

Condensed Consolidated Interim Financial Statements of

Kinaxis Inc.

Three months ended March 31, 2015 and March 31, 2014

(Unaudited)

Kinaxis Inc.

Condensed Consolidated Interim Statements of Financial Position

As at March 31, 2015 and December 31, 2014

(Expressed in thousands of U.S. dollars)

(Unaudited)

	March 31, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 78,764	\$ 56,725
Trade and other receivables (note 4)	15,328	17,023
Investment tax credits receivable	1,816	1,974
Prepaid expenses	2,387	1,926
	<u>98,295</u>	<u>77,648</u>
Non-current assets:		
Property and equipment (note 5)	6,074	4,744
Investment tax credits recoverable	3,430	3,091
Deferred tax assets	4,591	5,726
	<u>\$ 112,390</u>	<u>\$ 91,209</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 4,077	\$ 6,945
Deferred revenue	42,330	35,740
	<u>46,407</u>	<u>42,685</u>
Non-current liabilities:		
Lease inducement	98	109
Deferred revenue	15,721	1,778
	<u>15,819</u>	<u>1,887</u>
Shareholders' Equity		
Share capital (note 7)	87,496	87,219
Contributed surplus	7,029	6,152
Accumulated other comprehensive loss	(468)	(453)
Deficit	(43,893)	(46,281)
	<u>50,164</u>	<u>46,637</u>
	<u>\$ 112,390</u>	<u>\$ 91,209</u>

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, 2015 and 2014
(Expressed in thousands of U.S. dollars, except share and per share data)
(Unaudited)

	2015	2014
Revenue (note 9)	\$ 19,711	\$ 15,623
Cost of revenue	5,805	4,829
Gross profit	13,906	10,794
Operating expenses:		
Selling and marketing	3,799	3,053
Research and development (note 10)	3,671	2,959
General and administrative	2,188	1,633
	9,658	7,645
	4,248	3,149
Other income (expense):		
Loss due to change in fair value of redeemable preferred shares	–	(179)
Foreign exchange (loss) gain	(479)	47
Net finance income (expense)	24	(257)
	(455)	(389)
Profit before income taxes	3,793	2,760
Income tax expense:		
Current	270	206
Deferred	1,135	597
	1,405	803
Profit	2,388	1,957
Other comprehensive income (loss)		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences - foreign operations	(15)	15
Total comprehensive income	\$ 2,373	\$ 1,972
Basic earnings per share	\$ 0.10	\$ 0.15
Weighted average number of basic common shares (note 8)	23,759,940	13,279,075
Diluted earnings per share	0.10	0.10
Weighted average number of diluted common shares (note 8)	25,133,286	19,679,029

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, 2015 and 2014

(Expressed in thousands of U.S. dollars)

(Unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity (deficiency)
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)
Balance, December 31, 2014	\$ 87,219	\$ 6,152	\$ (453)	\$ (46,281)	\$ 46,637
Profit	–	–	–	2,388	2,388
Other comprehensive loss	–	–	(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

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, 2015 and 2014

(Expressed in thousands of U.S. dollars)

(Unaudited)

	2015	2014
Cash flows from operating activities:		
Profit	\$ 2,388	\$ 1,957
Items not affecting cash:		
Depreciation of property and equipment	354	240
Loss due to change in fair value of redeemable preferred shares	–	179
Share-based compensation	964	388
Amortization of lease inducement	(11)	(12)
Long-term investment tax credits recoverable	(339)	(249)
Income tax expense	1,405	803
Change in operating assets and liabilities (note 11)	19,210	(2,559)
Interest paid	–	(53)
Income taxes paid	(356)	(350)
	23,615	344
Cash flows from investing activities:		
Purchase of property and equipment (note 5)	(1,684)	(889)
Cash flows from financing activities:		
Non-Voting Common Shares issued and share subscriptions received	–	865
Common Shares issued	190	–
Issuance of long-term debt	–	5,000
	190	5,865
Increase in cash and cash equivalents	22,121	5,320
Cash and cash equivalents, beginning of period	56,725	13,804
Effects of exchange rates on cash and cash equivalents	(82)	64
Cash and cash equivalents, end of period	\$ 78,764	\$ 19,188

See accompanying notes to condensed consolidated interim financial statements.

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Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2015 and March 31, 2014
(Expressed in thousands of U.S. dollars, except share and per share amounts)
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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, 2015 and for the three months ended March 31, 2015 and 2014 comprise the Company and its subsidiaries.

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

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 as at and for the year ended December 31, 2014. 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, 2014.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 6, 2015.

(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, 2014.

