Annual Report 2015

HALOGEN SOFTWARE

Strategic Talent Management

Be Brilliant.

Win with Talent

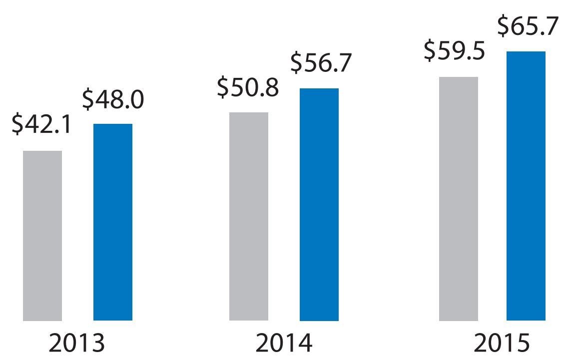
We understand that people matter most in any organization. Talent is the biggest expense and greatest source of competitive advantage for mid-enterprise companies. Our vision is to help our customers *win with talent*. We're delivering on this vision with solutions that support the engagement, alignment and performance of their people. With Halogen, they can align their talent strategy to their organizational strategy, and achieve the outcomes that matter to their business.

Financial highlights

Revenue

↑ 17% **Recurring Revenue Growth** 2014-2015

↑ 16% **Total Revenue Growth** 2014-2015



Annualized Recurring Revenue (ARR)

15% **Constant Currency ARR Growth** 2014-2015

ARR is a measure of the predictable and recurring elements of our contracts with customers that are in effect at the reporting date.

It 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.

Dollar Retention Rate

>100%

We are proud of our consistent strong dollar retention rate, and we remain heavily focused on driving successful business outcomes for our customers and deeper adoption within our customer base. In 2015, our dollar retention rate remained over 100%[1].

[1] Calculated by taking the annualized recurring revenue of customers at the beginning of a twelve-month period and dividing it into annualized recurring revenue for those same customers at the end of the period

Total Customers

2,150

At year-end 2015, we had approximately 2,150 customers and no one individual customer represents more than 2% of ARR. We believe we have one of the largest customer bases in the talent management marketplace, and we remain intensely focused on expanding our strong market position.

Chairman's Letter

Dear Shareholders,

2015 was a year of transformation for Halogen. From board additions, to leadership transitions, to go-to-market shifts, the company underwent significant changes that will set the course for our next phase of growth.

In early 2015 we added two new directors to our board: Les Rechan and Deborah Besemer, two industry software veterans with long track records of experience in global enterprise software and talent management solutions, respectively. We will continue to focus on a high performance board over the longer term.

In July 2015, Paul Loucks stepped down as CEO after 15 years with Halogen. Paul was instrumental in establishing the company early on in the talent management space and I would like to personally thank Paul for all of his efforts over the last several years.

One of the board's key "jobs" is CEO transition and with Paul's departure the board conducted a full executive search for a new CEO. During our CEO transition Les stepped in as interim CEO. In the subsequent months during our executive search, it soon became obvious that Les was the ideal candidate to take Halogen through its next phase of growth, as our permanent CEO. We are fortunate to have an Ottawa based, experienced software veteran like Les to lead the company going forward.

Les and the leadership team have done an excellent job in refining Halogen's strategic focus and pillars for future success. The board is pleased to see the strong inroads we've made in executing this strategy in the latter half of 2015, so that we can continue to grow our position as the leader for talent management in the mid-enterprise. We remain confident that this represents a tremendous, long-term market opportunity for Halogen, and that we're well-poised to capitalize on it.

Halogen has entered 2016 with strong momentum and a renewed focus on driving the future of performance-led talent management, building a strong partner ecosystem, and strengthening customer outcomes. These initiatives are part of our roadmap to profitable growth, and we believe they position us for long-term success.   As I mentioned in my letter from last year's Annual Report, the board and management take a longer term view on our strategic investments and plans, which we feel will ultimately create significant shareholder value.

I want to thank our Board of Directors for their time and effort during 2015, and in particular during our CEO transition. This was an important time for our Board and all of the Directors made themselves both available and focused on the task at hand.

I want to thank the leadership team for their collaboration with the board throughout 2015; the entire Halogen team for their ongoing commitment to making the company and our customers successful; and of course, to you, our shareholders for your continued support.

Sincerely,

Michael Slaunwhite
Executive Chairman

CEO’s Letter

Dear Shareholders,

Fiscal 2015 was a year of great change and solid momentum for Halogen. When I joined the Halogen team, both as a board member and then as CEO midway through the year, I saw before us tremendous opportunity to build on our market position as a leader in talent management for the mid-enterprise. In 2015, we implemented several new go-to-market initiatives and made other strategic investments across our business targeted at improving our ability to capitalize on the significant global market for SaaS talent management solutions. At the same time, we increased our focus on driving greater efficiencies and optimization in our business in order to establish a platform for long-term profitable growth. I am pleased with the progress we have made in 2015, reflecting an unyielding focus by the entire Halogen team on strategic and tactical execution. As we look to 2016 and beyond, we remain committed to executing our growth plan, and delivering increased return on our shareholders’ investment.

Our financial performance for fiscal 2015 was marked by steady revenue growth, strong customer dollar renewal and a clearer path to profitability. In fiscal 2015, we recorded total revenue of $65.7 million, up 16% over 2014 (up 18% on a constant currency basis), and recurring revenue of $59.5 million up 17% over 2014. We were pleased with the strong dollar retention – of greater than 100% – that we were able to consistently achieve, which is a testament to our commitment to providing the highest levels of customer value and support. Our gross margin in 2015 was 74% of total revenue, compared with 72% of revenue in fiscal year 2014.

In 2015, the team implemented new go-to-market initiatives to create greater regional and functional alignment, to set us up for improved success in 2016, including:

- Programs to improve sales productivity, regional and global go-to-market alignment, and customer and product success.
- A refined product strategy with a more focused investment in our next-generation performance management capabilities, which are at the heart of our talent management offerings, and strengthening our platform capabilities for improved integration.
- Enhancing the value we deliver to our customers through a stronger partner ecosystem that helps us address their changing needs more quickly – including better integration with their systems or record, and more robust talent acquisition capabilities.
- Defining customer value in terms of the outcomes that matter most to our customers, and improving our customer engagement and service delivery model, to build profitable growth.

We also increased investment in our sales and marketing capabilities to expand new customer acquisition and drive upsell growth.

We saw some initial success from these initiatives; however, in the second half of the year, we needed to focus on improving our execution in our regional go-to-market model in order to achieve our growth objectives. As with any execution strategy, we made some subsequent adjustments to increase our performance, and closed the year with a stronger foundation for improved future growth. At the same time, we continued to carefully review all of our investments with a specific focus on prioritizing and aligning them in order to drive profitable growth for our business.

While we implemented our new go-to-market and strategy refinements, our commitment to our customers, to next-generation product and solution leadership and to our employees was unwavering. I am particularly proud of the recognition we garnered from the industry for our product and customer satisfaction leadership, as well as wide recognition as a leader for progressive talent management practices within our own organization, and as a top employer in Canada.

I am thankful and honoured to work alongside such an incredible group of dedicated employees, who are passionate about what we do for our customers each and every day. My deepest thanks to our team for their commitment to Halogen, to our customers and to each other; to our board of directors for their collaboration and guidance throughout the year; and to our investor community for your continued support, as we transform Halogen and our customers along a successful ongoing, next-generation, performance management journey in 2016 and beyond.

