Consolidated Financial Statements of

# Kinaxis Inc.

Years ended December 31, 2014 and 2013

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kinaxis Inc.

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

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Kinaxis Inc. as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2014, and December 31, 2013 in accordance with International Financial Reporting Standards.

KPMG LLP

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

# Kinaxis Inc.

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

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

See accompanying notes to consolidated financial statements.

On behalf of the Board of Directors:

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

# Kinaxis Inc.

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

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

See accompanying notes to consolidated financial statements

# Kinaxis Inc.

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

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

See accompanying notes to consolidated financial statements

# Kinaxis Inc.

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

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

See accompanying notes to consolidated financial statements.

## 1. Corporate information:

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

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

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

## 2. Basis of preparation:

(a) Statement of compliance:

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

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

(b) Measurement basis:

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

(c) Presentation currency:

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

**2. Basis of preparation (continued):**

(d) Foreign currency:

*Foreign currency transactions*

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

*Foreign operations*

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

(e) Use of estimates and judgments:

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

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

## 2. Basis of preparation (continued):

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

*Fair value of redeemable preferred shares*

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

*Allocation of consideration to multiple elements of a revenue arrangement*

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

*Income taxes*

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

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

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

**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 |

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

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

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

**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 consolidated financial statements or income tax returns. Deferred income taxes are provided for using the liability method. Under the liability method, deferred income taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets and liabilities and for certain carry-forward items. Deferred income tax assets are recognized only to the extent that, in the opinion of management, it is probable that the deferred income tax assets will be realized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of the enactment or substantive enactment. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

*Investment tax credits*

Investment tax credits relating to scientific research and experimental development expenditures are recorded in the fiscal period the qualifying expenditures are incurred based on management's interpretation of applicable legislation in the Income Tax Act of Canada. Credits are recorded provided there is reasonable assurance that the tax credit will be realized. Credits claimed are subject to review by the Canada Revenue Agency.

Credits claimed in connection with research and development activities are accounted for using the cost reduction method. Under this method, assistance and credits relating to the acquisition of equipment is deducted from the cost of the related assets, and those relating to current expenditures, which are primarily salaries and related benefits, are included in the determination of profit or loss as a reduction of the research and development expenses.

**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) Standards and interpretations in issue:

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

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

IFRIC 21: Levies

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

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

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

IFRS 9: Financial Instruments

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

**3. Significant accounting policies (continued):**

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

IFRS 15: Revenue from Contracts with Customers

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

**4. Accounts receivable:**

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

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

## 5. Property and equipment:

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

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

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

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

## 5. Property and equipment (continued):

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

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

## 6. Accounts payable and accrued liabilities:

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

## 7. Long-term debt:

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

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

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

**8. Capital reorganization:**

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

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

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

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

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

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

**8. Capital reorganization (continued):**

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

**9. Redeemable preferred shares:**

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

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

Measurement of fair value

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

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

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

## 10. Share capital:

*Authorized*

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

*Issued:*

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

**10. Share capital (continued):**

*Issued (continued):*

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

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

*Repurchase of shares*

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

*Stock option plans*

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

**10. Share capital (continued):**

*Stock option plans (continued):*

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

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

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

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

**10. Share capital (continued):**

*Stock option plans (continued):*

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

*Share Unit Plan*

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

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

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

| | 2014 | 2013 |
|---|---|---|
| Cost of revenue | $ 331 | $ 77 |
| Selling and marketing | 621 | 429 |
| Research and development | 533 | 96 |
| General and administrative | 1,173 | 401 |
| | $ 2,658 | $ 1,003 |

## 11. Earnings (loss) per share:

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

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

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

## 12. Revenue:

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

**13. Research and development:**

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

**14. Personnel expenses:**

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

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

**15. Net finance (expense) income:**

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

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

**16. Income taxes:**

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

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

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

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

**16. Income taxes (continued):**

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

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

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

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

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

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

## 16. Income taxes (continued):

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

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

## 17. Statement of cash flows:

(a) Changes in operating assets and liabilities:

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

(b) Cash and cash equivalents are as follows:

| | 2014 | 2013 |
|---|---|---|
| Cash | $ 56,725 | $ 10,093 |
| Cash equivalents | – | 3,711 |
| | $ 56,725 | $ 13,804 |

**18. Financial instruments:**

Fair value of financial instruments

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

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

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

**18. Financial instruments (continued):**

Measurement of fair value

The Company's fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are:

**Level 1** values are based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

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

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

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

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

- The carrying amounts of trade and other receivables, investment tax credits receivable and trade payables and accrued liabilities approximate fair market value due to the short-term maturity of these instruments.
- The carrying amount of long-term debt represents the present value of future payments and approximates their fair market value.
- The redeemable preferred shares were measured at fair value (Level 3)

## 18. Financial instruments (continued):

Financial risk management:

(a) Credit risk:

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its trade and other receivables.

