

Condensed Consolidated Interim Financial Statements of

Kinaxis Inc.

Three months ended March 31, 2014 and March 31, 2013

(Unaudited)

Kinaxis Inc.

Condensed Consolidated Interim Statements of Financial Position

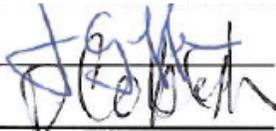
As at March 31, 2014 and December 31, 2013

(Expressed in thousands of U.S. dollars)

(Unaudited)

	March 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 19,188	\$ 13,804
Trade and other receivables (note 4)	8,745	12,449
Investment tax credits receivable	1,615	1,330
Prepaid expenses	2,066	1,207
	<u>31,614</u>	<u>28,790</u>
Non-current assets:		
Property and equipment	3,057	2,408
Investment tax credits recoverable	2,356	2,108
Deferred tax assets	7,570	8,166
	<u>\$ 44,597</u>	<u>\$ 41,472</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities (note 5)	\$ 2,812	\$ 11,062
Deferred revenue	27,683	24,700
Current portion of long-term debt (note 6)	7,500	4,167
	<u>37,995</u>	<u>39,929</u>
Non-current liabilities:		
Lease inducement	143	155
Long-term debt (note 6)	22,500	20,833
Redeemable preferred shares (note 7)	54,314	54,135
	<u>76,957</u>	<u>75,123</u>
Shareholders' Deficiency		
Share capital (note 8)	10,767	9,902
Contributed surplus	4,336	3,948
Accumulated other comprehensive loss	(345)	(360)
Deficit	(85,113)	(87,070)
	<u>(70,355)</u>	<u>(73,580)</u>
	<u>\$ 44,597</u>	<u>\$ 41,472</u>

See accompanying notes to condensed consolidated interim financial statements.



Director



Director

Kinaxis Inc.

Condensed Consolidated Interim Statements of Comprehensive Income

For the three months ended March 31

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

(Unaudited)

	2014	2013
Revenue (note 10)	\$ 15,623	\$ 13,326
Cost of revenue	4,829	4,289
Gross profit	10,794	9,037
Operating expenses:		
Selling and marketing	3,053	3,820
Research and development (note 11)	2,959	2,035
General and administrative	1,633	1,411
	7,645	7,266
	3,149	1,771
Other income (expense):		
Loss due to change in fair value of redeemable preferred shares	(179)	(3,564)
Foreign exchange gain (loss)	47	(189)
Net finance (expense) income	(257)	13
	(389)	(3,740)
Profit (loss) before income taxes	2,760	(1,969)
Income tax expense:		
Current	206	166
Deferred	597	432
	803	598
Profit (loss)	1,957	(2,567)
Other comprehensive income (loss)		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences- foreign operations	15	(84)
Total comprehensive income (loss)	\$ 1,972	\$ (2,651)
Basic earnings (loss) per share	\$ 0.15	\$ (0.15)
Weighted average number of basic common shares (note 9)	13,279,075	16,820,957
Diluted earnings (loss) per share	0.10	(0.15)
Weighted average number of diluted common shares (note 9)	19,679,029	16,820,957

See accompanying notes to condensed consolidated interim financial statements.

Kinaxis Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Deficiency

For the three months ended March 31, 2014 and 2013

(Expressed in thousands of U.S. dollars)

(Unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total deficiency
Balance, December 31, 2012	\$ 11,176	\$ 2,923	\$ (297)	\$ (29,508)	\$ (15,706)
Loss	—	—	—	(2,567)	(2,567)
Other comprehensive loss	—	—	(84)	—	(84)
Total comprehensive loss	—	—	(84)	(2,567)	(2,651)
Share options exercised	31	—	—	—	31
Share based payments	—	237	—	—	237
Interest on receivable for share sale	(6)	6	—	—	—
Total shareholder transactions	25	243	—	—	268
Balance, March 31, 2013	\$ 11,201	\$ 3,166	\$ (381)	\$ (32,075)	\$ (18,089)
Balance, December 31, 2013	\$ 9,902	\$ 3,948	\$ (360)	\$ (87,070)	\$ (73,580)
Profit	—	—	—	1,957	1,957
Other comprehensive income	—	—	15	—	15
Total comprehensive income	—	—	15	1,957	1,972
Shares issued for cash	585	—	—	—	585
Share options exercised	280	—	—	—	280
Share based payments	—	388	—	—	388
Total shareholder transactions	865	388	—	—	1,253
Balance, March 31, 2014	\$ 10,767	\$ 4,336	\$ (345)	\$ (85,113)	\$ (70,355)

See accompanying notes to condensed consolidated interim financial statements.

Kinaxis Inc.

Condensed Consolidated Interim Statements of Cash Flows

For the three months ended March 31
(Expressed in thousands of U.S. dollars)
(Unaudited)

	2014	2013
Cash flows from operating activities:		
Profit (loss)	\$ 1,957	\$ (2,567)
Items not affecting cash:		
Depreciation of property and equipment	240	200
Loss due to change in fair value of redeemable preferred shares	179	3,564
Share-based compensation	388	237
Amortization of lease inducement	(12)	(12)
Long-term investment tax credits recoverable	(249)	(220)
Income tax expense	803	598
Change in operating assets and liabilities (note 12)	(2,559)	1,256
Interest paid	(53)	(2)
Income taxes paid	(350)	(330)
	344	2,724
Cash flows from investing activities:		
Purchase of property and equipment	(889)	(202)
Cash flows from financing activities:		
Non-Voting Common Shares issued and share subscriptions received	865	31
Issuance of long-term debt	5,000	—
Payment of finance lease obligations	—	(11)
	5,865	20
Increase in cash and cash equivalents	5,320	2,542
Cash and cash equivalents, beginning of period	13,804	48,801
Effects of exchange rates on cash and cash equivalents	64	(312)
Cash and cash equivalents, end of period	\$ 19,188	\$ 51,031

See accompanying notes to condensed consolidated interim financial statements.

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and March 31, 2013
(Expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

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 March 31, 2014 and for the three months ended March 31, 2014 and 2013 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 unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and issued by the International Accounting Standards Board ("IASB"). They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2013. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2013.

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

(b) Use of estimates and judgments:

In preparing these unaudited condensed consolidated interim financial statements, Management makes judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by Management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2013.

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and March 31, 2013
(Expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

3. Significant accounting policies:

Except as described below, the accounting policies applied in these unaudited condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements as at and for the year ended December 31, 2013. The following changes in accounting policies are also expected to be reflected in the Company's consolidated financial statements as at and for the year ending December 31, 2014.

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.

4. Accounts receivable:

	March 31, 2014	December 31, 2013
Trade accounts receivable	\$ 8,370	\$ 12,125
Other	375	324
	<u>\$ 8,745</u>	<u>\$ 12,449</u>

There have been no balances written off for the three months ended March 31, 2014 or March 31, 2013 or any allowance for doubtful accounts recorded as at March 31, 2014 or December 31, 2013.

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and March 31, 2013
(Expressed in thousands of U.S. dollars, except share and per share amounts)
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5. Accounts payable and accrued liabilities:

	March 31, 2014	December 31, 2013
Trade accounts payable	\$ 243	\$ 754
Accrued liabilities	2,569	10,308
	<u>\$ 2,812</u>	<u>\$ 11,062</u>

6. Long-term debt:

	March 31, 2014	December 31, 2013
Non-revolving term facility	\$ 30,000	\$ 25,000
Less: Current portion of long-term debt	7,500	4,167
	<u>\$ 22,500</u>	<u>\$ 20,833</u>

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

2014	\$ 5,000
2015	10,000
2016	10,000
2017	5,000
	<u>\$ 30,000</u>

On December 18, 2013, the Company's credit facility was amended to include a revolving demand facility in the amount of \$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 March 31, 2014.

