Consolidated Financial Statements of

Kinaxis Inc.

Years ended December 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kinaxis Inc.

We have audited the accompanying financial statements of Kinaxis Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, the consolidated statements of comprehensive income, changes in shareholders' deficiency and cash flows for the years ended December 31, 2013, December 2012 and December 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the 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 financial position of Kinaxis Inc. as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for the years ended December 31, 2013, December 31, 2012 and December 31, 2011 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
May 1, 2014
Ottawa, Canada

Kinaxis Inc.

Consolidated Statements of Financial Position

As at December 31, 2013 and 2012
(Expressed in thousands of U.S. dollars)

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$ 13,804	$ 48,801
Trade and other receivables (note 4)	12,449	10,433
Investment tax credits receivable	1,330	1,374
Prepaid expenses	1,207	1,174
	28,790	61,782
Non-current assets:		
Property and equipment (note 5)	2,408	1,845
Investment tax credits recoverable	2,108	4,680
Deferred tax assets (note 16)	8,166	4,183
	$ 41,472	$ 72,490
Liabilities		
Current liabilities:		
Trade payables and accrued liabilities (note 6)	$ 11,062	$ 2,900
Deferred revenue	24,700	20,316
Current portion of finance lease obligations (note 8)	–	42
Current portion of long-term debt (note 7)	4,167	–
Redeemable preferred shares (note 9)	–	64,720
	39,929	87,978
Non-current liabilities:		
Finance lease obligations (note 8)	–	16
Lease inducement	155	202
Long-term debt (note 7)	20,833	–
Redeemable preferred shares (note 9)	54,135	–
	75,123	218
Shareholders' Deficiency		
Share capital (note 10)	9,902	11,176
Contributed surplus	3,948	2,923
Accumulated other comprehensive income loss	(360)	(297)
Deficit	(87,070)	(29,508)
	(73,580)	(15,706)
Contingencies (note 23)		
Commitments (note 20)		
	$ 41,472	$ 72,490

On behalf of the Board of Directors:

Director

Director

See accompanying notes to consolidated financial statements.

Kinaxis Inc.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2013, 2012 and 2011
(Expressed in thousands of U.S. dollars, except share and per share data)

	2013	2012	2011
Revenue (note 12)	$ 60,816	$ 46,671	$ 38,041
Cost of revenue	18,016	13,156	9,714
Gross profit	42,800	33,515	28,327
Operating expenses:			
Selling and marketing	15,071	13,019	10,217
Research and development (note 13)	8,171	7,072	2,323
General and administrative	6,383	5,388	4,469
	29,625	25,479	17,009
	13,175	8,036	11,318
Other income/(expense):			
Loss due to change in fair value of redeemable preferred shares	(17,884)	(1,172)	(15,939)
Foreign exchange (loss) gain	(168)	215	178
Net finance income (note 15)	31	46	38
	(18,021)	(911)	(15,723)
Profit (loss) before income taxes	(4,846)	7,125	(4,405)
Income tax expense (recovery) (note 16):			
Current	8,857	588	528
Deferred	(3,983)	1,593	(776)
	4,874	2,181	(248)
Profit (loss)	(9,720)	4,944	(4,157)
Other comprehensive loss			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences - foreign operations	(63)	(246)	(51)
Total comprehensive income (loss)	$ (9,783)	$ 4,698	$ (4,208)
Basic earnings (loss) per share	$ (0.59)	$ 0.30	$ (0.27)
Weighted average number of basic common shares (note 11)	16,539,070	16,523,113	15,413,687
Diluted earnings (loss) per share	(0.59)	0.19	(0.27)
Weighted average number of diluted common shares (note 11)	16,539,070	26,437,042	15,413,687

See accompanying notes to consolidated financial statements

Kinaxis Inc.