Sincerely,

Les Rechan
President and CEO

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Management's Discussion & 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

<u>Limitations on the use of non-IFRS financial measures</u>

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.

<u>Reconciliation to IFRS net income (loss)</u>

	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.

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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.

<u>Recurring revenue</u>

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.

<u>Professional services revenue</u>

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.

<u>License revenue</u>

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.

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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.

Consolidated Financial Statements

Years ended December 31, 2015, 2014 and 2013
(in United States dollars)

Deloitte LLP
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Independent Auditor's Report

To the Shareholders of Halogen Software Inc.

We have audited the accompanying consolidated financial statements of Halogen Software Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, and the consolidated statements of operations and comprehensive income (loss), consolidated statements of changes in shareholders' equity (deficiency) and consolidated statements of cash flows for the years ended December 31, 2015, December 31, 2014 and December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Halogen Software Inc. as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years ended December 31, 2015, December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards.

/s/ Deloitte LLP

Chartered Professional Accountants,
Licensed Public Accountants

Ottawa, Canada
February 25, 2016

HALOGEN SOFTWARE INC.

Consolidated Statements of Operations and Comprehensive Income (Loss)
Years ended December 31, 2015, 2014 and 2013
(in United States dollars, tabular amounts in thousands, except share and per share data)

	Notes	2015	2014	2013
Revenue				
Recurring		**$ 59,529**	$ 50,771	$ 42,067
Professional services		**6,163**	5,828	5,245
License		**-**	60	672
		65,692	56,659	47,984
Cost of revenue				
Recurring		**12,339**	11,544	8,342
Professional services		**4,873**	4,404	3,723
License		**-**	14	23
	16	**17,212**	15,962	12,088
Gross margin		**48,480**	40,697	35,896
Expenses				
Sales and marketing	16	**33,086**	30,330	22,248
Research and development	16	**12,750**	12,191	9,955
General and administrative	16	**9,660**	10,934	8,825
Foreign exchange (gain) loss	15	**6,326**	2,742	1,390
		61,822	56,197	42,418
Operating income (loss)		**(13,342)**	(15,500)	(6,522)
Loss related to change in fair value of redeemable preferred shares	11	**-**	-	(6,434)
Interest and other income		**81**	229	217
Interest expense		**-**	-	(7)
Income (loss) before income taxes		**(13,261)**	(15,271)	(12,746)
Income tax expense (recovery)	23	**214**	113	74
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)		**$ (13,475)**	$ (15,384)	$ (12,820)
Basic and diluted earnings (loss) per share	14	**$ (0.61)**	$ (0.71)	$ (0.71)
Weighted average number of basic and diluted common shares outstanding	14	**22,002,999**	21,799,313	18,064,447

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

HALOGEN SOFTWARE INC.
Consolidated Statements of Changes in Shareholders' Equity
Years ended December 31, 2015, 2014 and 2013
(in United States dollars, tabular amounts in thousands)

	Notes	Share capital	Share compensation reserve	Retained earnings (deficit)	Total shareholders' equity (deficiency)
Balance, December 31, 2012		$ 2,301	$ 418	$ (48,902)	$ (46,183)
Conversion of class B preferred shares to common shares	11	47,430	-	-	47,430
Issuance of common shares upon public offering	11	56,893	-	-	56,893
Share issuance costs	11	(4,935)	-	-	(4,935)
Reduction of stated share capital	11	(32,314)	-	32,314	-
Share-based compensation	12	-	398	-	398
Share options exercised	12	137	(38)	-	99
Net income (loss)		-	-	(12,820)	(12,820)
Balance, December 31, 2013		69,512	778	(29,408)	40,882
Share options exercised	12	294	(74)	-	220
Share-based compensation	12	-	739	-	739
Net income (loss)		-	-	(15,384)	(15,384)
Balance, December 31, 2014		69,806	1,443	(44,792)	26,457
Share options exercised	12	**1,054**	**(570)**	**-**	**484**
Share-based compensation	12	**-**	**457**	**-**	**457**
Repurchase of common shares	11	**(1,197)**	**-**	**(1,187)**	**(2,384)**
Net income (loss)		**-**	**-**	**(13,475)**	**(13,475)**
Balance, December 31, 2015		**$ 69,663**	**$ 1,330**	**$(59,454)**	**$ 11,539**

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

HALOGEN SOFTWARE INC.

Consolidated Statements of Financial Position
As at December 31, 2015 and 2014
(in United States dollars, tabular amounts in thousands)

	Notes	**2015**	2014
ASSETS			
Current assets			
Cash and cash equivalents		**$ 36,133**	$ 44,247
Trade receivables (net)	5	**12,458**	12,386
Prepaid expenses		**1,912**	2,234
		50,503	58,867
Non-current assets			
Property and equipment	6	**6,806**	7,995
Intangible assets	7	**2,287**	1,982
Other long-term assets		**329**	231
		$ 59,925	$ 69,075
LIABILITIES			
Current liabilities			
Trade payables and accrued liabilities	8	**$ 8,204**	$ 7,793
Derivative liabilities	15	**2,632**	1,025
Deferred revenue		**36,922**	32,836
Deferred leasehold inducement		**339**	341
		48,097	41,995
Non-current liabilities			
Deferred leasehold inducement		**289**	623
		48,386	42,618
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	11	**69,663**	69,806
Share compensation reserve	13	**1,330**	1,443
Retained earnings (deficit)		**(59,454)**	(44,792)
		11,539	26,457
		$ 59,925	$ 69,075

Approved by the Board of Directors

/s/ Michael Slaunwhite Director /s/ Timothy Williams Director

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

HALOGEN SOFTWARE INC.
Consolidated Statements of Cash Flows
Years ended December 31, 2015, 2014 and 2013
(in United States dollars, tabular amounts in thousands)

	Notes	**2015**	2014	2013
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net income (loss)		**$ (13,475)**	$ (15,384)	$ (12,820)
Items not affecting cash:				
Depreciation and amortization	6,7	**3,961**	3,314	2,281
Loss related to change in fair value of redeemable preferred shares	10	**-**	-	6,434
Share-based compensation	12	**457**	739	398
Unrealized foreign exchange (gain) loss		**2,655**	2,232	1,084
Deferred leasehold inducement		**(334)**	377	176
Net changes in non-cash items	21	**4,719**	3,983	4,084
		(2,017)	(4,739)	1,637
INVESTING ACTIVITIES				
Purchase of property and equipment	6	**(1,877)**	(4,753)	(4,297)
Purchase of intangible assets	7	**(1,200)**	(908)	(1,120)
Change in other long-term assets		**(99)**	(231)	-
Maturity of investments		**3**	17,952	9,600
Purchase of investments		**(3)**	(206)	(23,444)
		(3,176)	11,854	(19,261)
FINANCING ACTIVITIES				
Issuance of share capital	11	**484**	220	56,992
Share issuance costs	11	**-**	-	(4,935)
Repayment of long-term debt	9	**-**	(53)	(168)
Repurchase of common shares	11	**(2,384)**	-	-
		(1,900)	167	51,889
Effect of exchange rate changes on cash and cash equivalents		**(1,021)**	(440)	(543)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(8,114)**	6,842	33,722
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**44,247**	37,405	3,683
CASH AND CASH EQUIVALENTS, END OF YEAR		**$ 36,133**	$ 44,247	$ 37,405
Cash and cash equivalents consist of:				
Cash		**$ 4,972**	$ 2,213	$ 5,213
Cash equivalents		**31,161**	42,034	32,192
Total		**$ 36,133**	$ 44,247	$ 37,405

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

1. CORPORATE INFORMATION

Halogen Software Inc. (the "Company") is incorporated and domiciled in Ontario, Canada. The registered office is located at 495 March Road, Suite 100, Ottawa, Ontario Canada.

