Consolidated Financial Statements of

Kinaxis Inc.

Years ended December 31, 2015 and 2014

KPMG LLP
Suite 1800
150 Elgin Street
Ottawa ON K2P 2P8
Canada

Telephone (613) 212-KPMG (5764)
Fax (613) 212-2896
Internet www.kpmg.ca

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, 2015 and December 31, 2014, the consolidated statements of comprehensive income, changes in shareholders' equity (deficiency) and cash flows for the years ended December 31, 2015, and December 2014, 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, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2015 and December 31, 2014 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
February 17, 2016
Ottawa, Canada

Kinaxis Inc.
Consolidated Statements of Financial Position

As at December 31
(Expressed in thousands of U.S. dollars)

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	$ 99,390	$ 56,725
Trade and other receivables (note 4)	15,833	17,023
Investment tax credits receivable (note 16)	1,532	1,974
Investment tax credits recoverable (note 16)	2,083	–
Prepaid expenses	1,906	1,926
	120,744	77,648
Non-current assets:		
Property and equipment (note 5)	7,352	4,744
Investment tax credits recoverable (note 16)	–	3,091
Deferred tax assets (note 16)	–	5,726
	$ 128,096	$ 91,209
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade payables and accrued liabilities (note 6)	$ 6,794	$ 6,945
Deferred revenue	40,442	35,740
	47,236	42,685
Non-current liabilities:		
Lease inducement	62	109
Deferred revenue	14,191	1,778
Deferred tax liability (note 16)	1,003	–
	15,256	1,887
Shareholders' equity		
Share capital (note 10)	90,808	87,219
Contributed surplus	8,873	6,152
Accumulated other comprehensive income loss	(474)	(453)
Deficit	(33,603)	(46,281)
	65,604	46,637
Commitments (note 20)		
Contingencies (note 23)		
	$ 128,096	$ 91,209

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

Years ended December 31
(Expressed in thousands of U.S. dollars, except share and per share data)

	2015	2014
Revenue (note 12)	$ 91,271	$ 70,054
Cost of revenue	25,743	20,745
Gross profit	65,528	49,309
Operating expenses:		
Selling and marketing	18,264	15,296
Research and development (note 13)	15,197	13,429
General and administrative	8,260	8,314
	41,721	37,039
	23,807	12,270
Other income (expense):		
Loss due to change in fair value of redeemable preferred shares (note 9)	–	(6,760)
Foreign exchange loss	(1,041)	(599)
Net finance income (expense) (note 15)	128	(490)
	(913)	(7,849)
Profit before income taxes	22,894	4,421
Income tax expense (note 16):		
Current	3,487	819
Deferred	6,729	3,823
	10,216	4,642
Profit (loss)	12,678	(221)
Other comprehensive loss:		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences - foreign operations	(21)	(93)
Total comprehensive profit (loss)	$ 12,657	$ (314)
Basic earnings (loss) per share	$ 0.53	$ (0.01)
Weighted average number of basic common shares (note 11)	23,953,609	19,076,464
Diluted earnings (loss) per share	0.50	(0.01)
Weighted average number of diluted common shares (note 11)	25,465,632	19,076,464

See accompanying notes to consolidated financial statements

Kinaxis Inc.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

Years ended December 31
(Expressed in thousands of U.S. dollars)

	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)
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
Profit	–	–	–	12,678	12,678
Other comprehensive loss	–	–	(21)	–	(21)
Total comprehensive profit	–	–	(21)	12,678	12,657
Share options exercised	2,721	(863)	–	–	1,858
Restricted share units vested	868	(868)	–	–	–
Share-based payments	–	4,452	–	–	4,452
Total shareholder transactions	3,589	2,721	–	–	6,310
Balance, December 31, 2015	$ 90,808	$ 8,873	$ (474)	$ (33,603)	$ 65,604

See accompanying notes to consolidated financial statements

Kinaxis Inc.