Consolidated Statements of Changes in Shareholders' Deficiency

For the years ended December 31, 2013, 2012 and 2011
(Expressed in thousands of U.S. dollars)

	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total deficiency
Balance at January 1, 2011	$ 9,013	$ 1,483	$ –	$ (30,295)	$ (19,799)
Loss	–	–	–	(4,157)	(4,157)
Other comprehensive loss	–	–	(51)	–	(51)
Total comprehensive loss	–	–	(51)	(4,157)	(4,208)
Repurchase of shares	(44)	–	–	–	(44)
Shares issued for cash	16	–	–	–	16
Share purchase plan subscriptions	222	–	–	–	222
Share options exercised	934	–	–	–	934
Share based payments	–	495			495
Interest on receivable for share sale	4	24	–	–	28
Total shareholder transactions	1,132	519	–	–	1,651
Balance, December 31, 2011	10,145	2,002	(51)	(34,452)	(22,356)
Profit	–	–	–	4,944	4,944
Other comprehensive loss	–	–	(246)	–	(246)
Total comprehensive loss	–	–	(246)	4,944	4,698
Shares issued for cash	240	–	–	–	240
Share purchase plan subscriptions	458	–	–	–	458
Share options exercised	333	–	–	–	333
Share based payments	–	898	–	–	898
Interest on receivable for share sale	–	23	–	–	23
Total shareholder transactions	1,031	921	–	–	1,952
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)

See accompanying notes to consolidated financial statements

Kinaxis Inc.

Consolidated Statements of Cash Flows

For the years ended December 31, 2013, 2012 and 2011
(Expressed in thousands of U.S. dollars)

	2013	2012	2011
Cash flows from operating activities:			
Profit (loss)	$ (9,720)	$ 4,944	$ (4,157)
Items not affecting cash:			
Depreciation of property and equipment	834	677	604
Loss due to change in fair value of redeemable preferred shares	17,884	1,172	15,939
Share-based compensation	1,003	898	495
Amortization of lease inducement	(46)	(46)	(47)
Long-term investment tax credits recoverable	2,573	(700)	(3,480)
Income tax expense (recovery)	4,874	2,181	(248)
Changes in operating assets and liabilities (note 17)	3,379	(3,371)	2,069
Interest paid	(3)	(5)	(14)
Income taxes paid	(1,149)	(1,119)	(307)
	19,629	4,631	10,854
Cash flows from investing activities:			
Purchase of property and equipment	(1,397)	(1,362)	(823)
Cash flows from financing activities:			
Common and Non-Voting Common Shares issued and share subscriptions received	532	1,054	1,200
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)	–	(44)
Issuance of long-term debt	25,000	–	–
Payment of finance lease obligations	(59)	(70)	(263)
	(52,622)	984	893
Increase in cash and cash equivalents	(34,390)	4,253	10,924
Cash and cash equivalents, beginning of year	48,801	45,175	34,115
Effects of exchange rates on cash and cash equivalents	(607)	(627)	136
Cash and cash equivalents, end of the year (note 17)	$ 13,804	$ 48,801	$ 45,175

See accompanying notes to consolidated financial statements.

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 December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011 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. With offices in Chicago, United States; Tokyo, Japan; Hong Kong, China; Eindhoven, The Netherlands; and Ottawa, Canada; Kinaxis Inc. is a global enterprise.

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 six wholly-owned subsidiaries, Kinaxis Corp., Kinaxis Asia Limited, Kinaxis Japan K.K., Kinaxis Europe B.V., Kinaxis Software LLC and Kinaxis Holdings Inc.

The consolidated financial statements were authorized for issue by the Board of Directors on May 1, 2014.

(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.

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 are used, 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.

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.

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.

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.

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 on a time and materials basis. Revenue for these professional services is recognized as the services are performed.

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.

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.

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:

Financial liability	Classification under IAS 39
Trade payables and accrued liabilities	Other financial liabilities – amortized cost
Redeemable preferred shares	Financial liabilities – FVTPL
Finance lease obligations	Other financial liabilities – amortized cost

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.

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 - 4 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.

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.

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 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.

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.

3. Significant accounting policies (continued):

(n) Redeemable preferred shares:

The Company has conditionally redeemable, convertible Class A preferred shares outstanding. The redemption feature provides for a minimum redemption amount equal to the purchase price of the shares and a maximum of the fair value of the preferred shares. The holder of the shares also has the option to convert the shares to common shares at any time. In accordance with the definitions of a financial liability, the minimum redemption clause meets the definition of a financial liability and the variable redemption amount is an embedded derivative financial liability. In addition, the terms of the conversion option do not meet the fixed-for-fixed requirement to be classified as equity and as such this feature is also an embedded derivative financial liability. The Company has designated the Class A preferred shares as FVTPL and not separated the embedded derivative instruments. Changes in the fair value are recorded in the Consolidated Statement of Comprehensive Income.

