

2014 ANNUAL REPORT



On June 10, 2014, Kinaxis successfully completed its initial public offering and began trading on the TSX under the symbol KXS.

Kinaxis provides cloud-based subscription software that enables global enterprises to improve their ability to analyze the effect of changes in supply and demand on Operations, and effectively act in response.

Kinaxis' product, RapidResponse, can be applied to a broad range of supply chain functions, delivering superior cross-functional collaboration, fast customer response times, and accurate insight into the operational and financial impact of decisions.

Companies deploy RapidResponse via a set of configurable supply chain applications, which allow for faster implementation, broader adoption and expanding deployments over time. Ultimately, Kinaxis customers are able to derive deep value quickly.

Our client list reaches across multiple market verticals and is approaching 100 large enterprise customers



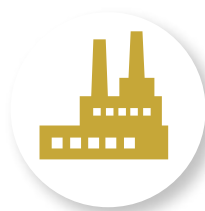
HIGH TECH AND ELECTRONICS

Avaya
Celestica
Cisco Systems
Nikon
Qualcomm



AEROSPACE AND DEFENSE

Honeywell
Lockheed Martin
Raytheon
Sikorsky Aircraft



INDUSTRIAL

First Solar
Schneider Electric
Toshiba Europe
Roland DG



LIFE SCIENCES AND PHARMACEUTICALS

Genzyme
Masimo
Nihon Kohden



AUTOMOTIVE (EMERGING)

Ford
Volvo Trucks NA
TE Connectivity

Multiple growth opportunities to increase market penetration

LAND & EXPAND

Increase deployment footprint within existing customers through added applications, users and/or sites

NEW VERTICAL MARKETS

Won first automotive brand owner client in 2014

EXPAND DIRECT SALES

Expanded sales team by one third in past 36 months

NEW APPLICATIONS

Develop new applications that target additional business functions and user communities

EXPAND CHANNEL PARTNERS

Add and expand relationships with strategic partners, managed service providers and resellers

ACQUISITIONS

Opportunistic and selective

Our business model provides visibility, stability & growth

VISIBILITY

>80%

forward twelve-month revenue

STABILITY

>100%

net revenue dollar retention

SUSTAINABILITY

2-5

year contracts

GROWTH

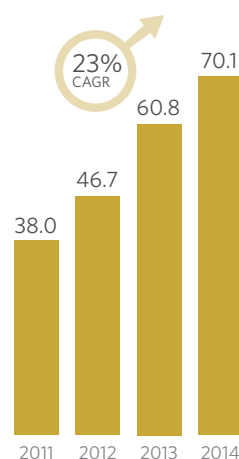
~40%

of subscription revenue growth from existing customers

We have a strong track record of revenue growth...

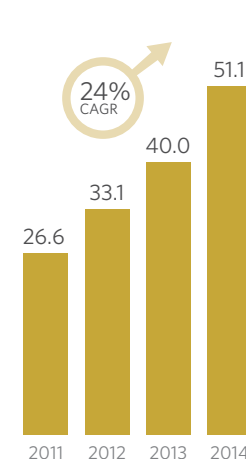
REVENUE

US Dollars (Millions)



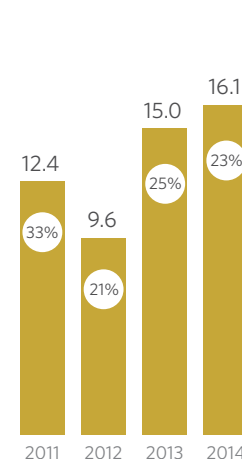
SUBSCRIPTION REVENUE

US Dollars (Millions)



ADJUSTED EBITDA¹

US Dollars (Millions)



and annual adjusted EBITDA margin in excess of 20%

¹ Adjusted EBITDA is a non-IFRS measure, for reconciliation of Adjusted EBITDA to profit before income taxes, please see "Management's Discussion & Analysis"

Dear Shareholders,

This past year the true power of our operating model was revealed as we delivered solid operational results and executed on our growth initiatives. Specifically, our overall revenues grew 15% to \$70.1 million. More importantly, our annual subscription revenue has grown by 28% to \$51.1 million. This resulted in a solid adjusted annual EBITDA of \$16.1 million or 23% of revenue. This ongoing performance demonstrates the strength of our software as a service operating model, and our ability to continue to drive growth in our business.

Our financial position also remains very strong, due in part to our very successful initial public offering that we completed this past June. At year-end, Kinaxis had no debt and cash and equivalents totaled \$56.7 million.

In terms of the business, we are focused on maintaining our growth trajectory and expect to see continued expansion as we execute on our multi-pronged growth strategy. Our primary growth vectors continue to be creating new RapidResponse applications, expanding our partner network, and entering new vertical markets.

Supply chains often represent the core operational elements of a company. Our SaaS offerings enable companies to operate more efficient supply chains. We provide our customers with the ability to rapidly respond to changes in their businesses. Our RapidResponse applications enable companies to detect changes in their global supply chains, and perform real time “what if” analysis to make the proper course corrections. As our tag line says we help companies “know sooner” and “act faster”.

We have skillfully invested in RapidResponse, adding features and functionality that have made our proprietary software offerings more attractive to a growing list of global organizations. These companies operate highly volatile or complex supply chains in very dynamic market conditions.

Through the support of a growing list of Partners, we can leverage their established relationships to efficiently gain access to an even broader group of potential customers. We are forming relationships with multiple categories of partners such as System Integrators, Strategic Consultants, and Managed Service Providers.

We are optimistic about 2015 due to our unique technology, world-class customer base, strong balance sheet, and SaaS business model. We are confident we can continue to grow annual subscription revenue in excess of 25%—while simultaneously achieving Adjusted EBITDA in excess of 20% of total revenue. This rare combination makes Kinaxis a “best in class” SaaS vendor.

On behalf of the entire Kinaxis team, I want to thank you for your ongoing support of Kinaxis. We look forward to updating you on our progress throughout the year.

Sincerely,



Doug Colbeth

President, Chief Executive Officer and
Chairman of the Board

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KINAXIS INC.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014**

DATED: February 24, 2015

Unless the context requires otherwise, all references in this management's discussion and analysis (the "MD&A") to "Kinaxis", "we", "us", "our" and the "Company" refer to Kinaxis Inc. and its subsidiaries as constituted on December 31, 2014. This MD&A has been prepared with an effective date of February 24, 2015.

This MD&A for the years ended December 31, 2014 and 2013 should be read in conjunction with our annual consolidated financial statements as at and for the year ended December 31, 2014. The financial information presented in this MD&A is derived from our annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A contains forward-looking statements that involve risks, uncertainties and assumptions, including statements regarding anticipated developments in future financial periods and our future plans and objectives. There can be no assurance that such information will prove to be accurate, and readers are cautioned not to place undue reliance on such forward-looking statements. See "Forward-Looking Statements".

This MD&A includes trade-marks, such as "Kinaxis", and "RapidResponse", which are protected under applicable intellectual property laws and are the property of Kinaxis. Solely for convenience, our trade-marks and trade names referred to in this MD&A may appear without the ® or ™ symbol, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trade-marks and trade names. All other trade-marks used in this MD&A are the property of their respective owners.

All references to \$ or dollar amounts in this MD&A are to U.S. currency unless otherwise indicated.

Additional information relating to Kinaxis Inc. can be found on SEDAR at www.sedar.com.

Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures such as "Adjusted profit", "Adjusted diluted earnings per share" and "Adjusted EBITDA". These non-IFRS measures are not recognized, defined or standardized measures under IFRS. Our definition of Adjusted profit, Adjusted EBITDA and Adjusted diluted earnings per share will likely differ from that used by other companies and therefore comparability may be limited.

Adjusted profit, Adjusted EBITDA and Adjusted diluted earnings per share should not be considered a substitute for or in isolation from measures prepared in accordance with IFRS. These non-IFRS measures should be read in conjunction with our annual consolidated financial statements as at and for the year ended December 31, 2014. Readers should not put undue reliance on non-IFRS measures and should instead view them in conjunction with the most comparable IFRS financial measures. See the reconciliations to these IFRS measures in the "Results of Operations" section of this MD&A.

Forward-Looking Statements

This MD&A contains forward-looking statements that relate to our current expectations and views of future events. In some cases, these forward-looking statements can be identified by words or phrases such as "may", "will", "expect", "anticipate", "aim", "estimate", "intend", "plan", "seek", "believe", "potential", "continue", "is/are likely to" or the negative of these terms, or other similar expressions intended to identify forward-looking statements. Forward-looking statements are intended to assist readers in understanding managements' expectations as of the date of this MD&A and may not be suitable for other purposes. We have based these forward-looking statements on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- our expectations regarding our revenue, expenses and operations;
- our anticipated cash needs;
- our ability to protect, maintain and enforce our intellectual property rights;
- third-party claims of infringement or violation of, or other conflicts with, intellectual property rights by us;
- our plans for and timing of expansion of our solutions and services;

- our future growth plans;
- the acceptance by our customers and the marketplace of new technologies and solutions;
- our ability to attract new customers and develop and maintain existing customers;
- our ability to attract and retain personnel;
- our expectations with respect to advancement in our technologies;
- our competitive position and our expectations regarding competition;
- regulatory developments and the regulatory environments in which we operate; and
- anticipated trends and challenges in our business and the markets in which we operate.

Forward-looking statements are based on certain assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments and other factors we believe are appropriate. Although we believe that the assumptions underlying these statements are reasonable, they may prove to be incorrect. Forward-looking statements are also subject to risks and uncertainties. In light of these risks, uncertainties and assumptions, readers should not place undue reliance on forward-looking statements. Whether actual results, performance or achievements will conform to our expectations and predictions is subject to a number of known and unknown risks, uncertainties, assumptions and other factors which include:

- risks related to managing our growth
- our dependence on customer retention and renewals
- our long sales cycles
- our reliance on recurring revenue
- fluctuations in quarterly operating results
- exchange rate fluctuations
- risks related to expanding our marketing and sales
- risks related to our ability to maintain the compatibility of our solutions with third-party applications
- risks related to our ability to adapt to rapid technological change
- risks related to our ability to meet our contractual commitments
- risks related to global economic conditions
- risks related to the security of customer information
- risks related to the protection of our intellectual property
- risks related to the complexity of our solutions
- competition in our industry and markets
- our reliance on key personnel
- risks related to our ability to continue to develop our direct sales force
- our reliance on third-party service providers
- the possibility of product defects
- risks related to international expansion

Although the forward-looking statements contained in this MD&A are based upon what our management believes are reasonable assumptions, these risks, uncertainties, assumptions and other factors could cause our actual results, performance, achievements and experience to differ materially from our expectations, future results, performances or achievements expressed or implied by the forward-looking statements.

The forward-looking statements made in this MD&A relate only to events or information as of the date on which the statements are made in this MD&A and are expressly qualified in their entirety by this cautionary statement. Except as required by law, we do not assume any obligation to update or revise any forward-looking statements, whether as a result of new information, future event or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

Readers should read this MD&A with the understanding that our actual future results may be materially different from what we expect.

Overview

We are a leading provider of cloud-based subscription software that enables our customers to improve and accelerate analysis and decision-making across their supply chain operations. Our RapidResponse product provides supply chain planning and analytics capabilities that create the foundation for managing multiple, interconnected supply chain management processes, including demand planning, supply planning, inventory management, order fulfillment and capacity planning. Our professional services team supports deployment of RapidResponse in new customers and assists existing customers in fully leveraging the benefits of the product.

Our target market is large enterprises that have significant unresolved supply chain challenges. We believe this market is growing as a result of a number of factors, including increased complexity and globalization of supply chains, outsourcing, a diversity of data sources and systems, and competitive pressures on our customers.

We have established a strong track record of cash flow generation and revenue and earnings growth. Our subscription and total annual revenues have grown respectively at a compound annual growth rate (CAGR) of 24% and 23% for the three years ending December 31, 2014. This growth is driven both by contracts with new customers and expansion of our solution and service engagements within our existing customer base.

Our customers are generally large national or multinational enterprises with complex supply chain requirements. We target multiple industry verticals including high technology and electronics manufacturing, aerospace and defense, industrial products, life sciences and pharmaceuticals, consumer packaged goods, and most recently, the automotive sector.

We sell our product using a subscription-based model. Our agreements with customers are typically two to five years in length. Our subscription fee generally depends on the size of our customer, the number of applications deployed, the number of users and the number of manufacturing, distribution and inventory sites our product is required to model. Average annual contract value fluctuates from period to period depending on the size of new customers and the extent to which we are successful in expanding adoption of our products by existing customers.

For the year ended December 31, 2014, our ten largest customers accounted for approximately 37% of our total revenues with no one customer accounting for greater than 10% of total revenues.

Increasing revenues through new customer wins is one of our highest organizational priorities. Our sales cycle can be lengthy, as we generally target very large organizations with significant internal processes for adoption of new systems. We currently pursue a revenue growth model that includes both direct sales through our internal sales force, as well as indirect sales through channels including resellers and other partners.

Due to the growth in the market and increasing need for solutions, competition in the industry from new entrants and larger incumbent vendors will increase. In addition to this increased competitive pressure, changes in the global economy may have an impact on the timing and ability of these enterprises to make buying decisions which can have an impact on our performance.

Since our initial public offering in June, we continue to drive growth in our business through new customer acquisition and expansion of existing customers through our land and expand philosophy. Historically, approximately 40% of subscription revenue growth comes from our existing customer base and our net revenue retention is greater than 100 percent. We continue to invest in developing our partner capabilities and in our technology. In November of 2014, we released version 2014.4 of RapidResponse reflecting our ongoing investment in our product's scale and capabilities to support the needs of our expanding customer base.

We are headquartered in Ottawa, Ontario. We have subsidiaries located in the United States, the Netherlands and Hong Kong and a subsidiary and satellite office in Tokyo, Japan. We continue to expand our operations internationally. In the year ended December 31, 2014, 89% of our revenues derived from North America and our remaining revenues derived from outside North America, principally from Japan and Europe.

Key Performance Indicators

The key performance indicators that we use to manage our business and evaluate our financial results and operating performance are: total revenue, total new customers, incremental subscription revenue and bookings, net revenue retention, secured subscription backlog, operating expenses, Adjusted profit, Adjusted EBITDA (as defined below), Adjusted diluted earnings per share and cash flow from operations. Some of these measures are non-IFRS measures. See “Non-IFRS Measures” above. Management reconciles non-IFRS measures to IFRS measures where a comparable IFRS measure exists. See “Reconciliation of Non-IFRS Measures” below. We evaluate our performance by comparing our actual results to budgets, forecasts and prior period results.