The Company was incorporated on January 9, 1996 under the laws of the Province of Ontario, Canada. The Company develops, markets and sells SaaS-based talent management software solutions and provides associated services.

On May 17, 2013, the Company completed an initial public offering ("IPO") and its shares began trading on the Toronto Stock Exchange under the symbol "HGN".

2. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements ("financial statements") of the Company were authorized for issue in accordance with a resolution of the board of directors on February 25, 2016.

3. BASIS OF PREPARATION

These financial statements have been prepared on a historical cost basis except for certain financial instruments measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principle accounting policies are set out in Note 4.

Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Presentation currency

All amounts presented in these financial statements are in United States dollars ("USD") unless otherwise stated. Tabular amounts are presented in thousands of USD.

Basis of consolidation

The financial statements include the accounts of the Company and its wholly owned subsidiaries. Subsidiaries are fully consolidated from the date of incorporation or acquisition. The acquisition date is the date on which the Company obtains control and the acquired company continues to be consolidated until the date that such control ceases. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. All intercompany transactions, balances, revenues and expenses between the Company and its subsidiaries have been eliminated.

Changes to standards and interpretations

IFRS 9: Financial Instruments

Issued in July 2014, IFRS 9 replaces IAS 39 *Financial Instruments: recognition and measurement* ("IAS 39"). This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard 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. The standard also adds guidance on the classification and measurement of financial liabilities and introduces a new hedge accounting model. This IFRS, which is to be applied retrospectively, is effective for annual 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 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 at 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.

4. SIGNIFICANT ACCOUNTING POLICIES

Revenue recognition

The Company reports its revenues under three categories namely, recurring revenue, professional services revenue and license revenue. Recurring revenues are derived primarily from annual subscription fees from customers using its talent management solutions. Also included in recurring revenue is additional annual support and training services customers may purchase beyond the standard support that is included in the basic subscription fees as well as maintenance, support and hosting charges from legacy perpetual license customers.. Professional services are comprised of one-time consulting services, including implementation services, technical services and training. License revenue relates only to the Company's legacy perpetual license customers who are purchasing additional licenses for software they have previously purchased.

The majority of the Company's transactions relate to the rendering of services and as such, the Company only recognizes 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.

The Company sells its 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 the Company enters into an agreement involving a bundled transaction, the Company records each of the separate components at their relative fair value and recognizes 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. The Company determines 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, the Company determines a value that most reasonably reflects the selling price that might be achieved in a stand-alone transaction.

Recurring

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

The majority of the Company's professional services contracts are on a time and material basis. These revenues are 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 revenues are 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 the Company.

License

License revenue involves the delivery of perpetual licenses to the Company's customers. Therefore once the Company has transferred the significant risks and rewards of ownership to the customer, the Company recognizes the associated revenue.

Critical judgements in applying accounting policies

The preparation of financial statements in accordance with IFRS requires the Company's management to make judgments, estimates and assumptions. These judgments, estimates and assumptions affect the reported amounts of assets, liabilities, revenue, expenses and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented.

Estimates are used for, but not limited to, the determination of the value of redeemable preferred shares, recognition of deferred tax assets, provision related to United States sales and use tax, allowance for doubtful accounts and the valuation of share based-payments. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Actual results could differ from those estimates.

Redeemable preferred share fair value

The fair market value of the preferred shares can be derived from valuation reports prepared by management to arrive at a value for the Company. The fair value of the redeemable preferred shares is then inferred from the valuation through the use of an option pricing model which considers the legal rights of all security classes and the respective claims of each security class on the value of the Company.

Income taxes

The recognition of deferred tax assets requires the Company to perform an evaluation of the nature and the amount of deferred income tax assets related to deductible temporary or taxable temporary differences and their carry-forward period, the Company's recent earnings history, the Company's cumulative profit or loss in recent years and the Company's forecast of sufficient future earnings. As described in Note 23, the Company has not recorded a deferred tax asset at this time.

Provision related to United States sales and use tax

The Company has provisions related to uncollected and unremitted United States sales and use tax. The liability is an estimate based upon a number of assumptions and the Company's assessment as to the expected outcome related to this matter. Some of the assumptions include: the number of customers who may have self-assessed or are tax exempt, the amount which may be recoverable from customers who have not self-assessed, the Company's understanding of which services are taxable and which are not, the assessment of whether sufficient physical presence or "NEXUS" has been established and the length of the Company's assessment period.

Allowance for doubtful accounts

The estimation of the Company's allowance for doubtful accounts requires the Company to consider such factors as the Company's history of collections, knowledge of specific customer's issues, the enforceability of our contracts and the age of our past due receivable.

Share options fair value

The valuation of the Company's share options involves the use of the Black-Scholes valuation model which requires the Company to estimate factors such as risk free interest rate, expected life in years, expected dividend yield and volatility. The valuations of these share options and the assumptions used are further outlined in Note 12.

Cash and cash equivalents

Cash and cash equivalents include cash investments in interest-bearing accounts which can readily be redeemed for cash without penalty or are issued for terms of ninety days or less from the date of acquisition.

Investments

Investments are highly liquid assets that are not required to meet short-term cash commitments. Where an investment has a maturity greater than one year, the Company classifies it as long-term investment otherwise it is recorded as a short-term investment. Investments typically consist of government notes, guaranteed investment certificates and bonds, debentures and similar instruments issued by certain Canadian financial institutions. Short-term investments are classified as held-to-maturity and are recorded at amortized cost.

Financial assets

All financial assets are recognized and de-recognized on trade date and are initially recorded at fair value plus transaction costs, except for those financial assets classified as fair value through profit or loss ("FVTPL") whose transaction costs are expensed as incurred.

The Company determines the classification of its financial assets at initial recognition. Financial instruments are classified as follows:

Financial asset	Classification under IAS 39
Cash and cash equivalents	Loans and receivables – amortized cost
Investments	Held to maturity – amortized cost
Foreign exchange forward contracts	Held for trading – FVTPL
Trade receivables	Loans and receivables – amortized cost
Investment tax credits receivable	Loans and receivables – amortized cost

Financial assets at fair value through profit and loss

Financial assets recorded as FVTPL include financial assets held for trading and financial assets designated upon initial recognition at FVTPL. Financial assets that are purchased and with the intention of selling them in the near term, are designated as held for trading which is the case for all financial instruments classified as assets at FVTPL. In order to be designated as held for trading, the instrument must have been acquired principally for the purpose of selling it in the near term or it must be part of a portfolio with a recent actual pattern of short-term profit taking, or it must be a derivative that is not designated and effective as a hedging instrument. These instruments are accounted for at fair value with the change in the fair value recognized in earnings during the period.

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 15.

Loans and receivables

Financial assets classified as loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market except those that are classified as available-for-sale ("AFS") or as held-for-trading, or designated as at FVTPL. Loans and receivables are accounted for at amortized cost by using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate except for short-term receivables where the interest revenue would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt or asset instrument and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Impairment of financial assets

Financial assets, other than those categorized as FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Certain categories of financial assets, such as trade and other receivables, are assessed for impairment individually and on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, default or delinquency in interest or principal payments or it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

The Company determines the classification of its financial liabilities at initial recognition. Financial instruments are classified as follows:

Financial liability	Classification under IAS 39
Trade payables and accrued liabilities	Other financial liabilities - amortized cost
Foreign exchange forward contracts	Held for trading – FVTPL
Redeemable preferred shares	Other financial liabilities – FVTPL
Long-term debt	Other financial liabilities - amortized cost

Other financial liabilities

Other financial liabilities are accounted for at amortized cost by using the effective interest method.