(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

Issued in November 2009 and revised in October 2010, IFRS 9, as issued, is the first phase in the IASB's project to replace IAS 39 Financial Instruments: recognition and measurement ("IAS 39"). This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities. The IASB has not yet communicated the mandatory effective date of IFRS 9. The Company does not intend to adopt IFRS 9 at this time but continues to monitor the individual phases of the IASB project. The extent of the impact of adoption of IFRS 9 has not yet been determined.

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

3. Significant accounting policies (continued):

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

IAS 32: Financial Instruments: Presentation

In December 2011, the IASB amended IAS 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 Company does not expect the amendment to have a material impact on the consolidated financial statements.

IFRIC 21: Levies

In May 2013, the IASB issued IFRIC 21 which provides guidance on accounting for levies in accordance with the requirements of IAS 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 Company does not expect the interpretation to have a material impact on the consolidated financial statements.

4. Accounts receivable:

	2013	2012
Trade accounts receivable	$ 12,125	$ 10,302
Other	324	131
	$ 12,449	$ 10,433

There have been no balances written off for the year ended December 31, 2013, 2012 and 2011 or any allowance for doubtful accounts recorded as at December 31, 2013 and 2012.

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

5. Property and equipment:

Cost	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
Balance, December 31, 2011	$ 3,700	$ 651	$ 852	$ 2,022	$ 7,225
Additions	951	249	52	110	1,362
Disposals	(1,938)	(407)	(22)	(3)	(2,370)
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

Accumulated depreciation	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
Balance, December 31, 2011	$ 2,833	$ 530	$ 705	$ 1,997	$ 6,065
Disposals	(1,938)	(407)	(22)	(3)	(2,370)
Depreciation	479	110	56	32	677
Balance, December 31, 2012	$ 1,374	$ 233	$ 739	$ 2,026	$ 4,372
Depreciation	627	30	56	121	834
Balance, December 31, 2013	$ 2,001	$ 263	$ 795	$ 2,147	$ 5,206

Carrying value	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
December 31, 2012	$ 1,339	$ 260	$ 143	$ 103	$ 1,845
December 31, 2013	1,880	414	87	27	2,408

Depreciation expense for assets under finance leases for the year ended December 31, 2013 was $22 (2012 - $68; 2011 - $244). Items under a finance lease included in computer equipment had a net carrying value of $1 as at December 31, 2013 (2012 - $24).

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

5. Property and equipment (continued):

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

	2013	2012	2011
Cost of revenue	$ 321	$ 226	$ 252
Selling and marketing	12	43	49
Research and development	214	185	207
General and administrative	287	223	96
	$ 834	$ 677	$ 604

6. Accounts payable and accrued liabilities:

	2013	2012
Trade accounts payable	$ 754	$ 930
Accrued liabilities	10,308	1,970
	$ 11,062	$ 2,900

7. Long-term debt:

	2013	2012
Non-revolving term facility	$ 25,000	$ –
Less: Current portion of long-term debt	4,167	–
	$ 20,833	$ –

The approximate principal repayments required over the next four years are as follows:

2014	$ 4,167
2015	8,333
2016	8,333
2017	4,167
	$ 25,000

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. The revolving demand facility bears interest at bank prime plus 1.00% per annum and has not been drawn at December 31, 2013.

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

7. Long-term debt (continued):

As at December 31, 2013, the Company has drawn $25,000 of the non-revolving term facility which is to be repaid in quarterly installments of 1/12th the principal outstanding on June 30, 2014 commencing September 30, 2014. The facility bears interest at LIBOR plus 3.75% payable quarterly commencing June 30, 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, 2013 and continues to be at the time of approval of these consolidated financial statements.

8. Finance lease obligations:

As of December 31, 2013, there were no obligations outstanding under finance leases.