Net revenue retention

Our subscription customers generally enter into two to five year agreements, paid annually in advance, for use of our solution. In certain circumstances, customers will prepay subscription fees for the term of the agreement for various reasons such as accommodating their own budget cycles. Subscription agreements are subject to price increases upon renewal reflecting both inflationary increases and the additional value provided by our solutions. In addition to the expected increase in subscription revenue from price increases over time, existing customers may subscribe for additional applications, users or sites during the terms of their agreements.

Our subscription model results in a high proportion of recurring revenue, which we define as subscription revenue plus maintenance & support revenue (see “Significant Factors Affecting Results of Operations – Revenue”). The power of the subscription model is only fully realized when a vendor has high retention rates. High customer retention rates generate a long customer lifetime and a very high lifetime value of the customer. Our net revenue retention rates are over 100%, which includes sales of additional applications, users and sites to existing customers.

The recurring nature of our revenue provides high visibility into future performance, and upfront payments result in cash flow generation in advance of revenue recognition. Typically, more than 80% of our annual subscription revenue is recognized from customers that are in place at the beginning of the year (excluding the effect of renewals) and this continues to be our target model going forward. However, this also means that agreements with new customers or agreements with existing customers purchasing additional applications, users or sites in a quarter may not contribute significantly to revenue in the current quarter. As an example, a new customer who enters into an agreement on the last day of a quarter will typically have no impact on the revenue recognized in that quarter.

Significant Factors Affecting Results of Operations

Our results of operations are influenced by a variety of factors, including:

Revenue

Our revenue consists of subscription fees, professional service fees and maintenance and support fees. Subscription revenue is comprised of fixed term fees for licensed on-premise use of RapidResponse or fees for provision as software as a service (“SaaS”) in a hosted/cloud environment.

Subscription revenue includes maintenance and support for the solution for the term of the contract as well as hosting services when provided under a SaaS arrangement.

Professional services revenue is comprised of fees charged to assist organizations to implement and integrate our solution and train their staff to use and deploy our solution. Professional service engagements are contracted on a time and materials basis including billable travel expenses and are billed and recognized as revenue as the service is delivered.

Maintenance & support revenue relates to fees for maintenance and support for certain legacy customers who licensed our software on a perpetual basis prior to our conversion to a SaaS model in 2005. Over time, this revenue stream is expected to decline as more customers eventually convert to our more comprehensive, subscription based service or customers choose to let their support contracts lapse.

Cost of revenue

Cost of revenue consists of personnel, travel and other overhead costs related to implementation teams supporting initial deployments, training services and subsequent stand-alone engagements for additional services. Cost of revenue also includes personnel and overhead costs associated with our customer support team, the cost of our data centre facilities where we physically host our on-demand solution and network connectivity costs for the provisioning of hosting services under SaaS arrangements.

Sales and marketing expenses

Sales and marketing expenses consist primarily of personnel and related costs for our sales and marketing teams, including salaries and benefits, commissions earned by sales personnel and trade show and promotional marketing costs.

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 expect that in the future, sales and marketing expenses will continue to increase.

Research and development expenses

Research and development expenses consist primarily of personnel and related costs for the teams responsible for the ongoing research, development and product management of RapidResponse. These expenses are recorded net of any applicable scientific research and experimental development investment tax credits ("**investment tax credits**") earned for expenses incurred in Canada against eligible projects. When we were a Canadian controlled private corporation, a portion of these tax credits were refundable. As a public company, federal tax investment tax credits are no longer refundable. We only record non-refundable tax credits to the extent there is reasonable assurance we will be able to use the investment tax credits to reduce current or future tax liabilities. As the Company has an established history of profits, we do expect to realize the benefit of these tax credits in the near term. Further, we anticipate that spending on R&D will also be higher in absolute dollars as we expand our research and development and product management teams.

General and administrative expenses

General and administrative expenses consist primarily of personnel and related costs associated with administrative functions of the business including finance, human resources and internal IT support, as well as legal, accounting and other professional fees. We expect that, in the future, general and administrative expenses will increase in absolute dollars as we invest in our infrastructure and we incur additional employee-related costs and professional fees related to the growth of our business and international expansion, including associated public company costs.

Foreign exchange

Our presentation and functional currency with the exception of our subsidiaries in Japan (Japanese Yen) and the Netherlands (Euro) is U.S. dollars. We derive most of our revenue in U.S. dollars. Our head office and a significant portion of our employees are located in Ottawa, Canada, and as such a significant amount of our expenses are incurred in Canadian dollars.

Loss due to change in fair value of redeemable preferred shares

We have recorded significant losses related to changes in the fair value of the redeemable preferred share liability. Immediately prior to the completion of our initial public offering, all of our redeemable preferred shares were converted on a one-to-one basis to Common Shares and the liability was reduced to \$Nil with a corresponding increase in share capital. In addition, the accumulated deficit of \$41 million generated by the losses related to the changes in the fair value of the redeemable preferred shares that were converted to Common Shares was reclassified from deficit to share capital. In future periods, there will be no further impact on our results of operations from the redeemable preferred shares.

Results of Operations

The following table sets forth a summary of our results of operations for the three months ended December 31, 2014 and 2013 along with the years ended December 31, 2014, 2013 and 2012:

	Three months ended December 31		Years ended December 31		
	2014	2013	2014	2013	2012
(In thousands of U.S. dollars, except earnings (loss) per share)					
Statement of Operations					
Revenue.....	\$ 18,820	\$ 16,319	\$ 70,054	\$ 60,816	\$ 46,671
Cost of revenue.....	5,433	4,603	20,745	18,016	13,156
Gross profit.....	13,387	11,716	49,309	42,800	33,515
Operating expenses.....	10,763	7,802	37,039	29,625	25,479
	2,624	3,914	12,270	13,175	8,036
Loss due to change in fair value of redeemable preferred shares	—	(2,665)	(6,760)	(17,884)	(1,172)
Foreign exchange (loss) gain.....	(465)	(8)	(599)	(168)	215
Net finance income (expense)	17	(13)	(490)	31	46
Profit (Loss) before income taxes.....	2,176	1,228	4,421	(4,846)	7,125
Income tax expense	1,592	2,068	4,642	4,874	2,181
Profit (Loss).....	\$ 584	\$ (840)	\$ (221)	\$ (9,720)	\$ 4,944
Adjusted profit ⁽¹⁾	\$ 1,429	\$ 2,170	\$ 9,197	\$ 9,167	\$ 7,014
Adjusted EBITDA ⁽¹⁾	\$ 3,803	\$ 4,477	\$ 16,079	\$ 15,012	\$ 9,611
Basic earnings (loss) per share	\$ 0.02	\$ (0.05)	\$ (0.01)	\$ (0.59)	\$ 0.30
Diluted earnings (loss) per share	\$ 0.02	\$ (0.05)	\$ (0.01)	\$ (0.59)	\$ 0.19
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.06	\$ 0.09	\$ 0.41	\$ 0.34	\$ 0.27

	As at December 31, 2014	As at December 31, 2013	As at December 31, 2012
(In thousands of U.S. dollars)			
Total assets	\$ 91,209	\$ 41,472	\$ 72,490
Deferred revenue.....	37,518	24,700	20,316
Redeemable preferred shares.....	—	54,135	64,720
Other non-current liabilities.....	109	20,988	218

Note:

- (1) Adjusted profit, Adjusted EBITDA and Adjusted diluted earnings per share are non-IFRS measures. See “Non-IFRS Measures”. For a reconciliation of these measures to the closest IFRS measure, see “Reconciliation of Non-IFRS Measures” below.

Non-IFRS Measurements

Adjusted profit and Adjusted diluted earnings per share

Adjusted profit represents profit adjusted to exclude the impact of our formerly outstanding redeemable preferred shares and our equity compensation plans. Adjusted diluted earnings per share represents diluted earnings (loss) per share using Adjusted profit. We use Adjusted profit and Adjusted diluted earnings per share to measure our performance as these measures align our results and improve comparability against our peers.

Adjusted EBITDA

Adjusted EBITDA represents profit adjusted to exclude the impact of our formerly outstanding redeemable preferred shares, our equity compensation plans, income tax expense, depreciation, foreign exchange loss (gain) and net financing (income) expense. We use Adjusted EBITDA to provide readers with a supplemental measure of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures.

We believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess our ability to meet our capital expenditure and working capital requirements.

We have reconciled Adjusted profit and Adjusted EBITDA to the most comparable IFRS financial measure as follows:

	Three months ended December 31,		Years ended December 31		
	2014	2013	2014	2013	2012
(In thousands of U.S. dollars)					
Profit (Loss).....	\$ 584	\$ (840)	\$ (221)	\$ (9,720)	\$ 4,944
Loss due to change in fair value of redeemable preferred shares.....	—	2,665	6,760	17,884	1,172
Share-based compensation.....	845	345	2,658	1,003	898
	845	3,010	9,418	18,887	2,070
Adjusted profit.....	\$ 1,429	\$ 2,170	\$ 9,197	\$ 9,167	\$ 7,014
Income tax expense	1,592	2,068	4,642	4,874	2,181
Depreciation	334	218	1,151	834	677
Foreign exchange loss (gain)	465	8	599	168	(215)
Net finance (income) expense.....	(17)	13	490	(31)	(46)
	2,374	2,307	6,882	5,845	2,597
Adjusted EBITDA	\$ 3,803	\$ 4,447	\$ 16,079	\$ 15,012	\$ 9,611

Revenue

The following table displays the breakdown of our revenue according to revenue type:

	Three months ended December 31,		2013 to	Years ended December 31		2013 to
	2014	2013	%	2014	2013	%
(In thousands of U.S. dollars, except percentages)						
Revenue						
Subscription.....	\$ 13,852	\$ 10,926	27%	\$ 51,119	\$ 40,039	28%
Professional services	4,694	5,071	(7%)	17,755	19,173	(7%)
Maintenance and support	274	322	(15%)	1,180	1,604	(26%)
Total revenue	18,820	16,319	15%	70,054	60,816	15%

Total revenue for the fourth quarter of 2014 was \$18.8 million or an increase of 15% compared to the same period in 2013. For fiscal year 2014, total revenue was \$70.1 million compared to \$60.8 million for 2013, representing an increase of 15%.

Subscription Revenue

Subscription revenue for the three months ended December 31, 2014 was \$13.9 million, up from \$11.0 million for the same period in 2013, for an increase of 27% or \$2.9 million. For fiscal year 2014, subscription revenue was \$51.1 million or 28% higher than fiscal year 2013. The increase in subscription revenue is due to revenue from

contracts secured with new customers during the fourth quarter of 2013 and during fiscal year 2014, and expansion of existing customer subscriptions.

Professional services revenue

Professional services revenue for the fourth quarter of 2014 decreased \$0.4 million or 7% to \$4.7 million from \$5.1 million for the same period in 2013. For fiscal year 2014, professional service revenue was \$17.8 million compared to \$19.2 million for the same period in 2013, representing a decrease of \$1.4 million or 7%. The decrease in services revenue is due to a decline in revenue related to a significant engagement with an existing customer that ended in December 2013. This decrease was partially offset by an increase in services provided for deployment of new customers acquired during the second half of 2013 and throughout fiscal year 2014.

Maintenance & support revenue

Maintenance & support revenue was \$0.3 million for the fourth quarter of 2014, down 15% compared to the same period in 2013 and \$1.2 million for fiscal year 2014 compared to \$1.6 million for 2013, a decrease of \$0.4 million or 26%. This expected decrease in revenue is due to support contracts with legacy customers with perpetual licenses that have lapsed and the migration of perpetual licenses held by a specific customer to a subscription model in the latter half of fiscal 2013.

Gross Profit

	Three months ended December 31,		2013 to 2014	Years ended December 31		2013 to 2014
	2014	2013	%	2014	2013	%
(In thousands of U.S. dollars, except percentages)						
Cost of revenue.....	\$ 5,433	\$ 4,603	18%	\$ 20,745	\$ 18,016	15%
Gross profit.....	13,387	11,716	14%	49,309	42,800	15%
Gross profit %.....	71%	72%		70%	70%	

Cost of revenue for the fourth quarter of 2014 increased \$0.8 million, or 18%, to \$5.4 million from \$4.6 million for the same period in 2013. For fiscal year 2014, cost of revenue increased \$2.7 million or 15% to \$20.7 million from \$18.0 million for the same period in 2013. The increase in costs was primarily attributable to increased headcount and related compensation costs initiated in the second half of 2013 to support active engagements and future growth of professional services activity, an increase in use of third-party service providers to support new deployments, and increased travel costs and billable expenses related to currently active projects. An increase in costs associated with the expansion of data centre capacity to support new customer engagements was also incurred. Gross profit for the three months and year ended December 31, 2014 was \$13.4 million and \$49.3 million compared to \$11.7 million and \$42.8 million for the same periods in 2013. Gross profit as a percentage of revenue decreased to 71% in the fourth quarter ended December 31, 2014 from 72% in the fourth quarter ended December 31, 2013 and remained at 70% in the years ended December 31, 2014 and 2013. The percentage decrease in the fourth quarter of 2014 was due to the growth in total revenue in the period compared to the fourth quarter of 2013 while the growth in cost of revenue was higher in the fourth quarter of 2014 driven by a higher level of investment in additional services headcount compared to the same period in 2013.

Selling and Marketing Expenses

	Three months ended December 31,		2013 to 2014	Years ended December 31		2013 to 2014
	2014	2013	%	2014	2013	%
(In thousands of U.S. dollars, except percentages)						
Selling and marketing	\$ 5,275	\$ 3,543	49%	\$ 15,296	\$ 15,071	1%
As a percentage of revenue	28%	22%		22%	25%	

Selling and marketing expenses for the fourth quarter of 2014 increased \$1.8 million, or 49%, to \$5.3 million from \$3.5 million in the fourth quarter of 2013. For the year ended December 31, 2014, selling and marketing expenses increased \$0.2 million or 1% to \$15.3 million from same period in 2013. The increase in sales and

marketing expenses for the fourth quarter of 2014 was due to higher commission expenses incurred in the fourth quarter of 2014 compared to the same period in 2013. Late in the fourth quarter of 2014, we closed a multi-year subscription agreement that provided for a single payment of the initial term subscription fee of approximately \$20.0 million. While this fee was invoiced and received in the first quarter of 2015, the commissions related to this agreement were expensed in the fourth quarter of 2014. Sales and marketing expenses for fiscal year 2014 were comparable to the prior year, as increased sales compensation and commission expenses relating to customer contracts closed in 2014 were mostly offset by lower marketing headcount and related compensation costs due to a functional realignment of product marketing resources to product management under research and development in the fourth quarter of 2013. As a percentage of revenue, selling and marketing expenses increased 6% to 28% in the fourth quarter of 2014 and decreased 3% to 22% for the year ended December 31, 2014. The increase in the fourth quarter of 2014 compared to the fourth quarter of 2013 is due to the higher commission expenses incurred in the fourth quarter of 2014. The decrease in fiscal year 2014 compared to fiscal year 2013 is due to the functional realignment of product marketing resources in the fourth quarter of 2013. Due to the timing of marketing programs and events and the closing of customer contracts, selling and marketing expenses will vary from quarter to quarter.