As at March 31, 2014, the Company has drawn \$30,000 of the non-revolving term facility payable 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 continues to meet the financial covenants at the time of approval of these unaudited condensed consolidated interim financial statements.

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and March 31, 2013
(Expressed in thousands of U.S. dollars, except share and per share amounts)
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7. Redeemable preferred shares:

In November, 2013, the Company repurchased 3,124,998 Class A preferred shares for proceeds of \$28,469. At March 31, 2014, the Company has 5,111,917 (December 31, 2013 – 5,111,917) 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 and March 31, 2014.

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and March 31, 2013
(Expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

8. 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 December 31, 2012	11,546,932	\$ 6,403	5,188,703	\$ 4,773
Shares issued from employee share purchase plan	–	–	62,538	–
Shares issued from exercised options	20,700	21	6,250	10
Receivable from sale of stock	–	–	–	(6)
Shares outstanding at March 31, 2013	11,567,632	\$ 6,424	5,257,491	\$ 4,777
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	–	–	271,805	280
Shares outstanding at March 31, 2014	7,674,049	\$ 4,252	5,664,309	\$ 6,515

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and March 31, 2013
(Expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

8. Share capital (continued):

Stock option plans

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

	March 31, 2014		December 31, 2013	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Options outstanding, beginning of period	1,945,580	\$ 2.21	3,253,581	\$ 1.81
Granted	665,000	9.75	280,000	4.05
Exercised	(271,805)	1.03	(132,857)	1.23
Forfeited	–	–	(33,437)	2.56
Tendered (repurchase program)	–	–	(1,421,707)	1.75
Options outstanding, end of period	2,338,775	\$ 4.49	1,945,580	\$ 2.21
Options exercisable, end of period	829,858	\$ 1.93	984,171	\$ 1.62

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

Options outstanding				Options exercisable	
Range of exercise prices	Number outstanding at 03/31/14	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at 03/31/14	Weighted average exercise price
\$ 1.00 to 1.20	359,708	2.13	\$ 1.04	346,270	\$ 1.04
1.60 to 3.20	1,244,067	7.84	2.56	483,588	2.56
6.60 to 9.75	735,000	9.79	9.45	–	–
	2,338,775	7.58	\$ 4.49	829,858	\$ 1.93

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and March 31, 2013
(Expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

8. Share capital (continued):

Stock option plans (continued)

At March 31, 2014, there were 658,000 (December 31, 2013 - 923,000) stock options available for grant under the Plan. During the three months ended March 31, 2014, the Company granted 665,000 (December 31, 2013 - 280,000) options and recorded share-based compensation expense for the three months ended March 31, 2014 of \$388 (March 31, 2013 - \$237) related to the vesting of options granted in 2014 and previous years. The per share weighted-average fair value of stock options granted during the three months ended March 31, 2014 was \$5.13 (March 31, 2013 - \$1.51) 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 1.89% (2013 - 1.70%), 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%).

The following table presents the share-based payments expense by function for the three months ended March 31:

	2014	2013
Cost of revenue	\$ 42	\$ 11
Selling and marketing	133	136
Research and development	102	31
General and administrative	111	59
	<u>\$ 388</u>	<u>\$ 237</u>

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and March 31, 2013
(Expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

9. Earnings (loss) per share:

The following table summarizes the calculation of the weighted average number of basic and diluted common shares for March 31.

	2014	2013
Issued common shares at beginning of period	13,006,553	16,735,635
Effect of shares issued for cash	60,000	–
Effect of shares issued from employee share purchase plan	–	62,539
Effect of shares issued from exercise of options	212,522	22,783
Weighted average number of basic common shares at March 31	13,279,075	16,820,957
Effect of conversion or redeemable preferred shares	5,111,918	–
Effect of share options on issue	1,288,036	–
Weighted average number of diluted common shares at March 31	19,679,029	16,820,957

At March 31, 2014, \$735,000 options were excluded from the weighted average number of diluted common shares as their effect would have been anti-dilutive. Due to loss for the quarter ended March 31, 2013, 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.