Future minimum finance lease payments as of December 31, 2012 were:

2012	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than 1 year	$ 44	$ 2	$ 42
Between 1 and 5 years	17	1	16
More than 5 years	–	–	–
	$ 61	$ 3	$ 58

The range of interest rates implicit within the leases was 4.78% to 5.33%.

9. Redeemable preferred shares:

In November, 2013, the Company repurchased 3,124,998 Class A preferred shares for proceeds of $28,469. At December 31, 2013, the Company has 5,111,917 (2012 - 8,236,915) Class A preferred shares issued and outstanding. The shares mandatorily convert to common shares in the event of a qualifying initial public offering.

The holders of the Class A preferred shares are entitled to one vote for each common share into which the Class A preferred shares may be converted and are entitled to participate pro-rata in any dividends paid on the common shares on an as-if-converted basis. Upon a liquidation event, the holders of Class A preferred shares are entitled to receive the greater of: (i) $3.89 per share plus any additional amount available to be distributed proportionately between preferred and common shareholders up to $9.72 per share, and (ii) an amount equal to the amount that would have been payable had the preferred shares been converted to common.

The holders of the Class A preferred shares have the option to convert the Class A preferred shares, at any time, into common shares at an initial conversion ratio of 1:1. This conversion ratio is subject to adjustment based upon the issuance of equity or equity-related securities at a price lower than the initial issue price (subject to certain exceptions) as well as in connection with share splits, share consolidations and similar events.

The holders of outstanding Class A preferred shares receive dividends only when and as declared by the Board of Directors.

The Class A Preferred Shareholders have the right, conditional upon the request of at least 70% of the Class A Preferred Shareholders, to demand redemption at an amount equal to the greater of (i) the purchase price of the Class A Preferred Shares ($3.89 per share) plus declared and accrued but unpaid dividends and, (ii) the fair value of the preferred shares.

In December, 2013, to support the amendment of the Company's credit facility, the holders of the Class A Preferred shares agreed to waive their rights to invoke a redemption of the shares so long as there are any amounts owing by the Company to the bank pursuant to the facility agreement. As this waiver will defer any potential redemption beyond repayment of the long-term term loan, the redeemable preferred share liability has been classified as long-term as at December 31, 2013.

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

10. Share capital:

Authorized

The Company is authorized to issue an unlimited number of Common Shares and Non-voting Common Shares with no stated par value and 10,000,000 Class A Preferred Shares.

Issued:

	Common shares		Non-voting common shares	
	Shares	Amount	Shares	Amount
Shares outstanding at January, 1 2011	11,348,414	$ 6,157	3,826,178	$ 2,856
Repurchase of shares	–	–	(37,500)	(44)
Shares issued for cash	–	–	10,000	16
Share purchase plan subscriptions received	–	–	–	222
Shares issued from employee share purchase plan	–	–	154,713	–
Shares issued from exercised options	–	–	934,348	934
Reduction of receivable on share sale	–	–	–	4
Shares outstanding at December 31, 2011	11,348,414	$ 6,157	4,887,739	$ 3,988
Shares issued for cash	–	–	75,000	240
Share purchase plan subscriptions received	–	–	–	458
Shares issued from employee share purchase plan	–	–	147,590	–
Shares issued from exercised options	198,518	246	78,374	87
Shares outstanding at December 31, 2012	11,546,932	$ 6,403	5,188,703	$ 4,773

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

10. Share capital (continued):

Issued (continued):

	Common shares		Non-voting common shares	
	Shares	Amount	Shares	Amount
Balance carry forward	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

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.

The Company recorded share-based compensation of $257 in 2011 related to the third loan agreement. The loan has partial recourse to the officer, matures on April 1, 2014 or earlier based on the occurrence of specific events, and bears interest at the rate of 2.44% per annum to be paid annually. During 2013, the officer repaid the principal amount of $967 and paid $16 (2012 - $23; 2011 - $28) of interest on the loan. The balance of the loan, including accrued interest, at December 31, 2012 totaled $967 and is reflected as a reduction to shareholders' equity.

During 2013, the Company received $347 (2012 - $458; 2011 - $222) from employees pursuant to the employee share purchase plan to purchase 89,174 (2012 - 143,428; 2011 - 138,840) Non-Voting Common Shares.