Research and Development Expenses

	Three months ended December 31,		2013 to 2014	Years ended December 31		2013 to 2014
	2014	2013	%	2014	2013	%
(In thousands of U.S. dollars, except percentages)						
Research and development - gross	\$ 3,940	\$ 2,974	32%	\$ 15,422	\$ 10,417	48%
Less: Investment tax credits	(578)	(527)	10%	(1,993)	(2,246)	(11%)
Research and development	3,362	2,447	37%	13,429	8,171	64%
As a percentage of revenue						
Gross	21%	18%		22%	17%	
Net	18%	15%		19%	13%	

Gross research and development expenses for the fourth quarter of 2014 increased \$0.9 million to \$3.9 million or 32% and for the year ended December 31, 2014, increased \$4.0 million to \$15.4 million or 48%, in each case compared to the same periods in 2013. The increase in research and development expenses was due to an increase in compensation and related costs due to an increase in headcount from new hires and the realignment of marketing resources under product management completed in the fourth quarter of 2013. The investment in headcount was made to support ongoing programs to develop the RapidResponse product and solution offering for new and existing customers. Investment tax credits earned on research and development activity in Canada increased 10% in the fourth quarter to \$0.6 million and decreased 11% to \$2.0 million for the 2014 year, in each case compared to the same periods in 2013. The increase in investment tax credits earned in the fourth quarter of 2014 compared to the fourth quarter of 2013 is due to increased headcount and creditable activity incurred in the second half of 2014. The decrease for fiscal year 2014 is due to a decrease in the effective rates for earning credits and the ineligibility of capital purchases for tax credits for 2014 as well as the loss of refundable credits at a higher rate upon the closing of our initial public offering and becoming a public company. As a percentage of revenues, gross research and development expenses were 21% for the fourth quarter and 22% for the fiscal year 2014 compared to 18% and 17% for the same periods in 2013, reflecting an additional investment in product development. Net research and development as a percentage of revenue for the fourth quarter and the 2014 year was 18% and 19% compared to 15% and 13% for the same periods in 2013. The percentage increased due to the decrease in the investment tax credits earned compared to the previous year in addition to higher product development expenses.

General and Administrative Expenses

	Three months ended December 31,		2013 to 2014	Years ended December 31		2013 to 2014
	2014	2013	%	2014	2013	%
(In thousands of U.S. dollars, except percentages)						
General and administrative	\$ 2,126	\$ 1,812	17%	\$ 8,314	\$ 6,383	30%
As a percentage of revenue	11%	11%		12%	10%	

For the fourth quarter of 2014, general and administrative expenses increased \$0.3 million, or 17%, to \$2.1 million from \$1.8 million for the same period in 2013. For the year ended December 31, 2014, general and administrative expenses increased \$1.9 million, or 30% to \$8.3 million from \$6.4 million for the same period in 2013. The increase in general and administrative expenses was due to an increase in headcount and related compensation costs and share-based payments expense as well as accounting, audit and legal fees related to the conversion to IFRS, review of quarterly results, tax planning and corporate governance support. As a percentage of revenue, general and administrative expenses were 11% for both the fourth quarter of 2014 and 2013 and 12% for the year ended December 31, 2014, compared to 10% for the same period in 2013 due to the increase in compensation costs and accounting, audit and legal fees noted above.

Other Income and Expense

The following table provides a breakdown of other income and expense by type:

	Three months ended December 31,		2013 to 2014	Years ended December 31		2013 to 2014
	2014	2013	%	2014	2013	%
(In thousands of U.S. dollars, except percentages)						
Other income (expense)						
Loss due to change in fair value of redeemable preferred shares	\$ —	\$ (2,665)	(100%)	\$ (6,760)	\$ (17,884)	(62%)
Foreign exchange (loss) gain.....	(465)	(8)	— ⁽¹⁾	(599)	(168)	257%
Net finance income (expense).....	17	(13)	— ⁽¹⁾	(490)	31	— ⁽¹⁾
Total other expense.....	(448)	(2,686)	(83%)	(7,849)	(18,021)	(56%)

Note:

(1) The percentage change has been excluded as it is not meaningful.

For the three months ended December 31, 2014, total other expense was \$0.4 million compared to \$2.7 million for the fourth quarter of 2013, and fiscal year 2014 was \$7.8 million compared to \$18.0 million for fiscal year 2013. The decrease in the fourth quarter was due to the non-cash fair value adjustment recorded in the fourth quarter of 2013 for the redeemable preferred shares which were converted to Common Shares at the time of our initial public offering in the second quarter of 2014. For fiscal year 2014, other expenses decreased due to a lower fair value adjustment for the redeemable preferred shares compared to the adjustments incurred in fiscal year 2013, offset partially by an increase in interest expense incurred in the first half of 2014 on the term loan and foreign exchange losses on monetary assets held in foreign currencies revalued against a strengthening US dollar in the second half of 2014.

Income Taxes

	Three months ended December 31,		2013 to 2014	Years ended December 31		2013 to 2014
	2014	2013	%	2014	2013	%
(In thousands of U.S. dollars, except percentages)						
Income tax expense						
Current	\$ 193	\$ 8,338	(98%)	\$ 819	\$ 8,857	(91%)
Deferred	1,399	(6,270)	— ⁽¹⁾	3,823	(3,983)	— ⁽¹⁾
Total income tax expense	1,592	2,068	(23 %)	4,642	4,874	(5%)

Note:

(1) The percentage change has been excluded as it is not meaningful.

For the three months and year ended December 31, 2014, income tax expense of \$1.6 million and \$4.6 million was recognized compared to \$2.1 million and \$4.9 million for the same periods in 2013. The decrease in income tax

expense for the fourth quarter of 2014 compared to the fourth quarter of 2013 is due to lower profit before income taxes in the fourth quarter of 2014 excluding the impact of the non-deductible loss on the redeemable preferred shares. Income tax expense for fiscal year 2014 was comparable to fiscal year 2013 as the profit before tax was also comparable excluding the impact of the loss on the redeemable preferred shares and considering the increase in non-deductible shared-based compensation in fiscal 2014 compared to fiscal 2013.

Profit (Loss)

	Three months ended December 31,		2013 to 2014	Years ended December 31		2013 to 2014
	2014	2013	%	2014	2013	%
(In thousands of U.S. dollars, except percentages)						
Profit (Loss).....	\$ 584	\$ (840)	— ⁽¹⁾	\$ (221)	\$ (9,720)	(98 %)
Adjusted profit ⁽²⁾	1,429	2,170	(34 %)	9,197	9,167	(1%)
Adjusted EBITDA ⁽²⁾	3,803	4,477	(15%)	16,079	15,012	7%
Basic earnings (loss) per share.....	0.02	(0.05)		(0.01)	(0.59)	
Diluted earnings (loss) per share...	0.02	(0.05)		(0.01)	(0.59)	
Adjusted diluted earnings per share ⁽²⁾	0.06	0.09		0.41	0.34	

Note:

- (1) The percentage change has been excluded as it is not meaningful.
- (2) Adjusted profit, Adjusted EBITDA and Adjusted diluted earnings per share are non-IFRS measures. See “Non-IFRS Measures”. For a reconciliation of these measures to the closest IFRS measure, see “Reconciliation of Non-IFRS Measures” above.

Profit for the three months ended December 31, 2014 increased \$1.4 million to \$0.6 million or \$0.02 per basic share and diluted share, from a loss of \$0.8 million or \$0.05 per basic and diluted share for the same period in 2013. For fiscal year 2014 the loss decreased to \$0.2 million or \$0.01 per basic and diluted share from \$9.7 million or \$0.59 per basic and diluted share. The increase in profit was primarily driven by a lower fair value adjustment on the redeemable preferred shares which were converted to Common Shares at the time of our initial public offering in June 2014. The increase was partially offset by lower operating profits, higher foreign exchange losses and interest expenses in 2014. Adjusted EBITDA for the fourth quarter of 2014 was \$3.8 million, a decrease of \$0.7 million from \$4.5 million from the corresponding period in 2013. For the year ended December 31 2014, Adjusted EBITDA increased \$1.1 million to \$16.1 million, compared to \$15.0 million in the corresponding period in 2013. The decrease in Adjusted EBITDA in the three months ended December 31, 2014 is due to an increase in sales and marketing and research and development expenses in the fourth quarter of 2014 compared to the same period in 2013. The increase in Adjusted EBITDA in fiscal year 2014 is due to the growth in revenue compared to the prior year net of the increase in operating expenses.

Key Balance Sheet Items

	As at December 31, 2014	As at December 31, 2013
(In thousands of U.S. dollars)		
Total assets.....	\$ 91,209	\$ 41,472
Total liabilities.....	44,572	115,052

An analysis of the key balance sheet items driving the change in total assets and liabilities is as follows:

Trade and other receivables

	As at December 31, 2014	As at December 31, 2013
(In thousands of U.S. dollars)		
Trade and other receivables.....	\$ 17,023	\$ 12,449

Trade and other receivables were \$17.0 million at December 31, 2014, an increase of \$4.6 million compared to \$12.4 million at December 31, 2013. The change in trade and other receivables was due to timing of billings and collections on receivables which can have a significant impact on the balance at any point in time due to the annual subscription billing cycle. The aging of trade receivables is generally current and we have no history of bad debts.

Investment tax credits

	As at December 31, 2014	As at December 31, 2013
	(In thousands of U.S. dollars)	
Investment tax credits receivable	\$ 1,974	\$ 1,330
Long-term investment tax credits recoverable	3,091	2,108

Investment tax credits receivable are the estimated refunds we anticipate receiving as a result of research and development that is considered qualified for investment tax credits. As of the closing of our initial public offering, we no longer are eligible for federal refundable investment tax credits. We remain eligible for non-refundable investment tax credits which will be earned at a lower rate resulting in higher research and development expenses going forward.

Investment tax credits receivable of \$2.0 million at December 31, 2014 were \$0.7 million higher compared to \$1.3 million at December 31, 2013 as the refund related to the 2013 tax year remains outstanding in addition to refundable investment tax credits filed for 2014 for the period prior to our initial public offering. Long-term investment tax credits recoverable are the non-refundable portion of investment tax credits earned. The balance increased \$1.0 million to \$3.1 million at December 31, 2014 from \$2.1 million at December 31, 2013 due to estimated non-refundable credits earned during fiscal year 2014.

Deferred revenue

	As at December 31, 2014	As at December 31, 2013
	(In thousands of U.S. dollars)	
Current	\$ 35,740	\$ 24,700
Non-current	1,778	—
	<u>37,518</u>	<u>24,700</u>

Deferred revenue at December 31, 2014 was \$37.6 million, an increase of \$12.9 million compared to \$24.7 million at December 31, 2013. We generally bill our customers annually in advance for subscriptions resulting in the amount billed initially recorded as deferred revenue and drawn down to revenue over the term. The increase in deferred revenue reflects the increase in subscription revenue from the addition of new customer contracts and expansion of existing customers and the timing of annual billings. Deferred revenue relating to subscription term periods beyond one year totaled \$1.8 million at December 31, 2014.

Redeemable preferred shares

	As at December 31, 2014	As at December 31, 2013
	(In thousands of U.S. dollars)	
Redeemable preferred shares	\$ —	\$ 54,135

Prior to our initial public offering, we had redeemable preferred shares outstanding that had been designated as financial liabilities and recorded at fair value through profit or loss in accordance with IFRS. The liability increased \$6.8 million in 2014 compared to December 31, 2013 due to the change in the fair value of the redeemable preferred shares. Immediately before completion of our initial public offering, all of our outstanding redeemable preferred shares were converted into Common Shares on a one-for-one basis. The accumulated deficit generated by the non-cash fair value adjustments amounting to \$41.0 million related to these converted preferred shares was reclassified from deficit to share capital. Upon completion of our initial public offering we no longer have issued or authorized redeemable preferred shares and we will no longer incur the related changes in fair value recorded in profit and loss.

Summary of Quarterly Results

The following table summarizes selected results for the eight most recent completed quarters to December 31, 2014.

	Three months ended							
	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Revenue:								
Subscription.....	\$ 13,852	\$ 13,302	\$ 12,645	\$ 11,320	\$ 10,926	\$ 10,149	\$ 9,853	\$ 9,111
Professional services.....	4,694	4,081	4,979	4,001	5,071	4,934	5,404	3,764
Maintenance and support.....	274	298	306	302	322	368	463	451
	18,820	17,681	17,930	15,623	16,319	15,451	15,720	13,326
Cost of revenue.....	5,433	4,855	5,628	4,829	4,603	4,556	4,568	4,289
Gross profit.....	13,387	12,826	12,302	10,794	11,716	10,895	11,152	9,037
Operating expenses.....	10,763	8,697	9,934	7,645	7,802	6,868	7,689	7,266
	2,624	4,129	2,368	3,149	3,914	4,027	3,463	1,771
Loss due to change in fair value of redeemable preferred shares.....	-	-	(6,581)	(179)	(2,665)	(5,683)	(5,972)	(3,564)
Foreign exchange (loss) gain.....	(465)	(262)	81	47	(8)	103	(74)	(189)
Net finance income (expense).....	17	3	(253)	(257)	(13)	16	15	13
Profit (Loss) before income taxes.....	2,176	3,870	(4,385)	2,760	1,228	(1,537)	(2,568)	(1,969)
Income tax expense.....	1,592	1,358	889	803	2,068	1,244	964	598
Profit (Loss).....	\$ 584	\$ 2,512	\$ (5,274)	\$ 1,957	\$ (840)	\$ (2,781)	\$ (3,532)	\$ (2,567)
Loss due to change in fair value of redeemable preferred shares.....	-	-	6,581	179	2,665	5,683	5,972	3,564
Share-based compensation.....	845	794	631	388	345	204	217	237
	845	794	7,212	567	3,010	5,887	6,189	3,801
Adjusted profit ⁽¹⁾	\$ 1,429	\$ 3,306	\$ 1,938	\$ 2,524	\$ 2,170	\$ 3,106	\$ 2,657	\$ 1,234
Income tax expense.....	1,592	1,358	889	803	2,068	1,244	964	598
Depreciation.....	334	317	260	240	218	209	207	200
Foreign exchange loss (gain).....	465	262	(81)	(47)	8	(103)	74	189
Net finance (income) expense.....	(17)	(3)	253	257	13	(16)	(15)	(13)
	2,374	1,934	1,321	1,253	2,307	1,334	1,230	974
Adjusted EBITDA ⁽¹⁾	\$ 3,803	\$ 5,240	\$ 3,259	\$ 3,777	\$ 4,477	\$ 4,440	\$ 3,887	\$ 2,208
Basic earnings (loss) per share.....	\$ 0.02	\$ 0.11	\$ (0.34)	\$ 0.15	\$ (0.05)	\$ (0.16)	\$ (0.21)	\$ (0.15)
Diluted earnings (loss) per share.....	\$ 0.02	\$ 0.10	\$ (0.34)	\$ 0.14	\$ (0.05)	\$ (0.16)	\$ (0.21)	\$ (0.15)
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.06	\$ 0.13	\$ 0.09	\$ 0.17	\$ 0.09	\$ 0.11	\$ 0.10	\$ 0.05

Note:

- (1) Adjusted profit, Adjusted EBITDA and Adjusted diluted earnings per share are non-IFRS measures. See "Non-IFRS Measures". For a reconciliation of these measures to the closest IFRS measure, see "Reconciliation of Non-IFRS Measures" above.