De-recognition of financial liabilities

The Company de-recognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Company enters into derivative financial instruments to manage its exposure to foreign exchange rate risk, including foreign exchange forward contracts.

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognized as a financial asset whereas a derivative with a negative fair value is recognized as a financial liability. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is greater than 12 months and it is not expected to be realized or settled within 12 months.

Hedge accounting

Beginning January 1, 2016, Management is designating its foreign exchange forward contracts as cash flow hedges of highly probable forecasted transactions and firm commitments.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instruments and the hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. At the inception of the cash flow hedge and on an ongoing basis, the Company also assesses whether the derivatives being used in the hedging transactions are effective in offsetting the changes in cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in other comprehensive income and accumulated under the heading of hedging reserve. Amounts deferred in the hedging reserve are recorded in net profit in the periods when the hedged item is recognized in net income (loss), in the same line of the Consolidated Statements of Operations and Comprehensive Income (Loss) as the recognized hedged item.

Where there is an ineffective portion of the cash flow hedge or any derivative instrument which does not qualify for hedge accounting, changes in fair value are recorded in net income (loss) immediately as foreign exchange gain (loss).

Research and development

Research and development costs are expensed as incurred.

Income taxes

Current and deferred income taxes are recognized as an expense or recovery in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside of profit or loss.

Current income tax

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

Deferred Income tax

Deferred income tax assets and liabilities are recorded for the temporary differences between transactions that have been included in the financial statements or income tax returns. Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities and for certain carry-forward items. Deferred income tax assets are recognized only to the extent that, in the opinion of management, it is probable that the deferred income tax assets will be realized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment or substantive enactment. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Investment tax credits

Investment tax credits relating to scientific research and experimental development expenditures are recorded in the fiscal period the qualifying expenditures are incurred based on management's interpretation of applicable legislation in the Income Tax Act of Canada and the province of Quebec. Credits are recorded provided there is reasonable assurance that the tax credit will be realized. Credits claimed are subject to review by the Canada Revenue Agency and Revenue Quebec.

Credits claimed in connection with research and development activities are accounted for using the cost reduction method. Under this method, assistance and credits relating to the acquisition of equipment is deducted from the cost of the related assets, and those relating to current expenditures, which are primarily salaries and related benefits, are included in the determination of net income as a reduction of the research and development expenses.

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and any accumulated impairment losses.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Depreciation is calculated over the estimated remaining useful life of the assets on a straight-line basis as follows:

Property and equipment	Rate
Computer equipment	2 - 5 years
Office equipment	5 years
Leasehold improvements	Term of lease

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Intangible assets

Intangible assets are measured at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

Amortization is calculated over the estimated remaining useful life of the assets on a straight-line basis as follows:

Intangible assets	Rate
Computer software	1 - 5 years

Impairment of non-financial assets

The Company has determined it has only has one cash generating unit ("CGU") which is the Company as a whole. Therefore any impairment analysis would be conducted at that level.

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Any impairment losses are recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss) in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's recoverable amount. The recoverable amount is the higher of the fair value less transaction costs and its value in-use. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Foreign currency translation

The Company's consolidated financial statements are presented in USD, which is also the functional currency of the parent company and its subsidiaries.

Transactions in foreign currencies are initially translated into an entity's functional currency using rates prevailing at the date of the transaction. Monetary assets and liabilities are translated using the exchange rates in effect at the date of the Consolidated Statement of Financial Position and non-monetary assets and liabilities at historical exchange rates. Revenue and expense items are translated using average exchange rates prevailing during the year. Foreign exchange gains and losses are included in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Earnings (loss) per common share

Basic earnings (loss) per common share is computed using the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed in accordance with the treasury stock method and based on the average number of common shares and dilutive common share equivalents.

Share-based compensation

The Company uses the fair-value based method to measure share-based compensation for all share-based awards made to employees and directors. Awards that the Company has the ability to settle in shares are recorded as equity.

The cost of equity-settled transactions with employees for awards granted is measured by reference to the fair value at the date on which they are granted. The fair value is determined by using the Black-Scholes model. The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the service conditions are fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. Compensation expense for each tranche is recorded on a straight-line basis over the vesting period based on the Company's estimate of share options that will ultimately vest. The Company adjusts the amount of expense recorded for the actual equity instruments that vest compared to what was originally estimated in its forfeiture rate.

Where the terms of an equity-settled transaction award are modified, the minimum expense recognized is the expense as if the terms had not been modified and if the original terms of the award are met. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Preferred shares

Prior to May 17, 2013, the Company had conditionally redeemable, convertible Class B preferred shares outstanding. Prior to the IPO these shares were converted into Class A common shares on a one-for-one basis.

The redemption component and conversion component of the preferred shares were classified separately as financial liabilities and equity, respectively, in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. IFRS requires that a conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments to be treated as an equity instrument.

At the date of issue, the fair value of the liability was estimated using the prevailing market interest rate for similar non-convertible instruments. This amount was recorded as a liability and was measured at fair value at the end of each reporting period as the liability had been classified as FVTPL.

The conversion option classified as equity was determined by deducting the amount of the liability from the fair value of the compound instrument as a whole. The Company had determined that the value of the conversion option was nominal and the proceeds should be allocated to the liability.

Transaction costs relating to the liability have been expensed as incurred as the liability has been classified FVTPL.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognized as assets of the Company at the lower of their fair value at the inception of the lease and the present value of the minimum lease payments. The corresponding liability is recorded as a finance lease obligation.

Lease payments are apportioned between finance expenses and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognized immediately in profit or loss.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(in United States dollars, tabular amounts in thousands, except share and per share data)

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amounts recognized as a provision are the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risk and uncertainties surrounding the obligation. Where the Company expects reimbursement associated with a provision, the reimbursement is recognized as an asset if and when the reimbursement is virtually certain. The expense relating to any provision is presented in the Consolidated Statements of Operations and Comprehensive Income (Loss) net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

5. TRADE RECEIVABLES

	December 31, 2015	December 31, 2014
Trade receivables	**$ 12,676**	$ 12,546
Allowance for doubtful accounts	**(218)**	(160)
	$ 12,458	$ 12,386

Movement in the allowance for doubtful accounts is as follows:

	December 31, 2015	December 31, 2014
Balance at the beginning of the year	**$ (160)**	$ (50)
Change in provision	**(234)**	(337)
Receivable balances written-off	**176**	227
Balance at the end of the year	**$ (218)**	$ (160)

(in United States dollars, tabular amounts in thousands, except share and per share data)

6. PROPERTY AND EQUIPMENT

	Computer Equipment	Office Equipment	Leasehold Improvements	Total
Cost				
As at December 31, 2013	$ 9,893	$ 1,816	$ 2,255	$ 13,964
Additions	3,150	674	929	4,753
As at December 31, 2014	13,043	2,490	3,184	18,717
Additions	**1,794**	**25**	**58**	**1,877**
Disposals	**(3,454)**	**-**	**-**	**(3,454)**
As at December 31, 2015	**$ 11,383**	**$ 2,515**	**$ 3,242**	**$ 17,140**

	Computer Equipment	Office Equipment	Leasehold Improvements	Total
Accumulated depreciation				
As at December 31, 2013	$ 6,007	$ 905	$ 1,269	$ 8,181
Depreciation expense	1,798	323	420	2,541
As at December 31, 2014	7,805	1,228	1,689	10,722
Depreciation expense	**2,144**	**373**	**549**	**3,066**
Disposals	**(3,454)**	**-**	**-**	**(3,454)**
As at December 31, 2015	**$ 6,495**	**$ 1,601**	**$ 2,238**	**$ 10,334**

	Computer Equipment	Office Equipment	Leasehold Improvements	Total
Carrying Amount				
As at December 31, 2014	$ 5,238	$ 1,262	$ 1,495	$ 7,995
As at December 31, 2015	**$ 4,888**	**$ 914**	**$ 1,004**	**$ 6,806**

In fiscal 2015 and 2014 the Company had no property and equipment under finance leases.