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

10. Share capital (continued):

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 3,115,266 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. 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 fair market value 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.

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

	December 31, 2013		December 31, 2012	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Options outstanding, beginning of year	3,253,581	$ 1.81	2,797,848	$ 1.28
Granted	280,000	4.05	897,500	3.20
Exercised	(132,857)	1.23	(276,892)	1.20
Cancelled	–	–	(65,500)	1.17
Forfeited	(33,437)	2.56	(99,375)	1.52
Tendered (repurchase program)	(1,421,707)	1.75	–	–
Options outstanding, end of year	1,945,580	$ 2.21	3,253,581	$ 1.81
Options exercisable, end of year	984,171	$ 1.62	1,687,175	$ 1.18

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

10. Share capital (continued):

Stock option plans (continued)

The following table summarizes information about stock options outstanding at December 31, 2013:

Options outstanding				Options exercisable	
Range of exercise prices	Number outstanding at 12/31/13	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at 12/31/13	Weighted average exercise price
$ 1.00 to 1.20	626,513	1.99	$ 1.03	607,138	$ 1.02
1.60 to 1.85	505,567	7.52	1.60	145,096	1.61
3.20 to 6.60	813,500	8.53	3.49	231,937	3.20
	1,945,580	6.16	$ 2.21	984,171	$ 1.62

At December 31, 2013, there were 923,000 (2012 - 1,050,000) stock options available for grant under the Plan. In 2013, the Company issued 280,000 (2012 - 897,500) options and recorded share-based compensation expense of $1,003 (2012 - $898) related to the vesting of options granted in 2013 and previous years. The per share weighted-average fair value of stock options granted during 2013 was $2.02 (2012 - $1.64) 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 1.87% (2012 - 1.49%), an expected life of 8 years (2012 - 8 years), and estimated volatility of 47% (2012 - 50%). Volatility is estimated by benchmarking to comparable publicly traded companies operating in a similar market segment. The forfeiture rate was estimated at 5% (2012 – 5%).

In 2011, the Company issued 450,000 options in exchange for the cancellation of 300,000 vested options. The per share weighted-average fair value of the options cancelled was $0.51 at the date of modification using the Black Scholes option-pricing model with the following weighted-average assumptions: expected dividend yield 0%, risk-free interest rate of 0.20%, an expected life of 1.15 years, and estimated volatility of 46%. The per share weighted-average fair value of the new options granted was $0.91 on the date of grant using the Black Scholes option-pricing model with the following assumptions: expected dividend yield 0%, risk-free interest rate of 2.54%, an expected life of 8 years, and estimated volatility of 50%. The modification resulted in $237 of incremental compensation expense, of which $45 (2012 - $106; 2011 - $61) has been recorded during the year ended December 31, 2013.

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

10. Share capital (continued):

The following table presents the share-based payments expense by function for the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Cost of revenue	$ 77	$ 75	$ 24
Selling and marketing	429	386	80
Research and development	96	204	80
General and administrative	401	233	311
	$ 1,003	$ 898	$ 495

Employee share purchase plan

Under its share purchase plan, the Company is authorized to issue shares to its full-time employees, nearly all of whom are eligible to participate. Under the terms of the plan, employees can choose each year to have up to 10% of their annual base earnings withheld to purchase the Company's non-voting common shares. The purchase price of the shares is at fair value of the shares as determined by the Board of Directors. In 2013, 151,713 (2012 - 147,590; 2011 - 154,713) Non-Voting Common Shares were issued under this plan.

11. Earnings (loss) per share:

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

	2013	2012	2011
Issued common shares at beginning of period	16,735,635	16,236,153	15,174,942
Effect of repurchase of shares	(334,471)	–	(15,625)
Effect of shares issued for cash	–	50,000	1,667
Effect of shares issued from employee share purchase plan	101,119	107,146	111,762
Effect of shares issued from exercise of options	36,787	129,815	140,941
Weighted average number of basic common shares at December 31	16,539,070	16,523,114	15,413,687
Effect of conversion or redeemable preferred shares	–	8,236,915	–
Effect of share options on issue	–	1,677,013	–
Weighted average number of diluted common shares at December 31	16,539,070	26,437,042	15,413,687

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

11. Earnings (loss) per share (continued):

Due to loss for the years December 31, 2013 and 2011, the effect of all outstanding options and redeemable preferred shares were excluded from the diluted weighted average number of shares because their effect would have been anti-dilutive. At December 31, 2012, 897,500 options were excluded from the weighted average number of diluted common share calculation as their effect would have been anti-dilutive.