Subscription revenue has increased steadily over the quarters due to acquisition of new customers and expansion of existing customers. Quarterly professional services revenue decreased from 2013 to 2014 due to a decline in revenue related to a significant engagement with an existing customer that ended in December 2013. Professional services revenue varies quarter to quarter due to the size, timing and scheduling of customer engagements. Maintenance and support revenue has declined over the quarters due to support contracts with legacy customers with perpetual licenses that have lapsed and the migration of a specific customer to a subscription model in the latter half of 2013. Cost of revenue has increased as we invest in capacity to support the current and future growth in our business with gross margin of approximately 70% of revenue. Operating expenses have increased as we invest in sales and marketing and product development. In addition to increased investment, our quarterly operating expenses are impacted by timing of sales commissions and marketing events. We have also experienced

an increase in general and administrative expenses to support our initial public offering in the second quarter of 2014 and to support ongoing compliance and governance requirements. Our quarterly profit has been impacted significantly by the fair value adjustment on the redeemable preferred shares prior to our initial public offering. Upon completion of the initial public offering in June 2014, we converted the redeemable preferred shares into Common Shares and profit will no longer be impacted by this expense.

Liquidity and Capital Resources

Our primary source of cash flow is sales of subscriptions for our software and sales of services. Our approach to managing liquidity is to ensure, to the extent possible, that we always have sufficient liquidity to meet our liabilities as they come due. We do so by continuously monitoring cash flow and actual operating expenses compared to budget.

	As at December 31, 2014	As at December 31, 2013
	(In thousands of U.S. dollars)	
Cash and cash equivalents.....	\$ 56,725	\$ 13,804

Cash and cash equivalents increased \$42.9 million to \$56.7 million at December 31, 2014, from \$13.8 million at December 31, 2013. The increase is primarily due to the proceeds from our initial public offering which closed in the second quarter of 2014, net of repayment of our term loan as well as cash from operations for fiscal year 2014. We expect cash to increase significantly during the first quarter of 2015 due to the receipt of prepayment of a multi-year subscription of approximately \$20.0 million as well as other new subscription arrangements.

In addition to the cash balances, we have a Cdn.\$5.0 million revolving demand facility available to be drawn to meet ongoing working capital requirements. Our principal cash requirements are for working capital and capital expenditures. Excluding deferred revenue, working capital at September 30, 2014 was \$70.8 million. Given the ongoing cash generated from operations and our existing cash and credit facilities, we believe there is sufficient liquidity to meet our current and planned financial obligations.

The following table provides a summary of cash inflows and outflows by activity:

	Years ended December 31	
	2014	2013
	(In thousands of U.S. dollars)	
Cash Inflows and (Outflow) by activity		
Operating activities.....	\$ 16,250	\$ 19,629
Investing activities.....	(3,487)	(1,397)
Financing activities.....	30,595	(52,622)
Effects of exchange rates	(437)	(607)
Net cash inflows (outflows).....	42,921	(34,997)

Cash provided by (used in) operating activities

Cash generated by operating activities was \$16.3 million in 2014 compared to \$19.6 million in 2013. The decrease in cash provided by operating activities of \$3.3 million was due primarily to the Part VI.1 tax of \$4.0 million paid in the first quarter of 2014 and interest paid on the term loan of \$0.5 million during the first two quarters of 2014.

Cash provided by (used in) investing activities

Cash used in investing activities is driven by purchases of property and equipment primarily related to computer equipment for use in our hosting facilities and to support research and development requirements. For the year ended December 31, 2014, cash used in purchase of property and equipment was \$3.5 million, an increase of \$2.1 million from \$1.4 million in 2013. We expect to continue to invest in additional property and equipment to support the growth in our customer base and to take advantage of new and advanced technology.

Cash provided by (used in) financing activities

Cash provided by financing activities for the year ended December 31, 2014 was \$30.6 million comprised of: \$1.2 million of proceeds from shares issued for cash and upon exercise of options before and after the completion of our

initial public offering, \$54.3 million of proceeds from our initial public offering net of share issuance costs incurred, and \$5.0 million drawn on the term debt facility to fund the Part VI.1 tax liability resulting from the shares repurchased in the fourth quarter of 2013, less repayment of the term debt facility in full for \$30 million. The cash used by financing activities in the same period in 2013 was \$52.6 million comprised of: \$79.1 million in cash consideration provided for the repurchase of Class A Preferred Shares, Common Shares and Non-Voting Common Shares in the fourth quarter of 2013 net of \$25.0 million in term debt drawn to finance a portion of the repurchase, \$0.5 million of proceeds from shares issued upon exercise of options and subscriptions received under the share purchase plan (which was discontinued in connection with our initial public offering) and \$1.0 million of proceeds from the repayment of receivable for share sale.

Revolving Credit Facility and Term Loan

On December 18, 2013, we entered into certain credit facilities with the Royal Bank of Canada (“**RBC**”). The credit facilities are comprised of a Cdn.\$5.0 million revolving demand credit facility (the “**Revolving Facility**”) and a \$30.0 million non-revolving term loan (the “**Term Loan**”) maturing on June 30, 2017.

As of December 31, 2014, no amounts had been drawn against the Revolving Facility. Prior to our initial public offering, \$30.0 million had been drawn under the Term Loan. On June 18, 2014, the balance of the Term Loan was repaid using proceeds of our initial public offering. Upon full repayment the Term Loan facility was terminated.

The interest rate on the remaining Revolving Facility is RBC U.S. prime plus 1% per annum for U.S. dollar denominated amounts and RBC U.S. base rate plus 1% per annum for Canadian dollar denominated amounts. In the event our aggregate borrowings under the Revolving Facility exceed Cdn. \$0.5 million a borrowing limit applies that is based principally on our accounts receivable.

Use of Proceeds

On June 10, 2014, pursuant to our initial public offering, we issued 5,000,000 Common Shares for proceeds, before deducting fees and expenses, of approximately Cdn. \$65.0 million. After deducting fees and expenses, we realized net proceeds of \$55.7 million (approximately Cdn. \$61.3 million).

As previously disclosed we planned to use the proceeds we received from our initial public offering as follows: approximately \$30.0 million (approximately Cdn.\$33.0 million) for debt repayment, approximately Cdn.\$23.6 million to strengthen our balance sheet, and the balance for working capital and general corporate and administrative purposes. We may also use a portion of the net proceeds to expand our current business through acquisitions of, or investments in, other complementary businesses, products or technologies. We may re-allocate the net proceeds from time to time depending on changes in business conditions prevalent at the time.

The following table sets out a comparison of the intended use of proceeds disclosed in the prospectus dated June 3, 2014 (the “**Intended Use of Proceeds**”) publicly filed in connection with our initial public offering and actual use of proceeds from the offering (other than working capital):

Intended Use of Proceeds	Estimated Amount	Actual Use of Proceeds	Actual Amount	Variances
Debt repayment	\$30.0 million	Debt repayment	\$30.0 million	No variance
Strengthen our balance sheet	Cdn.\$23.6 million	Strengthen our balance sheet	Cdn.\$23.6 million	No variance

Contractual Obligations

The following table summarizes our contractual obligations as at December 31, 2014, including commitments relating to leasing contracts:

	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>More than 5 years</u>	<u>Total amount</u>
	(In thousands of U.S. dollars)			
Commitments				
Operating lease agreements	\$ 1,206	\$ 5,498	\$ 2,658	\$ 9,362
Financial Obligations				
Trade payables and accrued liabilities	6,945	—	—	6,945
Total Obligations	<u>\$ 8,151</u>	<u>\$ 5,498</u>	<u>\$ 2,658</u>	<u>\$ 16,307</u>

The following table summarizes our contractual obligations as at December 31, 2013, including commitments relating to leasing contracts:

	<u>Less than 1 year</u>	<u>1 to 5 years</u>	<u>More than 5 years</u>	<u>Total amount</u>
	(In thousands of U.S. dollars)			
Commitments				
Operating lease agreements	\$ 1,114	\$ 2,799	\$ —	\$ 3,913
Financial Obligations				
Trade payables and accrued liabilities	11,062	—	—	11,062
Long-term debt	4,167	20,833	—	25,000
Redeemable preferred shares	—	54,135	—	54,135
	<u>15,229</u>	<u>74,968</u>	<u>—</u>	<u>90,197</u>
Total Obligations	<u>\$ 16,343</u>	<u>\$ 77,767</u>	<u>\$ —</u>	<u>\$ 94,110</u>

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements, other than operating leases (which have been disclosed under “*Liquidity and Capital Resources - Contractual Obligations*”), that have, or are likely to have, a current or future material effect on our consolidated financial position, financial performance, liquidity, capital expenditures or capital resources.

Transactions with Related Parties

We did not have any transactions during the year ended December 31, 2014 that would be considered to be between the Company and a related party. During the year ended December 31, 2013 the Company made donations of \$65 in lieu of salary to a charitable organization that is a related party to our CEO, and conducted a share repurchase program that was executed in the fourth quarter of 2013 in which the CEO and other executive officers tendered shares and/or vested options.

Financial Instruments and Other Instruments

We recognize financial assets and liabilities when we become 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 assets and liabilities, except for financial assets or liabilities at fair value through profit and loss, whereby the transactions 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 trade and other receivables.

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 low. As the majority of our revenues are earned

over a period of time, the potential impact on our operating results is low as any uncollectible amounts would affect trade and other receivables and deferred revenue.

Currency risk

A portion of our revenues and operating costs are realized in currencies other than our functional currency, such as the Canadian dollar, Euros, the Hong Kong dollar and Japanese Yen. 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 a foreign exchange gain or loss.

Our objective in managing our currency risk is to minimize exposure to currencies other than our functional currency. We do so by matching foreign denominated assets with foreign denominated liabilities.

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 for our financial assets as the majority of investments are made in fixed rate instruments. We do have interest rate risk related to our credit facilities. The rates on our Revolving Facility are variable to bank prime rate.

Capital management

Our capital is composed of our Common Shares and shareholders' equity. Our objective in managing our capital is financial stability and sufficient liquidity to increase shareholder value through organic growth and investment in sales, marketing and product development. Our senior management team is responsible for managing the capital through regular review of financial information to ensure sufficient resources are available to meet operating requirements and investments to support our growth strategy. The Board of Directors is responsible for overseeing this process. In order to maintain or adjust our capital structure, we could issue new shares, repurchase shares, approve special dividends or issue debt.

Critical Accounting Policies and Estimates

Revenue

We derive revenue from subscriptions for our product comprised of our hosted software-as-a-service (SaaS) application and fixed term subscription licenses of our software products ("**On-premise licenses**"). In addition, we derive revenue from the provision of professional services including implementation services, technical services and training and, to a lesser degree, from maintenance and support services provided to customers with legacy perpetual licenses to our software products. Professional services do not include significant customization to, or development of, the software.

We commence revenue recognition when all of the following conditions are met:

- it is probable that the economic benefits of the transaction will flow to the entity;
- the amount of revenue can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

We provide our SaaS, On-premise licenses and professional services on a stand-alone basis or as part of a multiple element arrangement. Stand-alone sales occur through renewals of the SaaS or On-premise license and stand-alone purchases of the same or similar professional services on an ongoing basis by customers. When sold in a multiple element arrangement, the SaaS or On-premise license and the professional services elements are considered separate units of accounting as they have stand-alone value to the customer. The total consideration for the arrangement is allocated to the separate units of accounting based on their relative fair value and the revenue is recognized for each unit when the requirements for revenue recognition have been met. We determine the fair value of each unit of accounting based on the selling price when they are sold separately. When the fair value cannot be determined based on when it was sold, we determine a value that most reasonably reflects the selling price that might be achieved in a stand-alone transaction. Inputs considered in making this determination include the specific

parameters and model used in determining the contract price, contracted renewal rates, the history of pricing, renewals and stand-alone sales activity of similar customers.

Subscription revenue related to the provision of SaaS or On-premise term licenses is recognized ratably over the contract term as the service or access to the software is delivered. The contract term begins when the service is made available or the license is delivered to the customer.

We enter into arrangements for professional services primarily on a time and materials basis. Revenue for professional services entered into on a time and material basis is recognized as the services are performed. In certain circumstances, the Company enters into arrangements for professional services on a fixed price basis. Revenue for fixed price arrangements is recognized by reference to the stage of completion of the contract, taking into consideration the cost incurred to date in relation to the total expected cost to complete the deliverable. If the estimated cost to complete a contract results in a loss on the contract, the loss is recognized immediately in profit or loss.

Maintenance and support services provided to customers with legacy perpetual licenses are sold as a single element arrangement with one unit of accounting. Revenue for these arrangements is recognized ratably over the term of the maintenance contract.

Judgment is applied in determining the components of a multiple element revenue arrangement. In allocating the consideration received among the multiple elements of a revenue arrangement, we must make estimates as to the fair value of each individual element. The selling price of the element on a stand-alone basis is used to determine the fair value. Where stand-alone sales do not exist, various inputs are used to determine the fair value. Changes to these inputs may result in different estimates of fair value for an element and impact the allocation of consideration and timing of revenue recognition.

