

Condensed Consolidated Interim Financial Statements of

**Kinaxis Inc.**

Three months ended March 31, 2016 and March 31, 2015

(Unaudited)

# Kinaxis Inc.

## Condensed Consolidated Interim Statements of Financial Position

As at March 31, 2016 and December 31, 2015

(Expressed in thousands of U.S. dollars)

(Unaudited)

	March 31, 2016	December 31, 2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 108,348	\$ 99,390
Trade and other receivables (note 4)	13,953	15,833
Investment tax credits receivable	1,642	1,532
Investment tax credits recoverable	1,661	2,083
Prepaid expenses	2,484	1,906
	128,088	120,744
Non-current assets:		
Property and equipment (note 5)	7,190	7,352
	\$ 135,278	\$ 128,096
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 5,875	\$ 6,794
Deferred revenue	43,852	40,442
	49,727	47,236
Non-current liabilities:		
Lease inducement	51	62
Deferred revenue	13,235	14,191
Deferred tax liability	578	1,003
	13,864	15,256
Shareholders' equity:		
Share capital (note 7)	91,369	90,808
Contributed surplus	10,965	8,873
Accumulated other comprehensive loss	(413)	(474)
Deficit	(30,234)	(33,603)
	71,687	65,604
	\$ 135,278	\$ 128,096

See accompanying notes to condensed consolidated interim financial statements.

On behalf of the Board of Directors:

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

# Kinaxis Inc.

## Condensed Consolidated Interim Statements of Comprehensive Income

For the three months ended March 31, 2016 and 2015

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

	2016	2015
Revenue (note 9)	\$ 27,032	\$ 19,711
Cost of revenue	8,105	5,805
Gross profit	18,927	13,906
Operating expenses:		
Selling and marketing	5,979	3,799
Research and development (note 10)	4,737	3,671
General and administrative	3,005	2,188
	13,721	9,658
	5,206	4,248
Other income (expense):		
Foreign exchange gain (loss)	266	(479)
Net finance income	74	24
	340	(455)
Profit before income taxes	5,546	3,793
Income tax expense	2,177	1,405
Profit	3,369	2,388
Other comprehensive income (loss)		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences - foreign operations	61	(15)
Total comprehensive income	\$ 3,430	\$ 2,373
Basic earnings per share	\$ 0.14	\$ 0.10
Weighted average number of basic common shares (note 8)	24,445,630	23,759,940
Diluted earnings per share	0.13	0.10
Weighted average number of diluted common shares (note 8)	25,744,984	25,133,286

See accompanying notes to condensed consolidated interim financial statements.

# Kinaxis Inc.

## Condensed Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency)

For the three months ended March 31, 2016 and 2015

(Expressed in thousands of U.S. dollars)

(Unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity (deficiency)
Balance, December 31, 2014	\$ 87,219	\$ 6,152	\$ (453)	\$ (46,281)	\$ 46,637
Profit	–	–	–	2,388	2,388
Other comprehensive income	–	–	(15)	–	(15)
Total comprehensive income	–	–	(15)	2,388	2,373
Share options exercised	277	(87)	–	–	190
Share based payments	–	964	–	–	964
Total shareholder transactions	277	877	–	–	1,154
Balance, March 31, 2015	\$ 87,496	\$ 7,029	\$ (468)	\$ (43,893)	\$ 50,164
Balance, December 31, 2015	\$ 90,808	\$ 8,873	\$ (474)	\$ (33,603)	\$ 65,604
Profit	–	–	–	3,369	3,369
Other comprehensive income	–	–	61	–	61
Total comprehensive income	–	–	61	3,369	3,430
Share options exercised	561	(188)	–	–	373
Share based payments	–	2,280	–	–	2,280
Total shareholder transactions	561	2,092	–	–	2,653
Balance, March 31, 2016	\$ 91,369	\$ 10,965	\$ (413)	\$ (30,234)	\$ 71,687

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, 2016 and 2015

(Expressed in thousands of U.S. dollars)

(Unaudited)