12. Revenue:

	2013	2012	2011
Subscription	$ 40,039	$ 33,124	$ 26,628
Professional services	19,173	11,592	9,320
Maintenance and support	1,604	1,955	2,093
	$ 60,816	$ 46,671	$ 38,041

13. Research and development:

	2013	2012	2011
Research and development expenses	$ 10,417	$ 9,082	$ 7,452
Investment tax credits	(2,246)	(2,010)	(5,129)
	$ 8,171	$ 7,072	$ 2,323

14. Personnel expenses:

The following table presents the personnel expenses incurred by the Company for the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Salaries including bonuses	$ 28,305	$ 24,467	$ 18,769
Benefits	3,944	2,836	2,161
Commissions	3,744	1,339	1,255
Share-based payments	1,003	898	495
	$ 36,996	$ 29,540	$ 22,680

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

15. Net finance income:

The following table presents the net finance income earned by the Company for the years ended December 31, 2013, 2012 and 2011:

	2013	2012	2011
Interest income on cash equivalents	$ 169	$ 58	$ 54
Less finance costs:			
Interest expense on finance leases	1	4	12
Other interest expense	137	8	4
	$ 31	$ 46	$ 38

16. Income taxes:

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

	2013	2012	2011
Current tax expense			
Current income tax	$ 4,899	$ 588	$ 528
Part VI.1 tax on deemed dividends on repurchase of preferred shares	3,958	–	–
	8,857	588	528
Deferred tax expense (recovery):			
Origination and reversal of temporary differences	582	1,929	179
Temporary differences resulting from Part VI.1 tax liability	(3,634)	–	–
Increase in future tax rate	–	(336)	–
Recognition of previously unrecognized temporary differences	(931)	–	(955)
	(3,983)	1,593	(776)
	$ 4,874	$ 2,181	$ (248)

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

16. Income taxes (continued):

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

	2013	2012	2011
Canadian tax rate	26.50%	26.50%	28.25%
Expected Canadian income tax expense (recovery)	$ (1,285)	$ 1,888	$ (1,244)
Increase (reduction) in income taxes resulting from:			
Tax effect of loss due to change in fair value of preferred shares	4,739	311	4,503
Difference between current and future tax rates and other	213	(349)	45
Foreign tax rate differences	200	219	98
Part VI.1 tax rate difference	324	–	–
Recognition of previously unrecognized temporary differences	(931)	–	(4,036)
Reversal of previously recognized temporary differences	1,056	–	–
Permanent difference of stock-based compensation	267	112	96
Exchange rate	291	–	290
	$ 4,874	$ 2,181	$ (248)

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

	2013	2012
Deferred tax assets (liabilities):		
Non-capital loss carry-forwards	$ 6,349	$ 1,262
Unclaimed scientific research and experimental development	1,828	171
Tax effect of investment tax credits	(1,480)	(1,433)
Timing difference of deferred revenue	–	(539)
Property and equipment	1,407	4,626
Other	62	96
	$ 8,166	$ 4,183

The Company has non-capital losses available to reduce taxable income of $23,960 as at December 31, 2013 (2012 - $4,764) which begin to expire in 2029. The Company has investment tax credits available to reduce federal income taxes payable in Canada of $1,982 as at December 31, 2013 (2012 - $3,621) and provincial income taxes payable in Ontario of $125 as at December 31, 2013 (2012 - $1,059) which begin to expire in 2028 and 2033 respectively.

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

16. Income taxes (continued):

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.

Deferred tax assets were not recognized in 2012 in respect of the Ontario harmonization credit on the basis that it was not probable that future taxable profit would be available to utilize these assets.

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 has determined the likelihood of realizing the benefit of the related temporary differences is lower and has 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, 2013 was $3,067 (2012 - $1,292).