Income taxes

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 we operate and generate taxable income.

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.

The recognition of deferred tax assets requires that we assess future taxable income available to utilize deferred tax assets related to deductible or taxable temporary differences. We consider the nature and carry-forward period of deferred tax assets, our recent earnings history and forecast of future earnings in performing this assessment. The actual deferred tax assets realized may differ from the amount recorded due to factors having a negative impact on our operating results and lower future taxable income.

Investment tax credits recoverable

The recognition of investment tax credits recoverable requires that we assess future tax payable available to utilize the investment tax credits. We consider the carry-forward period of the investment tax credits, our recent earnings history and forecast of future earnings in performing this assessment. We determine the value of effort expended towards research and development projects that qualify for investment tax credits and calculate the estimated recoverable to be recognized. The allocation of direct salaries to qualifying projects is derived from time records and assessment by management. The actual investment tax credits claimed and realized may differ from the estimate based on the final tax returns and review by tax authorities.

Fair value of share-based payments

We use the Black-Scholes valuation model to determine the fair value of equity settled stock options. Estimates are required for inputs to this model including the fair value of the underlying shares, the expected life of the option, volatility, expected dividend yield and the risk-free interest rate. Variation in actual results for any of these inputs will result in a different value of the stock option realized from the original estimate.

Adoption of New Accounting StandardsIAS 32: Financial Instruments: Presentation

In December 2011, the International Accounting Standards Board amended International Accounting Standard 32 to clarify the meaning of when an entity has a current legally enforceable right of set-off. The amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively. The adoption of IAS 32 did not have a material impact on the consolidated financial statements.

IFRIC 21: Levies

In May 2013, the International Accounting Standards Board issued IFRIC 21 which provides guidance on accounting for levies in accordance with the requirements of International Accounting Standard 37: Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executor contracts of other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. This IFRIC is effective for annual reporting periods beginning on or after January 1, 2014 and is required to be applied retrospectively. The adoption of IFRIC 21 did not have a material impact on the consolidated financial statements.

*Changes to standards and interpretations*IFRS 9: Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39, Financial Instruments: Recognition and Measurement. 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. IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

IFRS 15: Revenue from Contracts with Customers

In May 2014, the International Accounting Standards Board issued IFRS 15, Revenue from Contracts with Customers, which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. This standard is effective January 1, 2017 and allows early adoption. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

Controls and Procedures*Disclosure Controls and Procedures*

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("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

design and effectiveness of the Company's disclosure controls and procedures at the financial year end and based on the evaluation, the CEO and CFO have concluded that the 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 in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. As at December 31, 2014, 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 during the period that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

Outstanding Share Information

As of December 31, 2014, our authorized capital consists of an unlimited number of Common Shares with no stated par value. Changes in the number of Common Shares, options and restricted share units outstanding for the year ended December 31, 2014 are summarized as follows:

Class of Security	Number outstanding at December 31, 2013	Net issued	Number outstanding at December 31, 2014	Net issued	Number outstanding at February 24, 2015
Common Shares	7,674,049	16,065,293	23,739,342	8,125	23,747,467
Non-Voting Common Shares	5,332,504	(5,332,504)	—	—	—
Class A Preferred Shares	5,111,917	(5,111,917)	—	—	—
Stock Options	1,945,580	225,222	2,170,802	(10,000)	2,160,802
Restricted Share Units	—	53,333	53,333	—	53,333

Our outstanding Common Shares increased by 16.0 million shares in 2014 due to 137,801 options exercised, the vesting of 26,667 restricted share units which were settled by the issuance of Common Shares, the conversion of 5.8 million Non-Voting Common Shares and 5.1 million Class A Preferred Shares into Common Shares due to the capital reorganization prior to our initial public offering, and the issuance of 5.0 million Common Shares from treasury upon closing of the offering. Our Non-Voting Common Shares decreased by 5.3 million during the first half of 2014 due to conversion of 5.8 million Non-Voting Common Shares into Common Shares net of 60,000 shares issued for cash and 396,471 shares issued upon the exercise of options. Our Class A Preferred Shares decreased by 5.1 million due to the conversion of Class A Preferred Shares into Common Shares resulting from the capital reorganization.

Our outstanding stock options increased by 225,222 options during 2014 due to the grant of 865,000 options less 534,272 options exercised and 105,506 options forfeited or expired. Each option is exercisable for one Common Share.

Our outstanding restricted share units increased by 53,000 during 2014 due to the grant of 80,000 restricted share units and the vesting of 26,667 such restricted share units which were settled by the issuance of Common Shares. Upon vesting, each restricted share unit can be paid out or settled in cash, Common Shares, or a combination thereof, as elected by the Compensation Committee of the Board of Directors.

Consolidated Financial Statements of

Kinaxis Inc.

Years ended December 31, 2014 and 2013



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kinaxis Inc.

We have audited the accompanying consolidated financial statements of Kinaxis Inc., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of comprehensive income, changes in shareholders' equity (deficiency) and cash flows for the years ended December 31, 2014, and December 2013, and notes, comprising 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.

Auditors' 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 audit 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 our 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, we consider 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 consolidated financial position of Kinaxis Inc. as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2014, and December 31, 2013 in accordance with International Financial Reporting Standards.

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

Chartered Professional Accountants, Licensed Public Accountants
February 24, 2015
Ottawa, Canada

Kinaxis Inc.

Consolidated Statements of Financial Position
(Expressed in thousands of U.S. dollars)

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 56,725	\$ 13,804
Trade and other receivables (note 4)	17,023	12,449
Investment tax credits receivable	1,974	1,330
Prepaid expenses	1,926	1,207
	<u>77,648</u>	<u>28,790</u>
Non-current assets:		
Property and equipment (note 5)	4,744	2,408
Investment tax credits recoverable	3,091	2,108
Deferred tax assets (note 16)	5,726	8,166
	<u>\$ 91,209</u>	<u>\$ 41,472</u>
Liabilities and Shareholders' Equity (Deficiency)		
Current liabilities:		
Trade payables and accrued liabilities (note 6)	\$ 6,945	\$ 11,062
Deferred revenue	35,740	24,700
Current portion of long-term debt (note 7)	—	4,167
	<u>42,685</u>	<u>39,929</u>
Non-current liabilities:		
Lease inducement	109	155
Deferred revenue	1,778	—
Long-term debt (note 7)	—	20,833
Redeemable preferred shares (note 9)	—	54,135
	<u>1,887</u>	<u>75,123</u>
Shareholders' equity (deficiency):		
Share capital (note 10)	87,219	9,902
Contributed surplus	6,152	3,948
Accumulated other comprehensive income loss	(453)	(360)
Deficit	<u>(46,281)</u>	<u>(87,070)</u>
	<u>46,637</u>	<u>(73,580)</u>
Commitments (note 20)		
Contingencies (note 23)		
	<u>\$ 91,209</u>	<u>\$ 41,472</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board of Directors:

(signed) Douglas Colbeth Director (signed) John (Ian) Giffen Director

Kinaxis Inc.

Consolidated Statements of Comprehensive Income
(Expressed in thousands of U.S. dollars, except share and per share data)

	2014	2013
Revenue (note 12)	\$ 70,054	\$ 60,816
Cost of revenue	20,745	18,016
Gross profit	49,309	42,800
Operating expenses:		
Selling and marketing	15,296	15,071
Research and development (note 13)	13,429	8,171
General and administrative	8,314	6,383
	37,039	29,625
	12,270	13,175
Other income (expense):		
Loss due to change in fair value of redeemable preferred shares (note 9)	(6,760)	(17,884)
Foreign exchange loss	(599)	(168)
Net finance (expense) income (note 15)	(490)	31
	(7,849)	(18,021)
Profit (loss) before income taxes	4,421	(4,846)
Income tax expense (note 16):		
Current	819	8,857
Deferred (recovery)	3,823	(3,983)
	4,642	4,874
Loss	(221)	(9,720)
Other comprehensive loss:		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences - foreign operations	(93)	(63)
Total comprehensive loss	\$ (314)	\$ (9,783)
Basic loss per share	\$ (0.01)	\$ (0.59)
Weighted average number of basic common shares (note 11)	19,076,464	16,539,070
Diluted loss per share	(0.01)	(0.59)
Weighted average number of diluted common shares (note 11)	19,076,464	16,539,070

See accompanying notes to consolidated financial statements

Kinaxis Inc.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Expressed in thousands of U.S. dollars)

	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity (deficiency)
Balance, December 31, 2012	\$ 11,176	\$ 2,923	\$ (297)	\$ (29,508)	\$ (15,706)
Loss	—	—	—	(9,720)	(9,720)
Other comprehensive loss	—	—	(63)	—	(63)
Total comprehensive loss	—	—	(63)	(9,720)	(9,783)
Repurchase of shares and options	(2,751)	—	—	(47,842)	(50,593)
Share purchase plan subscriptions	347	—	—	—	347
Share options exercised	163	—	—	—	163
Share based payments	—	1,003	—	—	1,003
Repayment of receivable on share sale	967	—	—	—	967
Interest on receivable for share sale	—	22	—	—	22
Total shareholder transactions	(1,274)	1,025	—	(47,842)	(48,091)
Balance, December 31, 2013	\$ 9,902	\$ 3,948	\$ (360)	\$ (87,070)	\$ (73,580)
Loss	—	—	—	(221)	(221)
Other comprehensive loss	—	—	(93)	—	(93)
Total comprehensive loss	—	—	(93)	(221)	(314)
Conversion of Class A preferred shares to Common Shares (notes 8 and 9)	60,895	—	—	—	60,895
Shares issued per offering (note 8)	59,562	—	—	—	59,562
Share issuance costs net of tax (note 8)	(3,837)	—	—	—	(3,837)
Reduction of share capital (note 8)	(41,010)	—	—	41,010	—
Shares issued for cash	585	—	—	—	585
Share options exercised	804	(136)	—	—	668
Restricted share units vested	318	(318)	—	—	—
Share based payments	—	2,658	—	—	2,658
Total shareholder transactions	77,317	2,204	—	41,010	120,531
Balance, December 31, 2014	\$ 87,219	\$ 6,152	\$ (453)	\$ (46,281)	\$ 46,637

See accompanying notes to consolidated financial statements

Kinaxis Inc.

Consolidated Statements of Cash Flows
(Expressed in thousands of U.S. dollars)

	2014	2013
Cash flows from operating activities:		
Loss	\$ (221)	\$ (9,720)
Items not affecting cash:		
Depreciation of property and equipment	1,151	834
Loss due to change in fair value of redeemable preferred shares	6,760	17,884
Share-based compensation	2,658	1,003
Amortization of lease inducement	(46)	(46)
Long-term investment tax credits recoverable	(983)	2,573
Income tax expense	4,642	4,874
Changes in operating assets and liabilities (note 17)	7,800	3,379
Interest paid	(545)	(3)
Income taxes paid	(4,966)	(1,149)
	16,250	19,629
Cash flows from investing activities:		
Purchase of property and equipment	(3,487)	(1,397)
Cash flows from financing activities:		
Non-Voting Common Shares issued and share subscriptions received	991	532
Common Shares issued	262	—
Common Shares issued per offering	59,562	—
Share issuance costs	(5,220)	—
Repayment of receivable for share sale	—	967
Repurchase of Class A Preferred Shares	—	(28,469)
Repurchase of Common and Non-Voting Common Shares	—	(50,593)
Issuance of long-term debt	5,000	25,000
Repayment of long-term debt	(30,000)	—
Payment of finance lease obligations	—	(59)
	30,595	(52,622)
Increase (decrease) in cash and cash equivalents	43,358	(34,390)
Cash and cash equivalents, beginning of year	13,804	48,801
Effects of exchange rates on cash and cash equivalents	(437)	(607)
Cash and cash equivalents, end of the year (note 17)	\$ 56,725	\$ 13,804

See accompanying notes to consolidated financial statements.

Kinaxis Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars, except share and per share amounts)

1. Corporate information:

Kinaxis Inc., (the "Company") is incorporated under the Canada Business Corporations Act and domiciled in Ontario, Canada. The address of the Company's registered office is 700 Silver Seven Road, Ottawa, Ontario. The consolidated financial statements of the Company as at and for the year ended December 31, 2014 comprise the Company and its subsidiaries.

Kinaxis is a leading provider of cloud-based subscription software that enables its customers to improve and accelerate analysis and decision-making across their supply chain operations. Kinaxis is a global enterprise with offices in Chicago, United States; Tokyo, Japan; Hong Kong, China; Eindhoven, The Netherlands; and Ottawa, Canada.

On June 10, 2014, the Company completed an initial public offering and its shares began trading on the Toronto stock exchange under the symbol "KXS".

2. Basis of preparation:

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and include the accounts of Kinaxis Inc. and its four wholly-owned subsidiaries, Kinaxis Corp., Kinaxis Asia Limited, Kinaxis Japan K.K. and Kinaxis Europe B.V.

The consolidated financial statements were authorized for issue by the Board of Directors on February 24, 2015.

(b) Measurement basis:

The consolidated financial statements have been prepared on the 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.

(c) Presentation currency:

These consolidated financial statements are presented in United States dollars ("USD") which is the functional currency of the Company and its subsidiaries unless otherwise stated. Tabular amounts are presented in thousands of USD.

Kinaxis Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars, except share and per share amounts)

2. Basis of preparation (continued):

(d) Foreign currency:

Foreign currency transactions

The financial statements of the Company and its wholly-owned subsidiaries (excluding Kinaxis Japan K.K. and Kinaxis Europe B.V.), are measured using the United States dollar as the functional currency. Transactions in currencies other than the U.S. dollar are translated at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated to the functional currency at the rates prevailing at that date. Exchange differences on monetary items are recognized in profit or loss in the period in which they arise. Non-monetary items carried at fair value that are denominated in foreign currencies are translated to the functional currency at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the rates at the date of the transaction.

Foreign operations

The consolidated financial statements also include the accounts of its wholly-owned subsidiaries Kinaxis Japan K.K. and Kinaxis Europe B.V., translated into U.S. dollars. The financial statements of Kinaxis Japan K.K. are measured using the Japanese Yen as its functional currency and the financial statements of Kinaxis Europe B.V. are measured using the European Euro as its functional currency. Assets and liabilities have been translated into U.S. dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in shareholders' equity (deficiency).

(e) Use of estimates and judgments:

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue, expenses and disclosure of contingent assets and liabilities. Actual results may differ from these estimates.

Estimates and judgments included, but not limited to, the determination of the value of redeemable preferred shares, the allocation of consideration for a multiple element revenue arrangement, recognition of deferred tax assets, valuation of investment tax credits recoverable and valuation of share-based payments. Estimates and assumptions are reviewed periodically and the effects of revisions are recorded in the consolidated financial statements in the period in which the estimates are revised and in any future periods affected.