	2016	2015
Cash flows from operating activities:		
Profit	\$ 3,369	\$ 2,388
Items not affecting cash:		
Depreciation of property and equipment	520	354
Share-based payments	2,280	964
Amortization of lease inducement	(11)	(11)
Investment tax credits recoverable	422	(339)
Income tax expense	2,177	1,405
Change in operating assets and liabilities (note 11)	743	19,210
Income taxes paid	(713)	(356)
	8,787	23,615
Cash flows used in investing activities:		
Purchase of property and equipment (note 5)	(358)	(1,684)
Cash flows used in financing activities:		
Common Shares issued	373	190
Increase in cash and cash equivalents	8,802	22,121
Cash and cash equivalents, beginning of period	99,390	56,725
Effects of exchange rates on cash and cash equivalents	156	(82)
Cash and cash equivalents, end of period	\$ 108,348	\$ 78,764

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, 2016 and March 31, 2015  
(Expressed in thousands of U.S. dollars, except share and per share amounts)  
(Unaudited)

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### 1. Corporate information:

Kinaxis Inc. ("Kinaxis" or 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, 2016 and for the three months ended March 31, 2016 and 2015 comprise the Company and its subsidiaries.

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

### 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* as 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, 2015. 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, 2015.

Certain comparative figures have been reclassified to conform to the current year's presentation.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 4, 2016.

#### (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, 2015.

# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and March 31, 2015  
(Expressed in thousands of U.S. dollars, except share and per share amounts)  
(Unaudited)

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### 3. Significant accounting policies:

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 ending December 31, 2015.

Standards and interpretations in issue:

Amendments to IAS 16 and IAS 38

In May 2014, the International Accounting Standards Board issued amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. These amendments prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. They also introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. The amendments explain that an expected future reduction in selling prices could be indicative of a reduction of the future economic benefits embodied in an asset. These amendments became effective for annual periods beginning on or after January 1, 2016. The adoption of these amendments did not have a material impact on the consolidated financial statements.

# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and March 31, 2015

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

(Unaudited)

### 4. Accounts receivable:

	March 31, 2016	December 31, 2015
Trade accounts receivable	\$ 12,699	\$ 14,912
Other	1,254	921
	<u>\$ 13,953</u>	<u>\$ 15,833</u>

There have been no balances written off for the three months ended March 31, 2016 or March 31, 2015 or any allowance for doubtful accounts recorded as at March 31, 2016 or December 31, 2015.

### 5. Property and equipment:

Cost	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
Balance, December 31, 2015	\$ 9,357	\$ 700	\$ 124	\$ 2,411	\$ 12,592
Additions	288	52	2	16	358
Balance, March 31, 2016	<u>\$ 9,645</u>	<u>\$ 752</u>	<u>\$ 126</u>	<u>\$ 2,427</u>	<u>\$ 12,950</u>

Accumulated depreciation	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
Balance, December 31, 2015	\$ 2,677	\$ 350	\$ 81	\$ 2,132	\$ 5,240
Depreciation	462	34	4	20	520
Balance, March 31, 2016	<u>\$ 3,139</u>	<u>\$ 384</u>	<u>\$ 85</u>	<u>\$ 2,152</u>	<u>\$ 5,760</u>

Carrying value	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
December 31, 2015	\$ 6,680	\$ 350	\$ 43	\$ 279	\$ 7,352
March 31, 2016	<u>6,506</u>	<u>368</u>	<u>41</u>	<u>275</u>	<u>7,190</u>



# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and March 31, 2015  
(Expressed in thousands of U.S. dollars, except share and per share amounts)  
(Unaudited)

### 5. Property and equipment (continued):

The following table presents the depreciation expense by function for the three months ended March 31:

	2016	2015
Cost of revenue	\$ 381	\$ 211
Selling and marketing	1	1
Research and development	92	77
General and administrative	46	65
	\$ 520	\$ 354

### 6. Accounts payable and accrued liabilities:

	March 31, 2016	December 31, 2015
Trade accounts payable	\$ 448	\$ 721
Accrued liabilities	3,877	5,569
Taxes payable	1,550	504
	\$ 5,875	\$ 6,794

### 7. Share capital:

#### *Authorized*

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

#### *Issued:*

	Common shares	
	Shares	Amount
Shares outstanding at December 31, 2014	23,739,342	\$ 87,219
Shares issued from exercised options	67,546	277
Shares outstanding at March 31, 2015	23,806,888	\$ 87,496
Shares outstanding at December 31, 2015	24,420,004	\$ 90,808
Shares issued from exercised options	56,538	561
Shares outstanding at March 31, 2016	24,476,542	\$ 91,369

# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and March 31, 2015  
(Expressed in thousands of U.S. dollars, except share and per share amounts)  
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### 7. Share capital (continued):

#### Stock option plans

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

	Three months ended March 31, 2016		Year ended December 31, 2015	
	Shares	Weighted average exercise price (U.S. dollars)	Shares	Weighted average exercise price (U.S. dollars)
Options outstanding, beginning of period	2,571,206	\$ 15.62	2,170,802	\$ 5.74
Granted	40,000	28.68	1,048,000	29.71
Exercised	(56,538)	6.60	(622,328)	2.99
Forfeited	—	—	(24,818)	9.26
Expired	—	—	(450)	0.87
Options outstanding, end of period	2,554,668	\$ 16.96	2,571,206	\$ 15.62
Options exercisable, end of period	984,917	\$ 5.38	787,393	\$ 3.97

The following table summarizes information about stock options outstanding at March 31, 2016:

Options outstanding			Options exercisable		
Range of exercise prices (U.S. dollars)	Number outstanding at 03/31/16	Weighted average remaining contractual life	Weighted average exercise price (U.S. dollars)	Number exercisable at 03/31/16	Weighted average exercise price (U.S. dollars)
\$ 1.60 to 3.20	699,168	5.81	\$ 2.49	646,667	\$ 2.43
6.60 to 9.75	601,750	7.81	9.57	276,750	9.59
10.00 to 14.50	172,500	8.53	12.75	22,500	13.46
19.50 to 24.50	256,250	9.05	21.20	39,000	19.66
29.00 to 30.50	119,000	9.58	29.69	—	—
34.50 to 35.50	706,000	9.75	34.95	—	—
	2,554,668	8.05	\$ 16.96	984,917	\$ 5.38

# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and March 31, 2015  
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### 7. Share capital (continued):

#### *Stock option plans (continued)*

At March 31, 2016, there were 32,698 stock options available for grant under the Plan. During the three months ended March 31, 2016, the Company granted 40,000 (year ended December 31, 2015 – 1,048,000) options and recorded share-based compensation expense for the three months ended March 31, 2016 of \$1,524 (three months ended March 31, 2015 - \$611) related to the vesting of options granted in 2016 and previous years. The per share weighted-average fair value of stock options granted during the three months ended March 31, 2016 was \$9.11 (year ended December 31, 2015 - \$9.84) 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 1.16% (2015 - 1.64%), an expected life of 3 to 6 years (2015 – 3 to 8 years), and estimated volatility of 41% (2015 - 40%). Volatility is estimated by benchmarking to comparable publicly traded companies operating in a similar market segment. The forfeiture rate was estimated at 10% (2015 - 10%). The forfeiture rate is estimated based upon an analysis of actual forfeitures.

#### *Share Unit Plan*

At March 31, 2016, there were 516,412 share units available for grant under the Plan. During the three months ended March 31, 2016, the Company granted 58,588 (year ended December 31, 2015 – 95,000) restricted share units (“RSU”). There were 148,587 (year ended December 31, 2015 – 89,999) RSUs outstanding at March 31, 2016. Each RSU entitles the participant to receive one Common Share. The RSUs vest based over time in three equal annual tranches. The fair value of the RSUs granted during the three months ended March 31, 2016 was \$25.27 (2015 - \$17.35) per unit using the fair value of a Common Share at time of grant. The Company recorded share-based compensation expense for the three months ended March 31, 2016 of \$261 (three months ended March 31, 2015 - \$197) related to the RSUs.

During the three months ended March 31, 2016, the Company granted 19,585 (year ended December 31, 2015 – 9,000) deferred share units (“DSU”). There were 28,585 (year ended December 31, 2015 – 9,000) DSUs outstanding at March 31, 2016. Each DSU entitles the participant to receive one Common Share. The DSUs vest immediately as the participants are entitled to the shares upon termination of their service. The fair value of the DSUs granted was \$25.27 (2015 – \$17.35) per unit using the fair value of a Common Share at time of grant. The Company recorded share-based compensation expense for the three months ended March 31, 2016 of \$495 (three months ended March 31, 2015 - \$156) related to the DSUs.

# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and March 31, 2015  
(Expressed in thousands of U.S. dollars, except share and per share amounts)  
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### 7. Share capital (continued):

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

	2016	2015
Cost of revenue	\$ 272	\$ 191
Selling and marketing	343	163
Research and development	319	144
General and administrative	1,346	466
	<u>\$ 2,280</u>	<u>\$ 964</u>

### 8. Earnings per share:

The following table summarizes the calculation of the weighted average number of basic and diluted common shares for the three months ended March 31:

	2016	2015
Issued common shares at beginning of period	24,420,004	23,739,342
Effect of shares issued from exercise of options	25,626	20,598
Weighted average number of basic common shares at March 31	24,445,630	23,759,940
Effect of share options on issue	1,159,835	1,329,329
Effect of share units on issue	139,519	44,017
Weighted average number of diluted common shares at March 31	<u>25,744,984</u>	<u>25,133,286</u>

At March 31, 2016, 881,000 options (March 31, 2015 – 297,000 options) were excluded from the weighted average number of diluted common shares as their effect would have been anti-dilutive.

### 9. Revenue:

	2016	2015
Subscription	\$ 18,490	\$ 15,408
Professional services	8,304	4,018
Maintenance and support	238	285
	<u>\$ 27,032</u>	<u>\$ 19,711</u>

# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and March 31, 2015  
(Expressed in thousands of U.S. dollars, except share and per share amounts)  
(Unaudited)

### 10. Research and development:

	2016	2015
Research and development expenses	\$ 5,076	\$ 4,010
Investment tax credits	(339)	(339)
	\$ 4,737	\$ 3,671

### 11. Statement of cash flow:

Changes in operating assets and liabilities:

	2016	2015
Trade and other receivables	\$ 1,841	\$ 1,631
Investment tax credits receivable	(111)	158
Prepaid expenses	(574)	(462)
Accounts payable and accrued liabilities	(2,822)	(2,762)
Deferred revenue	2,409	20,645
	\$ 743	\$ 19,210

### 12. 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, 2016		December 31, 2015	
Financial assets	Carrying value	Fair value	Carrying value	Fair value
Loans and receivables, measured at amortized cost:				
Cash and cash equivalents	\$ 108,348	\$ 108,348	\$ 99,390	\$ 99,390
Trade and other receivables	13,953	13,953	15,833	15,833
Investment tax credits receivable	1,642	1,642	1,532	1,532
	\$ 123,943	\$ 123,943	\$ 116,755	\$ 116,755

# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and March 31, 2015  
(Expressed in thousands of U.S. dollars, except share and per share amounts)  
(Unaudited)

### 12. Financial instruments (continued):

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

		March 31, 2016		December 31, 2015	
Financial liabilities	Carrying value	Fair value	Carrying value	Fair value	
Other financial liabilities, measured at amortized cost:					
Accounts payables and accrued liabilities	\$ 5,875	\$ 5,875	\$ 6,794	\$ 6,794	
	\$ 5,875	\$ 5,875	\$ 6,794	\$ 6,794	

(b) Credit risk:

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

	March 31, 2015		December 31, 2015	
Canada	\$ 743	\$ 265		
United States	11,040	14,056		
Other foreign	916	591		
	\$ 12,699	\$ 14,912		

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

	March 31, 2015		December 31, 2015	
Current	\$ 8,997	\$ 10,096		
Past due:				
0 – 30 days	\$ 1,984	\$ 4,440		
31 – 60 days	1,214	235		
Greater than 60 days	504	141		
	\$ 12,699	\$ 14,912		

At March 31, 2016, two customers accounted for greater than 10% of total trade receivables (December 31, 2015—two customers). For the three months ended March 31, 2016 one customer accounted for greater than 10% of revenue (2015 – no customer).

# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2016 and March 31, 2015

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

(Unaudited)

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### 13. 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 for the three months ending March 31 is as follows:

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	2016	2015
United States	\$ 23,470	\$ 16,141
Canada	1,643	1,896
Europe	695	682
Japan	1,193	961
Other foreign	31	31
	<hr/>	<hr/>
	\$ 27,032	\$ 19,711

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

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	March 31, 2016	December 31, 2015
Canada	\$ 5,341	\$ 5,263
United States	1,844	2,084
Japan	5	5
	<hr/>	<hr/>
	\$ 7,190	\$ 7,352

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