17. Statement of cash flow:

(a) Changes in operating assets and liabilities:

	2013	2012	2011
Trade and other receivables	$ (2,057)	$ (4,902)	$ (1,606)
Investment tax credits receivable	44	96	(70)
Prepaid expenses	(50)	(191)	(99)
Trade payables and accrued liabilities	576	(363)	1,100
Deferred revenue	4,866	1,989	2,744
	$ 3,379	$ (3,371)	$ 2,069

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

17. Statement of cash flow (continued):

(b) Cash and cash equivalents, which are Level 1 financial assets based on fair value hierarchy are as follows:

	2013	2012	2011
Cash	$ 10,093	$ 27,505	$ 8,072
Cash equivalents	3,711	21,296	37,103
	$ 13,804	$ 48,801	$ 45,175

18. Financial instruments:

Fair value of financial instruments

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

		2013		2012
Financial assets	Carrying value	Fair value	Carrying value	Fair value
Loans and receivables, measured at amortized cost:				
Cash and cash equivalents	$ 13,804	$ 13,804	$ 48,801	$ 48,801
Trade and other receivables	12,449	12,449	10,433	10,433
Investment tax credits receivable	1,330	1,330	1,374	1,374
	$ 27,583	$ 27,583	$ 60,608	$ 60,608

		2013		2012
Financial liabilities	Carrying value	Fair value	Carrying value	Fair value
Liabilities measured at FVTPL:				
Redeemable preferred shares	$ 54,135	$ 54,135	$ 64,720	$ 64,720
Other financial liabilities, measured at amortized cost				
Trade payables and accrued liabilities	11,062	11,062	2,900	2,900
Finance lease obligations	–	–	58	58
Long-term debt	25,000	25,000	–	–
	$ 90,197	$ 90,197	$ 67,678	$ 67,678

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 finance lease obligations and long-term debt represent the present value of future payments and approximates their fair market value.
- The redeemable preferred shares are measured at fair value (Level 3)

At December 31, 2013, the fair value of the redeemable preferred shares was measured using a Probability Weighted Expected Return Method. Under this method, an analysis of future values is performed for several likely scenarios for a liquidity event. The value of the shares is determined for each scenario at the time of each future liquidity event through application of market multiples of the last twelve months revenue at liquidity and discounted back to the appropriate valuation date. The present values of the shares under each scenario are then weighted based upon the probability of each occurring to determine an indication of the value of the shares. The unobservable input to this model is forecasted revenue at the time of the future liquidity event. The estimated fair value of redeemable preferred shares would increase $2,450 if forecasted revenue at liquidity increased 5% and would decrease $2,491 if forecasted revenue at liquidity decreased 5%.

At December 31, 2012, the valuation techniques used to measure the fair value of the redeemable preferred shares include:

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

18. Financial instruments (continued):

Discounted cash flows

The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate. The expected payment is determined by considering the possible scenarios for forecasted EBITDA. The unobservable inputs to this model include forecasted revenue and EBITDA. The estimated fair value would increase (decrease) if forecasted revenue was higher (lower), or EBITDA were higher (lower).

Market comparison

The valuation model is based on market multiples of revenue and EBITDA derived from quoted prices of comparable companies. The unobservable inputs to this model include forecasted revenue and EBITDA. The estimated fair value would increase (decrease) if forecasted revenue was higher (lower) or EBITDA margins were higher (lower).

For the fair value of the redeemable preferred shares, a change of 5% to one of the significant unobservable inputs holding other inputs constant would have the following effects on profit and loss:

	5% Increase	5% Decrease
Forecasted revenue	$ (171)	$ 171
Forecasted EBITDA	(616)	623

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, 2012	$ 63,548
Increase in fair value	1,172
Balance at December 31, 2012	64,720
Increase in fair value	17,884
Repurchase of preferred shares	(28,469)
Balance, December 31, 2013	$ 54,135

(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, 2013, two customers accounted for 17% of total trade receivables (2012 - two customers - 22%). For the year ended December 31, 2013, the Company had one customer that individually accounted for 10% of revenue (2012 – one customer – 12%; 2011 - one customer – 10%). As the majority of the Company's revenues are amortized into income 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 at December 31, 2013 and 2012 by geographic region was as follows:

		2013		2012
Canada	$	721	$	1,902
United States		10,865		7,786
Other foreign		539		614
	$	12,125	$	10,302

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

		2013		2012
Current	$	7,449	$	5,842
Past due:				
0 – 30 days	$	4,669	$	4,358
31 – 60 days		6		50
Greater than 60 days		1		52
	$	12,125	$	10,302

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, 2013, 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, 2013 (2012 - $Nil).