Kinaxis Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars, except share and per share amounts)

2. Basis of preparation (continued):

(e) Use of estimates and judgments (continued):

Fair value of redeemable preferred shares

The estimate of the fair value of the redeemable preferred shares is supported by an independent valuation report prepared by a Chartered Business Valuator to provide a value for each class of share at the reporting date. The valuator applied both the discounted cash flow approach and a market based approach to estimate the value of the Company. An option pricing model that considers the legal rights of all security classes and the respective claims of each security class on the value of the Company was applied to determine the fair value of the redeemable preferred shares. Changes to any one of the inputs into the discounted cash flow or market based approaches may result in a different estimate of value for the Company and a different estimate of the fair value of the redeemable preferred shares. Furthermore, changes to inputs in the option pricing model may result in a different value allocated to the redeemable preferred shares. Immediately prior to the completion of the initial public offering on June 10, 2014, the fair value of the redeemable preferred shares was measured at the offering price of the shares.

Allocation of consideration to multiple elements of a revenue arrangement

Judgment is applied in determining the components of a multiple element revenue arrangement. In allocating the consideration received among the multiple elements of a revenue arrangement, management must make estimates as to the fair value of each individual element. The selling price of the element on a stand-alone basis is used to determine the fair value. Where stand-alone sales do not exist, various inputs as detailed in note 3(b) are used to determine the fair value. Changes to these inputs may result in different estimates of fair value for an element and impact the allocation of consideration and timing of revenue recognition.

Income taxes

The recognition of deferred tax assets requires the Company to assess future taxable income available to utilize deferred tax assets related to deductible or taxable temporary differences. The Company considers the nature and carry-forward period of deferred tax assets, the Company's recent earnings history and forecast of future earnings in performing this assessment. The actual deferred tax assets realized may differ from the amount recorded due to factors having a negative impact on operating results of the Company and lower future taxable income.

Kinaxis Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars, except share and per share amounts)

2. Basis of preparation (continued):

(e) Use of estimates and judgments (continued):

Investment tax credits recoverable

The recognition of investment tax credits recoverable requires the Company to assess future tax payable available to utilize the investment tax credits. The Company considers the carry-forward period of the investment tax credits, the Company's recent earnings history and forecast of future earnings in performing this assessment.

The Company determines the value of effort expended towards research and development projects that qualify for investment tax credits and calculates the estimated recoverable to be recognized. The allocation of direct salaries to qualifying projects is derived from time records and assessment by management. The actual investment tax credits claimed and realized may differ from the estimate based on the final tax returns and review by tax authorities.

Fair value of share-based payments

The Company uses the Black-Scholes valuation model to determine the fair value of equity settled stock options. Estimates are required for inputs to this model including the fair value of the underlying shares, the expected life of the option, volatility, expected dividend yield and the risk-free interest rate. Variation in actual results for any of these inputs will result in a different value of the stock option realized from the original estimate. The assumptions and estimates used are further outlined in note 10.

3. Significant accounting policies:

(a) Basis of consolidation:

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company. All intercompany transactions, balances, revenues and expenses between the Company and its subsidiaries have been eliminated.

(b) Revenue recognition:

The Company derives revenue from subscription of its product ("subscription revenue") comprised of its hosted software-as-a-service application ("SaaS") and fixed term subscription license of its software products ("On-premise license"). In addition, the Company derives revenue from the provision of professional services including implementation services, technical services and training and, to a lesser degree, from maintenance and support services provided to customers with legacy perpetual licenses to its software products. Professional services do not include significant customization to, or development of, the software.

Kinaxis Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars, except share and per share amounts)

3. Significant accounting policies (continued):

(b) Revenue recognition (continued):

The Company commences revenue recognition when all of the following conditions are met:

- it is probable that the economic benefits of the transaction will flow to the entity;
- the amount of revenue can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

The Company provides its SaaS, On-premise licenses and professional services on a stand-alone basis or as part of a multiple element arrangement. Stand-alone sales occur through renewals of the SaaS or On-premise term license and stand-alone purchases of the same or similar professional services on an ongoing basis by customers. When sold in a multiple element arrangement, the SaaS or On-premise license and the professional services elements are considered separate units of accounting as they have stand-alone value to the customer. The total consideration for the arrangement is allocated to the separate units of accounting based on their relative fair value and the revenue is recognized for each unit when the requirements for revenue recognition have been met. The Company determines the fair value of each unit of accounting 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. Inputs considered in making this determination include the specific parameters and model used in determining the contract price, contracted renewal rates, the history of pricing, renewals and stand-alone sales activity of similar customers.

Subscription revenue related to the provision of SaaS or On-premise term licenses is recognized ratably over the contract term as the service or access to the software is delivered. The contract term begins when the service is made available or the license is delivered to the customer.

The Company enters into arrangements for professional services primarily on a time and materials basis. Revenue for professional services entered into on a time and material basis is recognized as the services are performed. In certain circumstances, the Company enters into arrangements for professional services on a fixed price basis. Revenue for fixed price arrangements is recognized by reference to the stage of completion of the contract, taking into consideration the cost incurred to date in relation to the total expected cost to complete the deliverable. If the estimated cost to complete a contract results in a loss on the contract, the loss is recognized immediately in profit or loss.

Maintenance and support services provided to customers with legacy perpetual licenses are sold as a single element arrangement with one unit of accounting. Revenue for these arrangements is recognized ratably over the term of the maintenance contract.

Kinaxis Inc.

Notes to Consolidated Financial Statements

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3. Significant accounting policies (continued):

(c) Financial instruments:

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

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 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
Trade and other receivables	Loans and receivables – amortized cost
Investment tax credits receivable	Loans and receivables – amortized cost

Loans and receivables

Financial assets classified as loans and receivables have fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured 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.

Kinaxis Inc.

Notes to Consolidated Financial Statements

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3. Significant accounting policies (continued):

(c) Financial instruments (continued):

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 negatively 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:

<u>Financial liability</u>	<u>Classification under IAS 39</u>
Trade payables and accrued liabilities	Other financial liabilities – amortized cost
Redeemable preferred shares	Financial liabilities – FVTPL

Other financial liabilities

The Company classifies non-derivative financial liabilities as other financial liabilities. Other financial liabilities are accounted for at amortized cost by using the effective interest method.

Financial liabilities - FVTPL

Financial liabilities that contain one or more embedded derivatives may be designated as other financial liabilities at FVTPL and accounted for as one hybrid instrument rather than separating the embedded derivatives from the host contract.

Kinaxis Inc.

Notes to Consolidated Financial Statements

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3. Significant accounting policies (continued):

(c) Financial instruments (continued):

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.

(d) 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.

(e) Property and equipment:

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Property and equipment under finance leases are stated at the present value of minimum lease payments. Cost includes expenditures that are directly attributable to the acquisition of the asset. The assets are depreciated over their estimated useful lives using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

Property and equipment	Rate
Computer equipment	3 - 5 years
Computer software	1 - 5 years
Office furniture and equipment	3 - 5 years
Leasehold improvements	Shorter of useful life or term of lease

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

At the end of each reporting period, the Company reviews the carrying amounts of its property and equipment to determine whether there is any indication of impairment. 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). The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Kinaxis Inc.

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3. Significant accounting policies (continued):

(e) Property and equipment (continued):

Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(f) Leases:

Leases are classified as either finance or operating in nature. Finance leases are those which substantially transfer the benefits and risks of ownership to the Company. Assets acquired under finance leases are depreciated at the same rates as those described in note 3(e). Obligations recorded under finance leases are reduced by the principal portion of lease payments. The imputed interest portion of lease payments is charged to finance costs.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(g) Employee benefits:

The Company offers a defined contribution plan to its employees which is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

(h) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognizes any impairment loss on the assets associated with that contract.

(i) Research and development expense:

Research and development costs are expensed as incurred unless the criteria for capitalization are met. No research or development costs have been capitalized to date.

Kinaxis Inc.

Notes to Consolidated Financial Statements

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3. Significant accounting policies (continued):

(j) 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 consolidated 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. 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.

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 profit or loss as a reduction of the research and development expenses.

Kinaxis Inc.

Notes to Consolidated Financial Statements

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3. Significant accounting policies (continued):

(k) Share-based payments:

The Company uses the fair value based method to measure share-based compensation for all share-based awards made to employees and directors. The grant date fair value of equity-settled share-based payment awards granted to employees is generally recognized as an expense, with a corresponding increase in equity, over the vesting period of the awards. The grant date fair value is determined using the Black-Scholes model. Each tranche of an award is considered a separate award with its own vesting period and grant date fair value. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognized is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting (i.e. performance) conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

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.

(l) Earnings per share:

Basic earnings per share are calculated by dividing profit or loss by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share are calculated similar to basic earnings per share except the weighted average number of common shares outstanding is adjusted for the effects of all dilutive potential common shares, which are comprised of additional shares from the assumed exercise or conversion of share options and redeemable preferred shares outstanding. Options and redeemable preferred shares that have a dilutive impact are assumed to have been exercised or converted on the later of the beginning of the period or the date granted.

(m) Lease inducement:

The lease inducement represents rent-free periods and a tenant allowance provided to the Company by a lessor in connection with a leased property. These amounts have been deferred as a lease inducement and are being amortized as a reduction in rent expense over the expected term of the lease.

Kinaxis Inc.

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3. Significant accounting policies (continued):

(n) Standards and interpretations in issue:

International Accounting Standard 32: Financial Instruments: Presentation ("IAS 32")

In December 2011, the International Accounting Standards Board amended International Accounting Standard 32 to clarify the meaning of when an entity has a current legally enforceable right of set-off. The amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively. The adoption of IAS 32 did not have a material impact on the consolidated financial statements.

IFRIC 21: Levies

In May 2013, the International Accounting Standards Board issued IFRIC 21 which provides guidance on accounting for levies in accordance with the requirements of International Accounting Standard 37: Provisions, Contingent Liabilities and Contingent Assets. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It also notes that levies do not arise from executor contracts of other contractual arrangements. The interpretation also confirms that an entity recognizes a liability for a levy only when the triggering event specified in the legislation occurs. This IFRIC is effective for annual reporting periods beginning on or after January 1, 2014 and is required to be applied retrospectively. The adoption of IFRIC 21 did not have a material impact on the consolidated financial statements.

(o) Standards and interpretations in issue not yet adopted:

The following is a list of standards and amendments that have been issued but not yet adopted by the Company.

IFRS 9: Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39, Financial Instruments: Recognition and Measurement. 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. IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

Kinaxis Inc.

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3. Significant accounting policies (continued):

(o) Standards and interpretations in issue not yet adopted (continued):

IFRS 15: Revenue from Contracts with Customers

In May 2014, the International Accounting Standards Board issued IFRS 15, Revenue from Contracts with Customers, which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. This standard is effective January 1, 2017 and allows early adoption. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

4. Accounts receivable:

	2014		2013	
Trade accounts receivable	\$	16,387	\$	12,125
Other		636		324
	\$	17,023	\$	12,449

There have been no balances written off for the years ended December 31, 2014 and December 31, 2013 or any allowance for doubtful accounts recorded as at December 31, 2014 (2013 - \$Nil).

Kinaxis Inc.

Notes to Consolidated Financial Statements

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5. Property and equipment:

Cost	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
Balance, December 31, 2012	\$ 2,713	\$ 493	\$ 882	\$ 2,129	\$ 6,217
Additions	1,168	184	—	45	1,397
Balance, December 31, 2013	\$ 3,881	\$ 677	\$ 882	\$ 2,174	\$ 7,614
Additions	3,171	282	12	22	3,487
Balance, December 31, 2014	\$ 7,052	\$ 959	\$ 894	\$ 2,196	\$ 11,101

Accumulated depreciation	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
Balance, December 31, 2012	\$ 1,374	\$ 233	\$ 739	\$ 2,026	\$ 4,372
Depreciation	627	121	56	30	834
Balance, December 31, 2013	\$ 2,001	\$ 354	\$ 795	\$ 2,056	\$ 5,206
Depreciation	914	155	51	31	1,151
Balance, December 31, 2014	\$ 2,915	\$ 509	\$ 846	\$ 2,087	\$ 6,357

Carrying value	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
December 31, 2013	\$ 1,880	\$ 414	\$ 87	\$ 27	\$ 2,408
December 31, 2014	4,137	450	48	109	4,744

Depreciation expense for assets under finance leases for the year ended December 31, 2014 was \$Nil (2013 - \$22). Items under a finance lease included in computer equipment had a net carrying value of \$1 as at December 31, 2013.

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5. Property and equipment (continued):

The following table presents the depreciation expense by function for the year ended December 31:

	2014	2013
Cost of revenue	\$ 591	\$ 321
Selling and marketing	5	12
Research and development	280	214
General and administrative	275	287
	\$ 1,151	\$ 834

6. Accounts payable and accrued liabilities:

	2014	2013
Trade accounts payable	\$ 637	\$ 754
Accrued liabilities	6,308	10,308
	\$ 6,945	\$ 11,062

7. Long-term debt:

	2014	2013
Non-revolving term facility	\$ —	\$ 25,000
Less: Current portion of long-term debt	—	4,167
	\$ —	\$ 20,833

On December 18, 2013, the Company's credit facility was amended to include a revolving demand facility in the amount of CAD\$5,000 and a non-revolving term facility of \$30,000. On June 18, 2014, the balance of the Company's non-revolving term facility was repaid using proceeds from the Company's initial public offering. Upon full repayment the non-revolving term facility was terminated. The revolving demand facility bears interest at bank prime plus 1.00% per annum and has not been drawn at December 31, 2014.

In addition to providing a general security agreement representing a first charge over the Company's assets, the Company must meet certain financial covenants as specified in the facility agreement. The Company was in compliance with these financial covenants as at December 31, 2014 and continues to be at the time of approval of these consolidated financial statements.

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8. Capital reorganization:

Prior to the Company's initial public offering, the Company's authorized capital consisted of an unlimited number of Common Shares, an unlimited number of Non-Voting Common Shares and an unlimited number of Class A Preferred Shares. At the annual general and special meeting of the shareholders held on May 22, 2014 the shareholders approved a capital reorganization consisting of an amalgamation of one of our shareholders, 1170233 Alberta ULC ("Alberta ULC"), and the Company with the resulting amalgamated entity having the following authorized capital:

- an unlimited number of Class B Preferred Shares;
- an unlimited number of Class A-1 Voting Common Shares;
- an unlimited number of Class A-2 Non-Voting Common Shares;
- an unlimited number of Class B Voting Common Shares;
- an unlimited number of Class C Preferred Shares; and
- an unlimited number of Common Shares.