(in United States dollars, tabular amounts in thousands, except share and per share data)

7. INTANGIBLE ASSETS

Intangible assets consist of software acquired.

	Total
Cost	
As at December 31, 2013	$ 4,704
Additions	908
As at December 31, 2014	5,612
Additions	**1,200**
As at December 31, 2015	**$ 6,812**

	Total
Accumulated amortization	
As at December 31, 2013	$ 2,857
Amortization expense	773
As at December 31, 2014	3,630
Amortization expense	**895**
As at December 31, 2015	**$ 4,525**

	Total
Carrying Amount	
As at December 31, 2014	$ 1,982
As at December 31, 2015	**$ 2,287**

In fiscal 2015 and 2014 the Company had no intangible assets under finance leases.

8. TRADE PAYABLES AND ACCRUED LIABILITIES

Trade payables and accrued liabilities consist of the following:

	December 31, 2015	December 31, 2014
Trade payables	**$ 3,143**	$ 2,778
Accrued liabilities	**2,234**	2,282
Payroll liabilities	**2,827**	2,733
	$ 8,204	$ 7,793

Included in accrued liabilities for fiscal 2015 is a provision related to United States sales and use tax. The liability is an estimate based upon a number of assumptions and the Company's assessment as to the expected outcome related to this matter.

9. LONG-TERM DEBT AND CREDIT FACILITIES

The Company has a revolving demand facility totalling CDN$15 million subject to certain restrictions. The Company has utilized $2.1 million (2014 - $2.1 million) for Letters of Guarantee to secure corporate credit cards and leased premises. The Company also has a credit facility to secure any outstanding foreign exchange forward contracts, of which approximately $4.2 million was utilized at December 31, 2015. These facilities are subject to annual renewal.

The Company has financial covenants under the terms of the demand facility requiring it to maintain a certain level of cash and meet certain financial ratios. As collateral for its bank indebtedness, the Company has given the bank a general security agreement representing a first charge over all of the Company's assets. Interest is charged on indebtedness at prime plus 0.85%.

10. REDEEMABLE PREFERRED SHARES

Immediately preceding the Company’s IPO there were 4,244,482 Class B preferred shares outstanding. On May 17, 2013, immediately prior to the completion of the Company’s IPO, all of the redeemable preferred shares were converted into Class A common shares on a one-for-one basis. All Class A common shares were then redesignated as Common Shares.

The Class B preferred shares were conditionally redeemable and, as such, the redemption value was recorded as a liability at the fair value. Changes in the fair value of the liability were recorded as a gain or loss in the Consolidated Statements of Operations and Comprehensive Income (Loss). In 2013 and 2012, the Company recorded losses of $6.4 million and $14.3 million, respectively. On May 17, 2013, upon conversion into Class A common shares the fair value of the preferred shares in the amount of $47.4 million was recorded as share capital.

(in United States dollars, tabular amounts in thousands, except share and per share data)

11. SHARE CAPITAL

Authorized

The Company is authorized to issue an unlimited number of Common Shares with no stated par value.

The following is a continuity of the Common Shares:

	Number of shares	Share capital
Issued		
Shares outstanding at December 31, 2012	12,219,135	$ 2,301
Conversion of class B preferred shares to common shares	4,244,482	47,430
Issuance of common shares on IPO	5,085,218	56,893
Share issuance costs, related to IPO	-	(4,935)
Reduction of stated share capital	-	(32,314)
Shares issued from exercised options	123,864	99
Transfer from share compensation reserve relating to options exercised	-	38
Shares outstanding at December 31, 2013	21,672,699	69,512
Shares issued from exercised options	231,209	220
Transfer from share compensation reserve relating to options exercised	-	74
Shares outstanding at December 31, 2014	21,903,908	69,806
Repurchase of common shares	**(376,743)**	**(1,197)**
Shares issued from exercised options and Restricted Share Units	**352,777**	**484**
Transfer from share compensation reserve relating to options exercised	**-**	**570**
Shares outstanding at December 31, 2015	**21,879,942**	**$ 69,663**

The holders of the Common Shares are entitled to dividends when and if declared by the Board of Directors of the Company and are entitled to one vote per share.

On May 1, 2013 the shareholders of the Company approved a special resolution to amend the articles of incorporation to change Halogen's issued and outstanding common shares into a smaller amount of common shares through a reverse split of the Company's common shares with one (1) post-split common share for one and half (1.5) pre-split common shares. As a result, the historical share amounts presented in these financial statements have been retroactively adjusted to reflect this change.

On May 1, 2013 the shareholders of the Company approved a resolution to reduce the stated share capital of the common shares to a value more representative of the value of the Company's net realizable assets. The amount of the reduction was the portion of the Company's deficit that was created as a result of any fair market value adjustments related to the redeemable preferred shares, which amounted to $32.3 million over the life of those shares. The intention of the reduction of the share capital is to better align the stated value of share capital with that of the realizable value of the Company's assets.

On March 13, 2015 the Company 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, which expires March 12, 2016, allows the Company to repurchase 6,843 common shares on any trading day up to a maximum aggregate amount of 600,000 common shares. As at December 31, 2015 the Company had repurchased 376,743 common shares for total cash consideration of $2.4 million. All the shares repurchased as at December 31, 2015 had been cancelled.

12. SHARE- BASED PAYMENTS

Employee share option plan

The Company has two share option plans approved by the Board of Directors, the 1996 Share Option Plan and the 2009 Share Option Plan.

The options to purchase the Company's common shares granted to employees and directors under the 1996 Share Option Plan vest as determined by the Board of Directors, generally over four years with a contractual term of ten years. Since the introduction of the 2009 Share Option Plan, no options to purchase shares under the 1996 Share Option Plan have been granted and all shares that remained available for future grant under this plan became available for issuance under the 2009 Share Option Plan, as described below.

The 2009 Share Option Plan was approved by the Board of Directors on May 27, 2009. Options to purchase shares granted to employees and directors under the 2009 Share Option Plan vest as determined by the Board of Directors, generally over five years with a contractual term of ten years.

In April 2013, the Board of Directors approved an increase in the aggregate number of share options that may be issued under the 2009 Share Option Plan by 666,667 post share consolidation options.

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 1.6 million options. As at September 30, 2015 there are 1,801,361 options available for issuance under the 2009 plan.

Performance and restricted share unit plan

In June 2015, the shareholders of the Company approved the creation of a new performance and restricted share unit plan ("PRSU"). Under the PRSU plan a maximum of 400,000 common shares are available for issuance as either performance based share units ("PSU") or restricted share units ("RSU"). 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 the PRSU plan may elect to redeem their share units either by the Company 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 value of the common shares otherwise issuable on redemption of the share units.

