PRSU plan, leaving an outstanding and unissued pool of 195,000.