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

18. Financial instruments (continued):

Financial risk management:

(a) Credit risk (continued):

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:

	2013	2012
Cash and cash equivalents	$ 13,804	$ 48,801
Trade and other receivables	12,449	10,433
Investment tax credits receivable	1,330	1,374
	$ 27,583	$ 60,608

(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 to is ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. The Company also manages liquidity risk by continuously monitoring actual and budgeted expenses. Furthermore, the Board of Directors reviews and approves the Company's operating and capital budgets, as well as any material transactions out of the ordinary course of business, including acquisitions or other major investments or divestitures.

At December 31, 2013, the Company had cash and cash equivalents totaling $13,804 (2012 - $48,801). Further, the Company has a credit facility as disclosed in note 7.

(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, 2013 and 2012:

		Contractual cash flows				
December 31, 2013	Carrying amount	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	$ –

		Contractual cash flows				
December 31, 2012	Carrying amount	Total	3 months or less	3 to 12 months	1 to 5 years	More than 5 years
Trade payables and accrued liabilities	$ 2,900	$ 2,900	$ 2,900	$ –	$ –	$ –
Finance lease obligations	58	61	12	32	17	–
Redeemable preferred shares	64,720	64,720	64,720	–	–	–
	$ 67,678	$ 67,681	$ 67,632	$ 32	$ 17	$ –

(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.

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, 2013, 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 $857 lower (2012 - $863 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, 2013 In thousands of	USD	CAD	JPY	EUR	HKD	GBP
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)	–

December 31, 2012 In thousands of	USD	CAD	JPY	EUR	HKD	GBP
Trade receivables	9,812	–	–	371	–	–
Other receivables	105	–	–	20	–	–
Trade payables	(471)	(192)	(18,153)	–	(10)	–
Accrued liabilities	(874)	(730)	(13,925)	(61)	(450)	(1)
	8,572	(922)	(32,078)	330	(460)	(1)

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, 2013, the Company has drawn $25,000 of the non-revolving term facility bearing interest at LIBOR plus 3.75% fixed for terms of three to six months. A 100 basis points change in the interest rates would have impacted profit by a nominal amount in 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:

	2013	2012	2011
Canada	$ 9,402	$ 9,715	$ 6,001
United States	42,025	30,864	25,744
Japan	4,399	5,044	4,715
Other foreign	4,990	1,048	1,581
	$ 60,816	$ 46,671	$ 38,041

Total assets on a geographic basis are as follows:

	2013	2012
Canada	$ 15,191	$ 46,673
United States	22,757	21,745
Japan	2,973	3,877
Other foreign	551	195
	$ 41,472	$ 72,490

20. Operating lease commitments:

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

Less than one year	$ 1,114
Between one and five years	2,799
More than five years	-
	$ 3,913

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, 2013 was $953 (2012 - $948; 2011 - $889).

(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, 2013 and 2012 are as follows:

Name of subsidiary	Principle activity	Place of incorporation and operation	Proportion of ownership interest and voting power held	
			2013	2012
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%	100%
Kinaxis Software LLC	Investment Co.	State of Delaware, USA	100%	100%

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 approximately $65 (2012 - $50; 2011 - $68), 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:

	2013	2012	2011
Salary and other short-term benefits	$ 1,916	$ 2,788	$ 2,212
Share-based payments	591	471	370
Termination benefits	54	–	66
	$ 2,561	$ 3,259	$ 2,648

22. Capital management:

The Company's capital is composed of its redeemable preferred shares, long-term debt and 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 utilized $25,000 of its term debt facility to finance the repurchase of Class A Preferred shares and Common shares in the fourth quarter of 2013. 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.