In 2015 there were 205,000 RSU's and 16,000 PSU's granted under this plan, of which 45,000 RSU's vested and were exercised for common shares, as of December 31, 2015. The PSU's have a performance condition tied to the cumulative growth in net annual recurring revenue over the three year period ending December 31, 2017. The value of the PSU's and RSU's has been estimated based on the share price on the grant date and an estimated number of units expected to vest. The Company has recorded $386,000 of share-based compensation expense in 2015 (2014 - $nil) related to the PRSU's that have been granted.

(in United States dollars, tabular amounts in thousands, except share and per share data)

Movement in share options during the year

The following table summarizes information about the share option plans and the performance based share options as of December 31, 2015 and 2014:

	2015		2014	
	Number of Options	Weighted Average Exercise Price **CDN$**	Number of Options	Weighted Average Exercise Price CDN$
Options outstanding, beginning of year	**1,295,387**	**$6.44**	1,358,260	$5.02
Granted	**1,023,500**	**$8.30**	210,336	$9.26
Forfeited	**(447,035)**	**$8.16**	(42,000)	$4.17
Exercised	**(307,777)**	**$1.95**	(231,209)	$1.04
Options outstanding, end of year	**1,564,075**	**$8.05**	1,295,387	$6.44

The weighted average grant date calculated value of the share options granted in 2015 was CDN$1.88 per share (2014 - CDN$2.10 per share). During the year, cash received on the exercise of share options was CDN$599,000 (2014 - CDN$239,000).

The following table summarizes information about the Company's share options outstanding and exercisable at December 31, 2015.

	Options Outstanding			Options Exercisable	
Exercise Price CDN$	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price CDN$	Number of Options	Weighted Average Exercise Price CDN$
$ 0.60 – $2.40	121,969	3.6 years	$ 1.21	121,969	$ 1.21
$ 2.41 – $3.04	43,734	5.1 years	$ 2.85	43,734	$ 2.85
$ 3.05 – $8.75	846,569	9.6 years	$ 7.76	29,232	$ 4.93
$ 8.76 – $10.45	306,334	9.1 years	$ 9.40	56,917	$ 9.22
$ 10.46 – $14.23	245,469	7.4 years	$ 11.72	124,699	$ 11.67
$ 0.60 – $14.23	1,564,075	8.5 years	$ 8.05	376,551	$ 6.36

The fair values for the options granted in 2015 were estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 0.68% (2014 – 1.27%, 2013 – 1.39%); dividend yield of nil% (2014 - nil%, 2013 – nil%); volatility of 30% (2014 - 29%, 2013 – 34%); and an average expected life of 3.5 years (2013 - four years, 2012 – six years). Volatility was estimated using Halogen's historical volatility. The forfeiture rate was estimated at 12.58% (2014 – 2.46%, 2013 – 3.61%).

The Company recorded share-based compensation expense related to the employee share option plans of $71,000 for 2015 (2014 - $739,000, 2013 - $398,000). The Company has total unrecognized compensation expense of $1.0 million as at December 31, 2015, that will be recorded over the next five years.

(in United States dollars, tabular amounts in thousands, except share and per share data)

13. SHARE COMPENSATION RESERVE

The share compensation reserve relates to share options granted to employees under the employee share option, restricted share unit and preferred share unit plans. Further information about share-based payments to employees is set out in Note 12.

	Amount
Balance at December 31, 2013	$ 778
Arising from share-based compensation expense	739
Arising on exercise of share options	(74)
Balance at December 31, 2014	1,443
Arising from share-based compensation expense	**457**
Arising on exercise of share options	**(570)**
Balance at December 31, 2015	**$ 1,330**

14. EARNINGS (LOSS) PER SHARE

In periods where the Company has a net loss, all options are considered anti-dilutive; therefore basic and diluted number of shares is the same for the years ended December 31, 2015, 2014 and 2013. As a result of net losses incurred, the following potentially dilutive securities have been excluded from the calculation of diluted earnings (loss) per share because to do so would be anti-dilutive: 1,564,075 (2014 – 1,295,387, 2013 – 1,358,260) share options, 160,000 RSU's (2014 - nil and 2013 – nil) and 14,000 PSU's (2014 - nil and 2013 – nil).

(in United States dollars, tabular amounts in thousands, except share and per share data)

15. FINANCIAL INSTRUMENTS

(a) Carrying values and fair values:

The fair value of financial assets and liabilities, together with their carrying amounts are as follows:

	December 31, 2015		December 31, 2014	
	Carrying	**Fair Value**	Carrying	Fair Value
Loans and receivables, measured at amortized cost:				
Cash and cash equivalents	**$ 36,133**	**$ 36,133**	$ 44,247	$ 44,247
Trade receivables	**12,458**	**12,458**	12,386	12,386
	$ 48,591	**$ 48,591**	$ 56,633	$ 56,633
Financial liabilities:				
Held for trading - measured at FVTPL:				
Foreign exchange forward contracts	**$ 2,632**	**$ 2,632**	$ 1,025	$ 1,025
Other financial liabilities, measured at amortized cost:				
Trade payables and accrued liabilities	**$ 8,204**	**$ 8,204**	$ 7,793	$ 7,793

The listing below analyzes financial instruments carried at fair value, by valuation method.

The Company's fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(in United States dollars, tabular amounts in thousands, except share and per share data)

The fair value of financial assets and financial liabilities are determined as follows:

I. The carrying amounts of investments, trade and other receivables, investment tax credits receivable and trade payables and accrued liabilities approximate fair market value due to the short term maturity of these instruments;
II. Foreign exchange forward contracts reflect the cash flows due to or from the Company if settlement had taken place on the reporting date (Level 2).

(b) Financial risk management

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of risks as at December 31, 2015.

i. 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. The Company's credit risk is primarily attributable to its trade and other receivables, short and long-term investments, and foreign exchange contracts.

The nature of the Company's subscription based business results in payments being received in advance of the majority of the services being delivered; as a result, the Company's credit risk exposure is very low. In addition, the Company's 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 and December 31, 2014. As the majority of the Company's revenues are amortized into income over a period of time, the impact on the Company's operating results is low as any uncollectible amounts tend to affect trade and other receivables and deferred revenue as opposed to revenue.

The aging of the trade receivables is as follows:

	December 31, 2015	December 31, 2014
Current to 30 days past due	**$ 9,113**	$ 8,408
Past due (31-60 days)	**1,528**	1,552
Past due (> 61 days)	**2,035**	2,586
	12,677	12,546
Allowance for doubtful accounts	**(218)**	(160)
	$ 12,458	$ 12,386

The Company establishes an allowance for doubtful accounts based on amounts which are past due, historical trends, and any available information indicating that a customer could be experiencing liquidity or going concern problems. These write-offs are charged to sales and marketing expenses. During the year ended December 31, 2015, the Company wrote off $176,000 (2014 - $227,000, 2013 - $38,000) of trade receivables that were deemed not collectible (see Note 5).

(in United States dollars, tabular amounts in thousands, except share and per share data)

The Company invests its excess cash with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations and future planned capital expenditures with the secondary objective of maximizing the overall yield of the investment portfolio. The Company manages its credit risk on investments by dealing only with major Canadian banks and investing only in instruments having high credit ratings. Given these high credit ratings, the Company does not expect any counterparties to these investments to fail to meet their obligations. Similarly the Company limits its credit risk on derivative financial instruments by dealing only with major Canadian banks.