10. Revenue:

	2014	2013
Subscription	\$ 11,320	\$ 9,111
Professional services	4,001	3,764
Maintenance and support	302	451
	\$ 15,623	\$ 13,326

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and March 31, 2013
(Expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

11. Research and development:

	2014	2013
Research and development expenses	\$ 3,533	\$ 2,581
Investment tax credits	(574)	(546)
	\$ 2,959	\$ 2,035

12. Statement of cash flow:

Changes in operating assets and liabilities:

	2014	2013
Trade and other receivables	\$ 3,706	\$ 2,645
Investment tax credits receivable	(285)	(299)
Prepaid expenses	(857)	(439)
Trade payables and accrued liabilities	(8,060)	97
Deferred revenue	2,937	(748)
	\$ (2,559)	\$ 1,256

13. Financial instruments:

(a) Fair value of financial instruments:

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

	March 31, 2014		December 31, 2013	
Financial assets	Carrying value	Fair value	Carrying value	Fair value
Loans and receivables, measured at amortized cost:				
Cash and cash equivalents	\$ 19,188	\$ 19,188	\$ 13,804	\$ 13,804
Trade and other receivables	8,745	8,745	12,449	12,449
Investment tax credits receivable	1,615	1,615	1,330	1,330
	\$ 29,548	\$ 29,548	\$ 27,583	\$ 27,583

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and March 31, 2013
(Expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

13. Financial instruments (continued):

(a) Fair value of financial instruments (continued):

	March 31, 2014		December 31, 2013	
Financial liabilities	Carrying value	Fair value	Carrying value	Fair value
Liabilities measured at FVTPL:				
Redeemable preferred shares	\$ 54,237	\$ 54,237	\$ 54,007	\$ 54,007
Other financial liabilities, measured at amortized cost				
Trade payables and accrued liabilities	2,812	2,812	11,062	11,062
Long-term debt	30,000	30,000	25,000	25,000
	\$ 87,049	\$ 87,049	\$ 90,069	\$ 90,069

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 estimated fair value of redeemable preferred shares would increase \$2,780 (2013 - \$2,450) if forecasted revenue at liquidity increased 5% and would decrease \$2,087 (2013 - \$2,491) if forecasted revenue at liquidity decreased 5%.

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, 2014	\$ 54,135
Increase in fair value	179
Balance, March 31, 2014	\$ 54,314

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and March 31, 2013
(Expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

13. Financial instruments (continued):

(b) Credit risk:

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

	March 31, 2014	December 31, 2013
Canada	\$ 1,820	\$ 721
United States	5,189	10,865
Other foreign	1,361	539
	<u>\$ 8,370</u>	<u>\$ 12,125</u>

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

	March 31, 2014	December 31, 2013
Current	\$ 7,912	\$ 7,449
Past due:		
0 – 30 days	\$ 280	\$ 4,669
31 – 60 days	130	6
Greater than 60 days	48	1
	<u>\$ 8,370</u>	<u>\$ 12,125</u>

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 for the three months ending March 31 is as follows:

	2014	2013
Canada	\$ 1,279	\$ 3,011
United States	12,437	8,334
Japan	938	1,026
Other foreign	969	955
	<u>\$ 15,623</u>	<u>\$ 13,326</u>

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2014 and March 31, 2013

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

(Unaudited)

14. Segmented information (continued):

Total assets on a geographic basis are as follows:

	March 31, 2014	December 31, 2013
Canada	\$ 16,471	\$ 15,191
United States	24,876	22,757
Japan	2,694	2,973
Other foreign	556	551
	<hr/>	<hr/>
	\$ 44,597	\$ 41,472