Following the filing of the final prospectus for the Company's initial public offering on June 3, 2014 the Company and Alberta ULC amalgamated. As a result of the amalgamation:

- the holders of Common Shares and Non-Voting Common Shares received an equivalent number of Class A-1 Voting Common Shares and Class A-2 Non-Voting Common Shares respectively;
- the Common Shares, Non-Voting Common Shares and Class A Preferred Shares held by Alberta ULC were cancelled;
- the shareholders of Alberta ULC received an aggregate of 1,253,892.5 Class B Preferred Shares, 5,114,607.98 Class A-1 Voting Common Shares and 800,000 Class A-2 Non-Voting Common Shares in exchange for their shares in Alberta ULC;
- the remaining 3,858,025 Class A Preferred Shares were exchanged for Class B Preferred Shares on a one-for-one basis;
- as elected by certain holders, 1,078,525.47 Class A-1 Voting Common Shares and 1,128,633.44 Class A-2 Non-Voting Common Shares were converted into an aggregate of 2,207,132 Class B Voting Common Shares for purposes of receiving a stock dividend, which was satisfied by issuing an aggregate of 2,207,132 Class C Preferred Shares.

Upon completion of the initial public offering on June 10, 2014:

- all of the issued and outstanding Class B Preferred Shares, Class A-1 Voting Common Shares, and Class A-2 Non-Voting Common Shares were converted into Common Shares on a one-for-one basis with any fractional Common Shares that would otherwise have been issued upon such conversion being cancelled;
- all of the issued and outstanding Class B Voting Common Shares and Class C Preferred Shares were converted into Common Shares on the basis of one Class B Voting Common Share together with one Class C Preferred Shares into one Common Share;

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8. Capital reorganization (continued):

- the accumulated deficit generated by the non-cash fair value adjustments amounting to \$41,010 related to the converted preferred shares was reclassified from deficit to share capital;
- 5,000,000 Common Shares were issued from treasury for CAD\$13.00 (USD\$11.91) per share; and
- Share issuance costs totaling \$5,220 net of future tax recoveries of \$1,383 was recorded to share capital.

9. Redeemable preferred shares:

In November, 2013, the Company repurchased 3,124,998 Class A preferred shares for proceeds of \$28,469. The Class A Preferred Shares mandatorily converted to Common Shares in the event of a qualifying initial public offering.

As at June 3, 2014, upon filing of the final prospectus for the Company's initial public offering, the Company had 5,111,917 (December 31, 2013 - 5,111,917) Class A Preferred Shares issued and outstanding. Concurrent with the filing of the prospectus a capital reorganization occurred pursuant to which the Class A Preferred Shares were converted into Class B Preferred Shares on a one-to-one basis. Immediately prior to the completion of the initial public offering on June 10, 2014, the Class B Preferred Shares were converted into Common Shares on a one-to-one basis.

Measurement of fair value

The valuation techniques used to measure the fair value of the redeemable preferred shares are unchanged from December 31, 2013. The redeemable preferred shares were converted to Common Shares immediately prior to completion of the Company's initial public offering. The fair value of the redeemable preferred shares was measured at the offering price of the shares at the time of conversion.

The following table reconciles the opening balances to the closing balances for Level 3 fair values.

	Fair value of redeemable preferred shares
Balance at January 1, 2013	\$ 64,720
Increase in fair value	17,884
Repurchase of preferred shares	(28,469)
Balance at December 31, 2013	54,135
Increase in fair value	6,760
Conversion to Common Shares (note 8)	(60,895)
Balance, December 31, 2014	\$ —

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10. Share capital:

Authorized

The Company is authorized to issue an unlimited number of Common Shares.

Issued:

	Common shares		Non-voting common shares	
	Shares	Amount	Shares	Amount
Shares outstanding at January 1, 2013	11,546,932	\$ 6,403	5,188,703	\$ 4,773
Repurchase of shares	(3,115,226)	(1,745)	(898,426)	(1,006)
Share purchase plan subscriptions received	—	—	—	347
Shares issued from employee share purchase plan	—	—	151,713	—
Shares issued from exercised options	42,343	42	90,514	121
Repayment of receivable on share sale	—	—	—	967
Share transfer	(800,000)	(448)	800,000	448
Shares outstanding at December 31, 2013	7,674,049	4,252	5,332,504	5,650
Shares issued for cash	—	—	60,000	585
Shares issued from exercised options	137,801	398	396,471	406
Shares issued from vested restricted share units	26,667	318	—	—
Conversion of non-voting common to Common Shares (note 8)	5,788,975	6,641	(5,788,975)	(6,641)
Fractional shares cancelled upon conversion (note 8)	(67)	—	—	—
Conversion of preferred shares to Common Shares (note 8 and 9)	5,111,917	60,895	—	—
Reduction of share capital (note 8)	—	(41,010)	—	—
Shares issued per offering (note 8)	5,000,000	59,562	—	—
Share issuance costs net of tax (note 8)	—	(3,837)	—	—
Shares outstanding at December 31, 2014	23,739,342	\$ 87,219	—	\$ —

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10. Share capital (continued):

Issued (continued):

In April 2003, the Company entered into a loan agreement with an officer to enable the purchase of the Company's Non-Voting Common Shares. In March 2008, upon the loan's maturity, the officer paid \$149 of accrued interest on the loan and the Company entered into a second loan agreement substantially on the same terms as the first loan. In March 2011, upon the second loan's maturity and payment of all interest, the officer and the Company entered into a third loan agreement substantially on the same terms as the second loan. In December 2013, the balance of the loan plus accrued interest was repaid.

During 2013, the Company received \$347 from employees pursuant to the employee share purchase plan to purchase 89,174 Non-Voting Common Shares.

Repurchase of shares

In November 2013, the Company presented to its shareholders and employees an offer to repurchase common and non-voting common shares and vested options for cancellation. As per the terms of the offer, the Company may repurchase shares and options to a maximum aggregate amount of \$80,000. Pursuant to the offer, in December 2013 the Company repurchased 3,115,226 common shares and 898,426 non-voting common shares for total cash consideration of \$39,218. In addition, 1,421,707 stock options were surrendered for net proceeds of \$11,375.

Stock option plans

The Company has outstanding stock options issued under its 2000 and 2010 stock option plans. During 2012, the Company adopted a new stock option plan under which an aggregate of up to 1,100,000 options to purchase common stock may be granted to employees. In January 2014, the option pool was increased by 400,000 to 1,500,000. Upon adoption of the new plan, no further options may be granted under previous stock option plans. Stock options are granted with an exercise price equal to or greater than the stock's TSX price at the date of grant as determined by the Board of Directors and the maximum term of an option is typically ten years. Options are granted periodically and typically vest over four years.

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10. Share capital (continued):

Stock option plans (continued):

A summary of the status of the plan is as follows:

	December 31, 2014		December 31, 2013	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Options outstanding, beginning of year	1,945,580	\$ 2.21	3,253,581	\$ 1.81
Granted	865,000	10.91	280,000	4.05
Exercised	(534,272)	1.25	(132,857)	1.23
Forfeited	(102,506)	5.58	(33,437)	2.56
Expired	(3,000)	3.20	—	—
Tendered (repurchase program)	—	—	(1,421,707)	1.75
Options outstanding, end of year	2,170,802	\$ 5.74	1,945,580	\$ 2.21
Options exercisable, end of year	880,642	\$ 2.26	984,171	\$ 1.62

The following table summarizes information about stock options outstanding at December 31, 2014:

Options outstanding				Options exercisable	
Range of exercise prices	Number outstanding at 12/31/14	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at 12/31/14	Weighted average exercise price
\$1.00 to 1.20	197,885	2.64	\$ 1.08	196,322	\$ 1.08
\$1.60 to 3.20	1,097,917	7.11	2.61	674,320	2.54
\$6.60 to 9.75	675,000	9.06	9.56	10,000	6.60
\$11.95 to 15.35	100,000	9.62	13.63	—	—
\$15.35 to 15.95	100,000	9.93	15.73	—	—
	2,170,802	7.55	\$ 5.74	880,642	\$ 2.26

Kinaxis Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars, except share and per share amounts)

10. Share capital (continued):

Stock option plans (continued):

At December 31, 2014, there were 384,250 (2013 - 923,000) stock options available for grant under the Plan. In 2014, the Company issued 865,000 (2013 - 280,000) options and recorded share-based compensation expense of \$2,144 (2013 - \$1,003) related to the vesting of options granted in 2014 and previous years. The per share weighted-average grant date fair value of stock options granted during 2014 was \$5.73 (2013 - \$2.02) on the date of grant using the Black Scholes option-pricing model with the following weighted-average assumptions: exercise price is equal to the price of the underlying share, expected dividend yield 0%, risk-free interest rate of 1.98% (2013 - 1.87%), an expected life of 8 years (2013 - 8 years), and estimated volatility of 46% (2013 - 47%). Volatility is estimated by benchmarking to comparable publicly traded companies operating in a similar market segment. The forfeiture rate was estimated at 5% (2013 - 5%).

Share Unit Plan

On May 30, 2014, the Board of Directors adopted a Share Unit Plan to provide long-term incentive compensation to executives, key employees and non-employee directors. Share Units may be granted in the form of Restricted Share Units ("RSU"), Performance Share Units ("PSU") or Deferred Share Units ("DSU"). RSUs vest based on the passage of time, generally in three annual increments, PSUs vest based on performance criteria as determined by the Board of Directors and DSUs do not vest until the participant's termination of service. Each vested share unit entitles the participant to receive one Common Share or its cash equivalent.

At December 31, 2014, there were 670,000 share units available for grant under the Plan. During the year ended December 31, 2014, the Company granted 80,000 RSUs. Each RSU entitles the participant to receive one Common Share. The RSUs vest based over time in three equal annual tranches. The fair value of the RSUs granted was \$11.91 per unit using the fair value of a Common Share at time of grant. The Company recorded share-based compensation expense for the year ended December 31, 2014 of \$514 related to the vesting of RSUs granted in 2014. On December 10, 2014 the first 26,667 of the RSUs granted in 2014 vested and were released.

The following table presents the share-based payments expense by function:

	2014	2013
Cost of revenue	\$ 331	\$ 77
Selling and marketing	621	429
Research and development	533	96
General and administrative	1,173	401
	<u>\$ 2,658</u>	<u>\$ 1,003</u>

Kinaxis Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars, except share and per share amounts)

11. Earnings (loss) per share:

The following table summarized the calculation of the weighted average number of basic and diluted common shares.

	2014	2013
Issued common shares at beginning of period	13,006,553	16,735,635
Effect of repurchase of shares	—	(334,471)
Effect of shares issued from employee share purchase plan	—	101,119
Effect of shares issued for cash	50,440	—
Effect of shares issued per offering	2,802,198	—
Effect of preferred shares converted to Common Shares	2,864,921	—
Effect of fractional shares cancelled upon conversion	(37)	—
Effect of shares issued from exercise of options	350,851	36,787
Effect of shares issued from vesting of restricted share units	1,538	—
Weighted average number of basic and diluted common shares at December 31	19,076,464	16,539,070

Due to the loss in December 31, 2014 and December 31, 2013, all outstanding options, restricted share units and redeemable preferred shares, as applicable, were excluded from the diluted weighted average number of shares as their effect would have been anti-dilutive.

12. Revenue:

	2014	2013
Subscription	\$ 51,119	\$ 40,039
Professional services	17,755	19,173
Maintenance and support	1,180	1,604
	\$ 70,054	\$ 60,816

Kinaxis Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars, except share and per share amounts)

13. Research and development:

	2014	2013
Research and development expenses	\$ 15,422	\$ 10,417
Investment tax credits	(1,993)	(2,246)
	\$ 13,429	\$ 8,171

14. Personnel expenses:

The following table presents the personnel expenses incurred by the Company for the years ended December 31, 2014, and 2013:

	2014	2013
Salaries including bonuses	\$ 31,028	\$ 28,305
Benefits	4,555	3,944
Commissions	5,783	3,744
Share-based payments	2,658	1,003
	\$ 44,024	\$ 36,996

15. Net finance (expense) income:

The following table presents the net finance (expense) income incurred by the Company:

	2014	2013
Interest income on cash equivalents	\$ 40	\$ 169
Less finance costs:		
Interest expense on finance leases	—	(1)
Interest expense on long term debt	(530)	(137)
	\$ (490)	\$ 31

Kinaxis Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars, except share and per share amounts)

16. Income taxes:

The income tax amounts recognized in profit and loss are as follows:

	2014	2013
Current tax expense		
Current income tax	\$ 819	\$ 4,899
Part VI.1 tax on deemed dividends on repurchase of preferred shares	—	3,958
	819	8,857
Deferred tax expense (recovery):		
Origination and reversal of temporary differences	3,823	582
Temporary differences resulting from Part VI.1 tax liability	—	(3,634)
Recognition of previously unrecognized temporary differences	—	(931)
	3,823	(3,983)
	\$ 4,642	\$ 4,874

A reconciliation of the income tax expense to the expected amount using the Company's Canadian tax rate is as follows:

	2014	2013
Canadian tax rate	26.50%	26.50%
Expected Canadian income tax expense (recovery)	\$ 1,172	\$ (1,285)
Increase (reduction) in income taxes resulting from:		
Tax effect of loss due to change in fair value of preferred shares	1,791	4,739
Difference between current and future tax rates and other	(5)	213
Foreign tax rate differences	221	200
Part VI.1 tax rate difference	—	324
Recognition of previously unrecognized temporary differences	—	(931)
Reversal of previously recognized temporary differences	—	1,056
Permanent difference of stock-based compensation	704	267
Exchange rate	759	291
	\$ 4,642	\$ 4,874

Kinaxis Inc.