The nature of the Company's subscription based business results in payments being received in advance of the majority of the services being delivered; as a result, the Company's credit risk exposure is low. At December 31, 2014, one customer accounted for greater than 10% of total trade receivables (2013 - two customers - 17%). For the year ended December 31, 2014, no customer individually accounted for greater than 10% of revenue (2013 - one customer - 10%). As the majority of the Company's revenues are earned over a period of time, the potential impact on the Company's operating results is low as any uncollectible amounts would affect trade and other receivables and deferred revenue.

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

| | 2014 | 2013 |
|---|---|---|
| Canada | $ 430 | $ 721 |
| United States | 15,049 | 10,865 |
| Other foreign | 908 | 539 |
| | $ 16,387 | $ 12,125 |

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

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

**18. Financial instruments (continued):**

Financial risk management (continued):

(a) Credit risk (continued):

The Company establishes an allowance for doubtful accounts based on amounts which are past due, historical trends, and any available information indicating that a customer could be experiencing liquidity or going concern problems. During the year ended December 31, 2014, the Company did not write off any trade receivables that were deemed not collectible and did not record an allowance for doubtful accounts as at December 31, 2014 (2013 - $Nil).

The Company invests its excess cash in short-term investments with the objective of maintaining safety of principal and providing adequate liquidity to meet all current payment obligations and future planned capital expenditures with the secondary objective of maximizing the overall yield of the investment. The Company manages its credit risk on investments by dealing only with major Canadian banks and investing only in instruments that management believes have high credit ratings. Given these high credit ratings, the Company does not expect any counterparties to these investments to fail to meet their obligations.

The Company's exposure to credit risk is limited to the carrying amount of financial assets recognized at the date of Consolidated Statement of Financial Position, as summarized below:

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

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

**18. Financial instruments (continued):**

(b) Liquidity risk (continued):

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

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

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

(c) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments.

*Currency risk*

A portion of the Company's revenues and operating costs are realized in currencies other than its functional currency, such as the Canadian dollar, Euro, Hong Kong dollar and Japanese Yen. As a result, the Company is exposed to currency risk on these transactions. Also, additional earnings volatility arises from the translation of monetary assets and liabilities denominated in foreign currencies at the rate of exchange on each date of the Consolidated Statements of Financial Position; the impact of which is reported as a foreign exchange gain or loss.

**18. Financial instruments (continued):**

(c) Market risk (continued):

The Company's objective in managing its currency risk is to minimize its exposure to currencies other than its functional currency. The Company does so by matching foreign denominated assets with foreign denominated liabilities.

The Company is mainly exposed to fluctuations between the U.S. dollar and the Canadian dollar. For the year ending December 31, 2014, if the Canadian dollar had strengthened 5% against the U.S. dollar with all other variables held constant, pre-tax income for the year would have been $984 lower (2013 - $857 lower). Conversely, if the Canadian dollar had weakened 5% against the U.S. dollar with all other variables held constant, there would be an equal, and opposite impact, on pre-tax income.

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

| December 31, 2014<br>In thousands of (local currency) | USD | CAD | JPY | EUR | HKD |
|---|---|---|---|---|---|
| Trade receivables | 15,480 | – | 60,328 | 332 | – |
| Other receivables | 576 | 45 | – | 4 | – |
| Trade payables | (354) | (25) | (31,145) | – | (18) |
| Accrued liabilities | (3,985) | (1,988) | (21,095) | (95) | (528) |
| | 11,717 | (1,968) | 8,088 | 241 | (546) |

| December 31, 2013<br>In thousands of | USD | CAD | JPY | EUR | HKD |
|---|---|---|---|---|---|
| Trade receivables | 11,621 | – | 7,206 | 316 | – |
| Other receivables | 315 | – | – | – | – |
| Trade payables | (521) | (116) | (12,765) | (1) | (12) |
| Accrued liabilities | (9,162) | (792) | (19,366) | (79) | (507) |
| | 2,253 | (908) | (24,925) | 236 | (519) |

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company believes that interest rate risk is low as the majority of investments are made in fixed rate instruments. At December 31, 2014, the Company has not drawn on the revolving demand facility.

## 19. Segmented information:

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

*Geographic information*

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

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

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

| | 2014 | 2013 |
|---|---|---|
| Canada | $ 3,453 | $ 1,597 |
| United States | 1,284 | 798 |
| Japan | 7 | 11 |
| Other foreign | – | 2 |
| | $ 4,744 | $ 2,408 |

## 20. Operating lease commitments:

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

| | |
|---|---|
| Less than one year | $ 1,206 |
| Between one and five years | 5,498 |
| More than five years | 2,658 |
| | $ 9,362 |

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

## 21. Related party transactions:

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

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

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

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

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

*Compensation of key management personnel*

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

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

**22. Capital management:**

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

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

**23. Contingencies:**

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

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

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