The Company's exposure to credit risk is limited to the carrying amount of financial assets recognized at the date of Consolidated Statement of Financial Position, as summarized below:

	December 31, 2015	December 31, 2014
Cash and cash equivalents	**$ 36,133**	$ 44,247
Trade receivables	**12,458**	12,386
	$ 48,591	$ 56,633

ii. Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company's approach to managing liquidity risk to is ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. The Company also manages liquidity risk by continuously monitoring 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, including acquisitions or other major investments or divestitures.

At December 31, 2015, the Company had cash and short-term investments totaling $36.1 million. Further, the Company has an unsecured credit facility and a non-revolving term facility as disclosed in Note 9.

At December 31, 2015, all of the Company's trade payables and accrued liabilities had contractual terms of less than one year. The Company also has no long-term debt.

iii. Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments.

A. *Currency risk:*

A portion of the Company's revenues and operating costs are realized in currencies other than its functional currency, such as the Canadian dollar, Euro, Pound Sterling and Australian dollar. As a result, the Company is 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 a foreign exchange (gain) loss on the Consolidated Statements of Operations and Comprehensive Income (Loss).

The Company's objective in managing its currency risk is to minimize its exposure to currencies other than its functional currency. The Company does so by matching foreign denominated assets with foreign denominated liabilities. The Company also utilizes derivative financial instruments, principally in the form of foreign exchange forward contracts, to hedge the balance of the exposure of the Company's 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. Prior to December 31, 2015, the Company has not designated any of its foreign exchange forward contracts as hedges of highly probable forecasted transactions and firm commitments, therefore, these instruments are measured at fair value with changes recognized in earnings at each reporting date.

The Company has recorded a liability for the foreign exchange forward contracts outstanding as at December 31, 2015 in the amount of $2.6 (2014 - $1.0 million). As of December 31, 2015, the Company had outstanding forward foreign currency exchange contracts requiring it to exchange USD for CAD with an aggregate notional amount of $34.0 million (2014 - $26.3 million). The foreign exchange forward contracts have an average USD to CAD contract rate of 1.2898.

The Company is mainly exposed to fluctuations between the U.S. dollar and the Canadian dollar. At December 31, 2015, if the Canadian dollar had strengthened 5% against the U.S. dollar with all other variables held constant, the net loss for the year would have been $1.6 million higher. Conversely, if the Canadian dollar had weakened 5% against the U.S. dollar with all other variables held constant, there would be an equal, and opposite impact, on the net loss for the year.

For the period ended December 31, 2015, the Consolidated Statements of Operations and Comprehensive Income (Loss) includes a foreign exchange loss of $6.3 million (2014 – loss of $2.7 million and 2013 - loss of $1.4 million). These gains or losses are shown as a foreign exchange (gain) loss on the Consolidated Statements of Operations.

B. *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. The Company believes that interest rate risk is low as the majority of investments are made in fixed rate instruments. The Company does have some interest rate risk related to its credit facilities; however the obligations are small enough that any exposure is not material at this time.

(in United States dollars, tabular amounts in thousands, except share and per share data)

16. NATURE OF EXPENSES

The following table shows the breakdown of expenses by nature of each function on the Consolidated Statements of Operations and Comprehensive Income (Loss):

	December 31, 2015	December 31, 2014	December 31, 2013
Cost of revenue			
Employee related expenses	**$ 10,042**	$ 8,994	$ 7,326
Depreciation and amortization	**2,103**	1,661	1,026
Other	**5,067**	5,307	3,736
	$ 17,212	$ 15,962	$ 12,088
Sales and marketing			
Employee related expenses	**$ 17,243**	$ 15,050	$ 10,986
Depreciation and amortization	**782**	692	503
Other	**15,061**	14,588	10,759
	$ 33,086	$ 30,330	$ 22,248
Research and development			
Employee related expenses	**$ 9,747**	$ 9,684	$ 8,809
Depreciation and amortization	**711**	621	477
Other	**2,292**	1,928	1,614
Scientific research & experimental development tax credits	**-**	(42)	(945)
	$ 12,750	$ 12,191	$ 9,955
General and administrative			
Employee related expenses	**$ 7,308**	$ 7,369	$ 5,824
Depreciation and amortization	**360**	340	275
Other	**1,992**	3,225	2,726
	$ 9,660	$ 10,934	$ 8,825

(in United States dollars, tabular amounts in thousands, except share and per share data)

17. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Company and other related parties are disclosed below.

Trading transactions

The Company did not have any transactions during the fiscal years ended December 31, 2015, 2014 and 2013 which would be considered to be between the Company and a related party.

Compensation of key management personnel

The remuneration of key management personnel was as follows:

	December 31, 2015	December 31, 2014	December 31, 2013
Salary and other short-term benefits	**$ 2,059**	$ 2,208	$ 1,476
Share-based payments	**2,609**	230	747
Severance	**270**	90	89
	$ 4,938	$ 2,528	$ 2,312

The Company defines key management personnel as being the President and Chief Executive Officer ("CEO") and his direct reports. The remuneration of key management is determined by the compensation committee having regard to the performance of individuals and market trends.

The remuneration for the directors of the Company was as follows:

	December 31, 2015	December 31, 2014	December 31, 2013
Fees paid	**$ 240**	**$ 206**	$ 177
Share-based payments	**89**	**41**	245
	$ 329	**$ 247**	$ 422

18. CAPITAL MANAGEMENT

The Company views its debt facilities and shareholders' equity to be its capital for the purposes of capital management. The Company's objective in managing capital is to ensure sufficient liquidity to pursue a growth strategy, fund research and development to enhance existing product offerings as well as develop new ones and 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, the Company takes into consideration various factors, including the growth of the business and related infrastructure and the up-front cost of taking on new customers. The Company's officers and senior management 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. The Company manages 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.

(in United States dollars, tabular amounts in thousands, except share and per share data)

19. OPERATING LEASE ARRANGEMENTS

Non-cancellable minimum operating lease rentals are payable as follows:

	December 31, 2015	December 31, 2014
Not later than 1 year	**$ 2,779**	**$ 3,956**
Later than 1 year and not later than 5 years	**3,713**	**10,204**
Later than 5 years	**-**	**-**
	$ 6,492	**$ 14,160**

The Company has operating leases related to building facilities, with terms of between 1 and 4 years. Obligations under operating leases mature between December 2014 and November 2019. In 2015, the Company incurred expenses of $2.3 million related to operating leases (2014 - $2.2 million, 2013 - $1.7 million).

The Company leases approximately 110,000 square feet of office space in five locations around the world. The leases currently held expire between August 2016 and January 2019. The majority of the Company's lease commitments relate to the head office in Ottawa, Canada, the lease of which expires in November 2017.

20. COMMITMENTS AND CONTINGENCIES

Intellectual property indemnification obligations

The Company enters on a regular basis into agreements with customers that include limited intellectual property indemnification obligations that are customary in the industry. These guarantees generally require the Company to 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 these intellectual property indemnification obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay to its customers. Historically, the Company has not made any indemnification payments under such agreements and no amount has been accrued in the consolidated financial statements with respect to these guarantees.

(in United States dollars, tabular amounts in thousands, except share and per share data)

Legal matters

From time to time, the Company may be subject to various claims and legal proceedings that arise in the ordinary course of its business, such as actions with respect to breach of contract claims, labor and employment claims, and other business matters. The Company accrues for estimated losses for matters where the likelihood of an adverse outcome is considered probable and the amount of the loss is reasonably estimable. Although claims, suits, investigations and proceedings are inherently uncertain and their results cannot be predicted with certainty, the Company believes that the resolution of current pending matters will not have a material adverse effect on the business, financial position, results of operations and/or cash flow. However, litigation is subject to inherent uncertainties and the Company's view on these matters may change in the future. Were an unfavorable outcome to occur in any one or more of those matters or the matters described above, over and above the amount, if any, that has been estimated and accrued in our consolidated financial statements, it could have a material adverse effect on the business, financial condition, results of operations and/or cash flows in the period in which the unfavorable outcome occurs or becomes probable, and potentially in future periods.