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Years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars, except share and per share amounts)

16. Income taxes (continued):

The tax effects of temporary differences and carry-forwards are as follows:

	2014	2013
Deferred tax assets (liabilities):		
Non-capital loss carry-forwards	\$ 2,509	\$ 6,349
Unclaimed scientific research and experimental development	2,013	1,828
Tax effect of investment tax credits	(867)	(1,480)
Share issuance costs	1,138	—
Property and equipment	863	1,407
Other	70	62
	<u>\$ 5,726</u>	<u>\$ 8,166</u>

The movements in the deferred tax balances during the period were as follows:

	Balance at January 1, 2014	Recognized in profit and loss	Recognized in equity	Balance at December 31 2014
Non-capital loss carry-forwards	\$ 6,349	\$ (3,840)	\$ —	\$ 2,509
Unclaimed scientific research and experimental development	1,828	185	—	2,013
Tax effect of investment tax credits	(1,480)	613	—	(867)
Share issuance costs	—	(245)	1,383	1,138
Property and equipment	1,407	(544)	—	863
Other	62	8	—	70
	<u>\$ 8,166</u>	<u>\$ (3,823)</u>	<u>\$ 1,383</u>	<u>\$ 5,726</u>

The Company has non-capital losses available to reduce taxable income of \$9,470 as at December 31, 2014 (2013 - \$23,960) which begin to expire in 2033. The Company has investment tax credits available to reduce federal income taxes payable in Canada of \$2,643 as at December 31, 2014 (2013 - \$1,982) and provincial income taxes payable in Ontario of \$448 as at December 31, 2014 (2013 - \$125) which begin to expire in 2028 and 2033 respectively.

The Company recognizes deferred tax assets pursuant to an assessment of the likelihood that the Company will generate sufficient future taxable income against which the benefit of the deferred tax assets may or may not be realized. This assessment requires management to exercise significant judgment and make estimates with respect to the Company's ability to generate taxable income in future periods and utilize deferred tax assets. The Company considered all existing evidence in performing this assessment including the history of profitability, secured backlog, forecasted earnings potential for new business growth, and the ability to realize the assets prior to expiry.

Kinaxis Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars, except share and per share amounts)

16. Income taxes (continued):

At December 31, 2013, due to an assessment received from tax authorities on the value of the tax basis of certain property and equipment and the status of appeals relating to this assessment, the Company determined the likelihood of realizing the benefit of the related temporary differences was lower and reversed the previously recorded deferred tax assets reflecting the net impact of the assessment.

Deferred tax liabilities have not been recognized for temporary differences associated with investments in subsidiaries as the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The aggregate amount of these temporary differences at December 31, 2014 was \$3,860 (2013 - \$3,067).

17. Statement of cash flows:

(a) Changes in operating assets and liabilities:

	2014	2013
Trade and other receivables	\$ (4,696)	\$ (2,057)
Investment tax credits receivable	(644)	44
Prepaid expenses	(729)	(50)
Trade payables and accrued liabilities	651	576
Deferred revenue	13,218	4,866
	\$ 7,800	\$ 3,379

(b) Cash and cash equivalents are as follows:

	2014	2013
Cash	\$ 56,725	\$ 10,093
Cash equivalents	—	3,711
	\$ 56,725	\$ 13,804

Kinaxis Inc.

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Years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars, except share and per share amounts)

18. Financial instruments:

Fair value of financial instruments

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

		2014		2013	
Financial assets	Carrying value	Fair value	Carrying value	Fair value	
Loans and receivables, measured at amortized cost:					
Cash and cash equivalents	\$ 56,725	\$ 56,725	\$ 13,804	\$ 13,804	
Trade and other receivables	17,023	17,023	12,449	12,449	
Investment tax credits receivable	1,974	1,974	1,330	1,330	
	\$ 75,722	\$ 75,722	\$ 27,583	\$ 27,583	

		2014		2013	
Financial liabilities	Carrying value	Fair value	Carrying value	Fair value	
Liabilities measured at FVTPL:					
Redeemable preferred shares	\$ —	\$ —	\$ 54,135	\$ 54,135	
Other financial liabilities, measured at amortized cost					
Trade payables and accrued liabilities	6,945	6,945	11,062	11,062	
Long-term debt	—	—	25,000	25,000	
	\$ 6,945	\$ 6,945	\$ 90,197	\$ 90,197	

Kinaxis Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars, except share and per share amounts)

18. Financial instruments (continued):

Measurement of fair value

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 values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

When the inputs used to measure fair value fall within more than one level of the hierarchy, the level within which the fair value measurement is categorized is based on the Company's assessment of the lowest level input that is the most significant to the fair value measurement.

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

- The carrying amounts of 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.
- The carrying amount of long-term debt represents the present value of future payments and approximates their fair market value.
- The redeemable preferred shares were measured at fair value (Level 3)

Kinaxis Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars, except share and per share amounts)

18. Financial instruments (continued):

Financial risk management:

(a) 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.

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 low. At December 31, 2014, one customer accounted for greater than 10% of total trade receivables (2013 - two customers - 17%). For the year ended December 31, 2014, no customer individually accounted for greater than 10% of revenue (2013 - one customer - 10%). As the majority of the Company's revenues are earned over a period of time, the potential impact on the Company's operating results is low as any uncollectible amounts would affect trade and other receivables and deferred revenue.

The maximum exposure to credit risk for trade receivables by geographic region was as follows:

	2014	2013
Canada	\$ 430	\$ 721
United States	15,049	10,865
Other foreign	908	539
	<u>\$ 16,387</u>	<u>\$ 12,125</u>

The aging of the trade receivables at the reporting date was as follows:

	2014	2013
Current	\$ 13,757	\$ 7,449
Past due:		
0 – 30 days	\$ 2,250	\$ 4,669
31 – 60 days	195	6
Greater than 60 days	185	1
	<u>\$ 16,387</u>	<u>\$ 12,125</u>

Kinaxis Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars, except share and per share amounts)

18. Financial instruments (continued):

Financial risk management (continued):

(a) Credit risk (continued):

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. During the year ended December 31, 2014, the Company did not write off any trade receivables that were deemed not collectible and did not record an allowance for doubtful accounts as at December 31, 2014 (2013 - \$Nil).

The Company invests its excess cash in short-term investments 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. The Company manages its credit risk on investments by dealing only with major Canadian banks and investing only in instruments that management believes have high credit ratings. Given these high credit ratings, the Company does not expect any counterparties to these investments to fail to meet their obligations.

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:

	2014	2013
Cash and cash equivalents	\$ 56,725	\$ 13,804
Trade and other receivables	17,023	12,449
Investment tax credits receivable	1,974	1,330
	<u>\$ 75,722</u>	<u>\$ 27,583</u>

(b) 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 is to 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, 2014, the Company had cash and cash equivalents totaling \$56,725 (2013 - \$13,804). Further, the Company has a credit facility as disclosed in note 7.

Kinaxis Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars, except share and per share amounts)

18. Financial instruments (continued):

(b) Liquidity risk (continued):

The following are the remaining contractual maturities of financial liabilities at December 31, 2014 and 2013:

December 31, 2014	Carrying amount	Contractual cash flows				
		Total	3 months or less	3 to 12 months	1 to 5 years	More than 5 years
Trade payables and accrued liabilities	\$ 6,945	\$ 6,945	\$ 6,945	\$ —	\$ —	\$ —
	\$ 6,945	\$ 6,945	\$ 6,945	\$ —	\$ —	\$ —

December 31, 2013	Carrying amount	Contractual cash flows				
		Total	3 months or less	3 to 12 months	1 to 5 years	More than 5 years
Trade payables and accrued liabilities	\$ 11,062	\$ 11,062	\$ 11,062	\$ —	\$ —	\$ —
Long-term debt	25,000	25,000	—	4,167	20,833	—
Redeemable preferred shares	54,135	54,135	—	—	54,135	—
	\$ 90,197	\$ 90,197	\$ 11,062	\$ 4,167	\$ 74,968	\$ —

(c) 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.

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, Hong Kong dollar and Japanese Yen. 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 or loss.

Kinaxis Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars, except share and per share amounts)

18. Financial instruments (continued):

(c) Market risk (continued):

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 is mainly exposed to fluctuations between the U.S. dollar and the Canadian dollar. For the year ending December 31, 2014, if the Canadian dollar had strengthened 5% against the U.S. dollar with all other variables held constant, pre-tax income for the year would have been \$984 lower (2013 - \$857 lower). 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 pre-tax income.

The summary quantitative data about the Company's exposure to currency risk is as follows:

December 31, 2014					
In thousands of (local currency)	USD	CAD	JPY	EUR	HKD
Trade receivables	15,480	—	60,328	332	—
Other receivables	576	45	—	4	—
Trade payables	(354)	(25)	(31,145)	—	(18)
Accrued liabilities	(3,985)	(1,988)	(21,095)	(95)	(528)
	11,717	(1,968)	8,088	241	(546)
December 31, 2013					
In thousands of	USD	CAD	JPY	EUR	HKD
Trade receivables	11,621	—	7,206	316	—
Other receivables	315	—	—	—	—
Trade payables	(521)	(116)	(12,765)	(1)	(12)
Accrued liabilities	(9,162)	(792)	(19,366)	(79)	(507)
	2,253	(908)	(24,925)	236	(519)

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. At December 31, 2014, the Company has not drawn on the revolving demand facility.

Kinaxis Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars, except share and per share amounts)

19. Segmented information:

The Company's Chief Executive Officer ("CEO") has been identified as the chief operating decision maker. The CEO evaluates the performance of the Company and allocates resources based on the information provided by the Company's internal management system at a consolidated level. The Company has determined that it has only one operating segment.

Geographic information

Revenue from external customers is attributed to geographic areas based on the location of the contracting customers. External revenue on a geographic basis is as follows:

	2014	2013
United States	\$ 56,317	\$ 42,025
Canada	5,829	9,402
Europe	4,077	4,481
Japan	3,693	4,399
Other foreign	138	509
	<u>\$ 70,054</u>	<u>\$ 60,816</u>

Total property and equipment on a geographic basis are as follows:

	2014	2013
Canada	\$ 3,453	\$ 1,597
United States	1,284	798
Japan	7	11
Other foreign	—	2
	<u>\$ 4,744</u>	<u>\$ 2,408</u>

20. Operating lease commitments:

The Company's minimum payments required under operating leases are as follows:

Less than one year	\$ 1,206
Between one and five years	5,498
More than five years	2,658
	<u>\$ 9,362</u>

The Company's operating leases are primarily for office space. These leases generally contain renewal options for periods ranging from one to five years and require the Company to pay operating costs such as utilities and maintenance. Gross rental expense for operating leases for the year ending December 31, 2014 was \$898 (2013 - \$953).

Kinaxis Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2014 and 2013

(Expressed in thousands of U.S. dollars, except share and per share amounts)

21. Related party transactions:

Details of the Company's subsidiaries at December 31, 2014 and 2013 are as follows:

Name of subsidiary	Principle activity	Place of incorporation and operation	Proportion of ownership interest and voting power held	
			2014	2013
Kinaxis Corp.	Sales	State of Delaware, USA	100%	100%
Kinaxis Japan K.K.	Sales	Japan	100%	100%
Kinaxis Europe B.V.	Sales	The Netherlands	100%	100%
Kinaxis Asia	Sales	Hong Kong	100%	100%
Kinaxis Holdings Inc.	IP Holding	New Brunswick, Canada	–	100%
Kinaxis Software LLC	Investment Co.	State of Delaware, USA	–	100%

On December 15, 2013, Kinaxis Holdings Inc. was amalgamated with Kinaxis Inc. and on December 31, 2013 Kinaxis Software LLC was wound up.

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.

During the year, the Company donated \$nil (2013 - \$65), in lieu of salary, to a charitable organization which is a related party to the Company's CEO.

Compensation of key management personnel

The Company defines key management personnel as being the CEO and his direct reports. The remuneration of directors and other members of key management personnel during the year were as follows:

	2014	2013
Salary and other short-term benefits	\$ 2,772	\$ 1,916
Share-based payments	1,309	591
Termination benefits	–	54
	\$ 4,081	\$ 2,561

Kinaxis Inc.

Notes to Consolidated Financial Statements

Years ended December 31, 2014 and 2013

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22. Capital management:

The Company's capital is composed of its shareholders' equity. The Company's objective in managing its capital is to ensure financial stability and sufficient liquidity to increase shareholder value through organic growth and investment in sales, marketing and product development. The Company's senior management is responsible for managing the capital through regular review of financial information to ensure sufficient resources are available to meet operating requirements and investments to support its growth strategy. The Board of Directors is responsible for overseeing this process. In order to maintain or adjust its capital structure, the Company could issue new shares, repurchase shares, approve special dividends or issue debt.

The Company has access to a revolving demand facility bears interest at bank prime plus 1.00% per annum which has not been drawn as at December 31, 2014. The terms of the facility require the Company to meet certain financial covenants which are monitored by senior management to ensure compliance.

23. Contingencies:

In the normal course of business, the Company and its subsidiaries enter into lease agreements for facilities or equipment. It is common in such commercial lease transactions for the Company or its subsidiaries as the lessee to agree to indemnify the lessor and other related third parties for liabilities that may arise from the use of the leased assets. The maximum amount potentially payable under the foregoing indemnities cannot be reasonably estimated. The Company has liability insurance that relates to the indemnifications described above.

The Company includes standard intellectual property indemnification clauses in its software license and service agreements. Pursuant to these clauses, and subject to certain limitations, the Company holds harmless and agrees to defend the indemnified party, generally the Company's business partners and customers, in connection with certain patent, copyright or trade secret infringement claims by third parties with respect to the Company's products. The term of the indemnification clauses is generally for the subscription term and applicable statutory period after execution of the software license and service agreement. In the event an infringement claim against the Company or an indemnified party is successful, the Company, at its sole option, agrees to do one of the following: (i) procure for the indemnified party the right to continue use of the software; (ii) provide a modification to the software so that its use becomes non-infringing; (iii) replace the software with software which is substantially similar in functionality and performance; or (iv) refund the residual value of the software license fees paid by the indemnified party for the infringing software. The Company believes the estimated fair value of these intellectual property indemnification clauses is minimal.

Historically, the Company has not made any significant payments related to the above-noted guarantees and indemnities and accordingly, no liabilities have been accrued in the consolidated financial statements.

Board of Directors

Doug Colbeth (Chair)

President and Chief Executive Officer

Ian Giffen

(Independent Lead Director)

Howard Gwin

Rob Wadsworth

Marc Balevi

Ronald A. Matricaria

Senior Management

Doug Colbeth

President and Chief Executive Officer

Richard Monkman

Chief Financial Officer

John Sicard

Chief Products Officer

Jeff Johnson

EVP Global Operations

Shareholder Information

Stock Exchange Listing

The Company's common shares are listed on the Toronto Stock Exchange under the Symbol "KXS"

Shareholder Inquiries

Inquiries regarding change of address, transfer requirements or lost certificates should be directed to the Company's transfer agent.

Transfer Agent

CST Trust Company
320 Bay Street, 3rd Floor
Toronto, ON M5H 4A6
Shareholder Inquiries: 1-800-387-0825
or 416-682-3860;
inquiries@canstockta.com
<https://www.canstockta.com/>

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Auditors

KPMG

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