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Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2015 and March 31, 2014
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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 ended December 31, 2014.

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

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

IFRS 9: Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39, Financial Instruments: Recognition and Measurement. This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities. IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted. The Company does not intend to adopt this standard early and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

IFRS 15: Revenue from Contracts with Customers

In May 2014, the International Accounting Standards Board issued IFRS 15, Revenue from Contracts with Customers, which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. This standard is effective January 1, 2017 and allows early adoption. The Company does not intend to adopt this standard in fiscal 2015 and is currently evaluating the impact of adopting this standard on the consolidated financial statements.

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For the three months ended March 31, 2015 and March 31, 2014

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4. Accounts receivable:

	March 31, 2015	December 31, 2014
Trade accounts receivable	\$ 14,419	\$ 16,387
Other	909	636
	<u>\$ 15,328</u>	<u>\$ 17,023</u>

There have been no balances written off for the three months ended March 31, 2015 or March 31, 2014 or any allowance for doubtful accounts recorded as at March 31, 2015 or December 31, 2014.

5. Property and equipment:

Cost	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
Balance, December 31, 2014	\$ 7,052	\$ 959	\$ 894	\$ 2,196	\$ 11,101
Additions	1,665	3	–	16	1,684
Balance, March 31, 2015	<u>\$ 8,717</u>	<u>\$ 962</u>	<u>\$ 894</u>	<u>\$ 2,212</u>	<u>\$ 12,785</u>

Accumulated depreciation	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
Balance, December 31, 2014	\$ 2,915	\$ 509	\$ 846	\$ 2,087	\$ 6,357
Depreciation	303	37	5	9	354
Balance, March 31, 2015	<u>\$ 3,218</u>	<u>\$ 546</u>	<u>\$ 851</u>	<u>\$ 2,096</u>	<u>\$ 6,711</u>

Carrying value	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
December 31, 2014	\$ 4,137	\$ 450	\$ 48	\$ 109	\$ 4,744
March 31, 2015	<u>5,499</u>	<u>416</u>	<u>43</u>	<u>116</u>	<u>6,074</u>

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5. Property and equipment (continued):

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

	2015	2014
Cost of revenue	\$ 211	\$ 112
Selling and marketing	1	2
Research and development	77	60
General and administrative	65	66
	\$ 354	\$ 240

6. Accounts payable and accrued liabilities:

	March 31, 2015	December 31, 2014
Trade accounts payable	\$ 367	\$ 637
Accrued liabilities	3,710	6,308
	\$ 4,077	\$ 6,945

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7. Share capital:

Authorized

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

Issued:

	Common shares		Non-voting common shares	
	Shares	Amount	Shares	Amount
Shares outstanding at 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
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	–	\$ –

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7. Share capital (continued):

Stock option plans

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

	March 31, 2015		December 31, 2014	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Options outstanding, beginning of period	2,170,802	\$ 5.74	1,945,580	\$ 2.21
Granted	147,000	20.47	865,000	10.91
Exercised	(67,546)	2.82	(534,272)	1.25
Forfeited	(1,875)	1.60	(102,506)	5.58
Expired	—	—	(3,000)	3.20
Options outstanding, end of period	2,248,381	\$ 6.80	2,170,802	\$ 5.74
Options exercisable, end of period	1,074,809	\$ 3.35	880,642	\$ 2.26

The following table summarizes information about stock options outstanding at March 31, 2015:

Options outstanding				Options exercisable		
Range of exercise prices	Number outstanding at 03/31/15	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at 03/31/15	Weighted average exercise price	
\$ 1.00 to 1.20	178,742	2.06	\$ 1.06	178,742	\$ 1.06	
1.60 to 3.20	1,053,889	6.85	2.61	733,567	2.54	
6.60 to 9.75	668,750	8.81	9.56	162,500	9.56	
11.95 to 15.35	100,000	9.37	13.63	—	—	
15.70 to 20.47	247,000	9.82	18.55	—	—	
	2,248,381	7.49	\$ 6.80	1,074,809	\$ 3.35	

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7. Share capital (continued):

Stock option plans (continued)

At March 31, 2015, there were 237,250 (December 31, 2014 - 384,250) stock options available for grant under the Plan. During the three months ended March 31, 2015, the Company granted 147,000 (year ended December 31, 2014 - 865,000) options and recorded share-based compensation expense for the three months ended March 31, 2015 of \$611 (three months ended March 31, 2014 - \$388) related to the vesting of options granted in 2015 and previous years. The per share weighted-average fair value of stock options granted during the three months ended March 31, 2015 was \$9.62 (three months ended March 31, 2014 - \$5.13) 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 1.91% (2014 - 1.89%), an expected life of 8 years (2014 - 8 years), and estimated volatility of 46% (2014 - 46%). Volatility is estimated by benchmarking to comparable publicly traded companies operating in a similar market segment. The forfeiture rate was estimated at 10% (2014 - 5%). The forfeiture rate is estimated based upon an analysis of actual forfeitures.