21. SUPPLEMENTARY STATEMENT OF CASH FLOW INFORMATION

The changes in the Company's non-cash operating working capital balances are presented in the table below.

Cash provided by (used in):	**2015**	2014	2013
Trade receivables	**$ (119)**	$ (3,022)	$ (2,449)
Investment tax credits receivable	**-**	124	1,080
Prepaid expenses	**322**	(394)	(635)
Trade payables and accrued liabilities	**429**	1,470	1,989
Deferred revenue	**4,087**	5,805	4,099
	$ 4,719	$ 3,983	$ 4,084
Interest paid	**$ -**	$ -	$ 7
Taxes paid	**$ 214**	$ 33	$ 13

(in United States dollars, tabular amounts in thousands, except share and per share data)

22. SUBSIDIARIES

Details of the Company's subsidiaries at December 31, 2015 and 2014 are as follows:

Name of subsidiary	Principle activity	Place of incorporation and operation	Proportion of ownership interest and voting power held	
			December 31, 2015	December 31, 2014
Halogen Software (US) Inc.	Sales	State of Delaware, USA	100%	100%
Halogen Software Australia PTY LTD	Sales	Australia	100%	100%
Halogen Software Limited	Sales	England and Wales	100%	100%
Halogen Software Nederlands BV	Sales	Netherlands	100%	100%
Halogen Software Middle East fz-llc	Sales	United Arab Emirates	100%	N/A

23. INCOME TAXES

The income tax expense for the year can be reconciled to the income taxes that would be expected on the accounting profit as follows:

	2015	2014	2013
Income (loss) before income taxes	**$ (13,261)**	$ (15,271)	$ (12,746)
Income tax expense calculated at 26.5% (2014 and 2013: 26.5%)	**(3,514)**	(4,047)	(3,378)
Effect of permanent differences	**224**	253	1,842
Effect of investment tax credits	**202**	(670)	(2,427)
Effect of unused tax losses and credits not recognized	**(322)**	4,552	3,997
Effect of foreign tax rates and foreign exchange	**3,591**	2	25
Adjustments recognized for current tax of prior years	**33**	23	15
Income tax expense recognized in profit or loss	**$ 214**	$ 113	$ 74

The tax rate used for the 2015 and 2014 reconciliations above is the Canadian corporate tax rate of 26.5% applicable to the parent.

Deferred tax assets are recognized only to the extent it is probable that sufficient future taxable income will be available for their realization. Assessments as to the recoverability of deferred tax assets require the use of judgment regarding assumptions related to estimated future taxable profits. This includes the estimation of the character and amounts of taxable future profits as well as the periods in which those profits are expected to occur. The Company concluded that it is not probable that future taxable profit will be available against which unused tax loss carry forwards and temporary differences can be utilized in the foreseeable future.

(in United States dollars, tabular amounts in thousands, except share and per share data)

Deferred tax assets have not been recognized at December 31, 2015 and 2014 in respect of the following items:

	2015	2014
Deferred tax assets		
Property and equipment	**$ 115**	$ 2,147
Unclaimed scientific research and experimental development	**9,941**	12,685
Non-refundable investment tax credits	**1,878**	2,495
Deferred revenue	**31,036**	25,762
Share issuance costs	**1,717**	2,911
Non-capital loss carry forwards	**3,347**	1,897
	$ 48,034	$ 47,897

The Company claims research and development deductions and related investment tax credits for income tax purposes, based on management's interpretation of applicable legislation in the Income Tax Act of Canada. These claims are subject to review by the Canada Revenue Agency and in 2015 our 2014 claim was reduced as a result of an audit. During the year, the Company recognized refundable investment tax credits of $nil (2014 - $44,000) as a reduction of research and development expenses, which are primarily salaries and related benefits. As at December 31, 2015 the Company had $nil of investment tax credits receivable recorded on the Consolidated Statements of Financial Position (2014 - $nil).

As at December 31, 2015, the Company also has unclaimed scientific research and experimental development expenditures of $9.9 million (2014 - $12.7 million) that are available to reduce future years' taxable income. These unclaimed expenditures can be carried forward indefinitely.

The Company has unused federal investment tax credits of $1.0 million (2014 - $1.0 million) and Ontario investment tax credits of $853,000 (2014 - $1.0 million) to offset against future federal and Ontario income taxes respectively. These credits begin to expire in 2020.

The Company claims deductible reserves for income tax purposes, based on management's interpretation of applicable legislation in the Income Tax Act (Canada). These claims are subject to review by the Canada Revenue Agency for any open taxation years going back to 2011.

As at December 31, 2015, the Company has non-capital losses of $3.3 million (2014 - $1.9 million) which begin to expire in 2029.

Investment in subsidiaries

As at December 31, 2015, the Company had temporary differences of $400,000 associated with investments in subsidiaries for which no deferred tax liabilities have been recognized, as the Company is able to control the timing of the reversal of these temporary differences and it is not probable that these differences will reverse in the foreseeable future.

(in United States dollars, tabular amounts in thousands, except share and per share data)

24. SEGMENT INFORMATION

General description

The Company's President and CEO has been identified as the chief operating decision maker. The CEO evaluates the performance of the Company and allocates resources based on information provided by the Company's internal management system. The Company has determined that it only has one operating segment.

Geographic information

Revenue from external customers are all attributed to the Company's Canadian entity.

Revenue from external customers are attributed to geographic areas based on the location of the customers. The following table sets forth external revenue by geographic areas:

	December 31, 2015	December 31, 2014	December 31, 2013
United States	**$ 51,992**	$ 44,630	$ 38,658
Canada	**6,314**	5,940	5,611
Europe, Middle East and Africa	**5,048**	4,225	2,466
Other	**2,338**	1,864	1,249
	$ 65,692	$ 56,659	$ 47,984

The following table sets forth total assets by geographic areas excluding investments in subsidiaries:

	December 31, 2015	December 31, 2014
Canada	**$ 58,844**	$ 67,854
Europe, Middle East and Africa	**832**	998
Australia	**249**	223
	$ 59,925	$ 69,075

Concentrations

The Company sells its products and services to a broad set of mid-market enterprises operating in a variety of business sectors. The Company did not have any customer that accounted for greater than two percent of revenue in the last three fiscal years.

Leadership Team

Les Rechan
President and CEO

Pete Low, CPA, CA
Chief Financial Officer

Sue Bond
Vice President, North America East

Marc Brûlé
Vice President, Asia-Pacific

Rose Cain
Vice President, Sales Operations

Connie Costigan
Vice-President, Communications

Marc Harrison
Vice President, Corporate Development

John Hawkins
Chief Customer Success Officer

Dominique Jones
Chief People Officer

Donna Ronayne
Chief Marketing Officer

Michael G. Stewart
General Counsel & Corporate Secretary

Rob Sutherland
Vice President, North America West

Karen Williams
Chief Products Officer

Board of Directors

Michael Slaunwhite
Executive Chairman

Les Rechan
President and CEO

Rob Ashe
Professional Director and Consultant

Deborah Besemer
Independent Consultant and Professional Director

Harry Gruner
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Peter Hoult
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Timothy Williams
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