Share Unit Plan

At March 31, 2015, there were 566,000 share units available for grant under the Plan. During the three months ended March 31, 2015, the Company granted 95,000 RSUs. There were 148,333 RSUs outstanding at March 31, 2015. 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, 2015 was \$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, 2015 of \$197 (three months ended March 31, 2014 - \$NIL) related to the RSUs.

During the three months ended March 31, 2015, the Company granted 9,000 DSUs. There were 9,000 DSUs outstanding at March 31, 2015. 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 \$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, 2015 of \$156 (three months ended March 31, 2014 - \$NIL) related to the DSUs.

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

	2015	2014
Cost of revenue	\$ 191	\$ 42
Selling and marketing	163	133
Research and development	144	102
General and administrative	466	111
	\$ 964	\$ 388

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:

	2015	2014
Issued common shares at beginning of period	23,739,342	13,006,553
Effect of shares issued for cash	–	60,000
Effect of shares issued from exercise of options	20,598	212,522
Weighted average number of basic common shares at March 31	23,759,940	13,279,075
Effect of conversion or redeemable preferred shares	–	5,111,918
Effect of share options on issue	1,329,329	1,288,036
Effect of share units on issue	44,017	–
Weighted average number of diluted common shares at March 31	25,133,286	19,679,029

At March 31, 2015, 297,000 options (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.

9. Revenue:

	2015	2014
Subscription	\$ 15,408	\$ 11,320
Professional services	4,018	4,001
Maintenance and support	285	302
	\$ 19,711	\$ 15,623

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Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2015 and March 31, 2014
(Expressed in thousands of U.S. dollars, except share and per share amounts)
(Unaudited)

10. Research and development:

	2015		2014	
Research and development expenses	\$	4,010	\$	3,533
Investment tax credits		(339)		(574)
	\$	3,671	\$	2,959

11. Statement of cash flow:

Changes in operating assets and liabilities:

	2015		2014	
Trade and other receivables	\$	1,631	\$	3,706
Investment tax credits receivable		158		(285)
Prepaid expenses		(462)		(857)
Trade payables and accrued liabilities		(2,762)		(8,060)
Deferred revenue		20,645		2,937
	\$	19,210	\$	(2,559)

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, 2015		December 31, 2014	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Loans and receivables, measured at amortized cost:				
Cash and cash equivalents	\$ 78,764	\$ 78,764	\$ 56,725	\$ 56,725
Trade and other receivables	15,328	15,328	17,023	17,023
Investment tax credits receivable	1,816	1,816	1,974	1,974
	\$ 95,908	\$ 95,908	\$ 75,722	\$ 75,722

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Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2015 and March 31, 2014
(Expressed in thousands of U.S. dollars, except share and per share amounts)
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12. Financial instruments (continued):

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

	March 31, 2015		December 31, 2014	
Financial liabilities	Carrying value	Fair value	Carrying value	Fair value
Other financial liabilities, measured at amortized cost:				
Accounts payables and accrued liabilities	\$ 4,077	\$ 4,077	\$ 6,945	\$ 6,945
	\$ 4,077	\$ 4,077	\$ 6,945	\$ 6,945

(b) Credit risk:

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

	March 31, 2015	December 31, 2014
Canada	\$ 1,473	\$ 430
United States	11,921	15,049
Other foreign	1,025	908
	\$ 14,419	\$ 16,387

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

	March 31, 2015	December 31, 2014
Current	\$ 13,233	\$ 13,757
Past due:		
0 – 30 days	\$ 402	\$ 2,250
31 – 60 days	104	195
Greater than 60 days	680	185
	\$ 14,419	\$ 16,387

At March 31, 2015, three customers accounted for greater than 10% of total trade receivables (December 31, 2014 – one customer).

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Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2015 and March 31, 2014

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

(Unaudited)

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:

	2015	2014
United States	\$ 16,141	\$ 12,437
Canada	1,896	1,279
Europe	682	957
Japan	961	938
Other foreign	31	12
	\$ 19,711	\$ 15,623

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

	March 31, 2015	December 31, 2014
Canada	\$ 4,733	\$ 3,453
United States	1,334	1,284
Japan	7	7
	\$ 6,074	\$ 4,744