Consolidated Statements of Cash Flows

Years ended December 31
(Expressed in thousands of U.S. dollars)

	2015	2014
Cash flows from operating activities:		
Profit (loss)	$ 12,678	$ (221)
Items not affecting cash:		
Depreciation of property and equipment (note 5)	1,726	1,151
Loss due to change in fair value of redeemable preferred shares	–	6,760
Share-based payments (note 10)	4,452	2,658
Amortization of lease inducement	(47)	(46)
Investment tax credits recoverable	1,008	(983)
Income tax expense	10,216	4,642
Changes in operating assets and liabilities (note 17)	16,100	7,800
Interest paid	–	(545)
Income taxes paid	(885)	(4,966)
	45,248	16,250
Cash flows used in investing activities:		
Purchase of property and equipment (note 5)	(4,334)	(3,487)
Cash flows from financing activities:		
Non-Voting Common Shares issued and share subscriptions received	–	991
Common Shares issued	1,858	262
Common Shares issued per offering	–	59,562
Share issuance costs	–	(5,220)
Issuance of long-term debt	–	5,000
Repayment of long-term debt	–	(30,000)
	1,858	30,595
Increase in cash and cash equivalents	42,772	43,358
Cash and cash equivalents, beginning of year	56,725	13,804
Effects of exchange rates on cash and cash equivalents	(107)	(437)
Cash and cash equivalents, end of the year	$ 99,390	$ 56,725

See accompanying notes to consolidated financial statements.

1. Corporate information:

Kinaxis Inc. ("Kinaxis" or the "Company") is incorporated under the Canada Business Corporations Act and domiciled in Ontario, Canada. The address of the Company's registered office is 700 Silver Seven Road, Ottawa, Ontario. The consolidated financial statements of the Company as at and for the year ended December 31, 2015 comprise the Company and its subsidiaries.

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

2. Basis of preparation:

(a) Statement of compliance:

The 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 17, 2016.

(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 for option grants. The market value of the Company's shares on the date of the grant is used to determine the fair value of share units issued. 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:

Amendments to IFRS 2

In December 2013, the IASB issued amendments to IFRS 2 Share-based payments. The amendments clarify vesting conditions by separately defining a performance condition and a service condition, both of which were previously incorporated within the definition of a vesting condition. The amendments became effective for annual periods beginning on or after July 1, 2014 and interim periods within those annual periods. The adoption of these amendments did not have a material impact on the consolidated financial statements.

Amendments to IFRS 13

In December 2013, the IASB issued amendments to IFRS 13 Fair Value Measurements, which relate to the measurement of short-term receivables and payables, and the scope of the portfolio exemption. Short term receivables and payables with no stated interest rate can still be measured at the invoice amount without discounting, if the effect of discounting is immaterial. The portfolio exemption permits an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis. The amendment clarifies that the portfolio exemption applies to all contracts within the scope of IAS 39 Financial Instruments: Recognition and Measurement (or IFRS 9 Financial Instruments if this has been adopted early), regardless of whether they meet the definition of financial assets or financial liabilities in IAS 32 Financial Instruments: Presentation. The amendments became effective for annual periods beginning on or after July 1, 2014. The adoption of these amendments 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.

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

3. Significant accounting policies (continued):

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

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. The IASB recently confirmed a one-year deferral of this standard, which will now be effective January 1, 2018 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.

IFRS 16: Leases

In January 2016, the International Accounting Standards Board issued IFRS 16, Leases, which specifies how to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Consistent with its predecessor, IAS 17, the new lease standard continues to require lessors to classify leases as operating or finance. IFRS 16 is to be applied retrospectively for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 Revenue from contract with customers has also been applied. 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.

Amendments to IAS 16 and IAS 38

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

4. Trade and other receivables:

	2015	2014
Trade accounts receivable	$ 14,912	$ 16,387
Other	921	636
	$ 15,833	$ 17,023

There have been no balances written off for the years ended December 31, 2015 and December 31, 2014 or any allowance for doubtful accounts recorded as at December 31, 2015 (2014 - $Nil).

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

5. Property and equipment:

Cost	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
Balance, December 31, 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
Additions	4,062	39	12	221	4,334
Dispositions	(1,757)	(298)	(782)	(6)	(2,843)
Balance, December 31, 2015	$ 9,357	$ 700	$ 124	$ 2,411	$ 12,592

Accumulated depreciation	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
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
Depreciation	1,519	139	17	51	1,726
Dispositions	(1,757)	(298)	(782)	(6)	(2,843)
Balance, December 31, 2015	$ 2,677	$ 350	$ 81	$ 2,132	$ 5,240

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
December 31, 2015	6,680	350	43	279	7,352

There were no proceeds associated with the asset dispositions in 2015.

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

5. Property and equipment (continued):

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

	2015	2014
Cost of revenue	$ 1,139	$ 591
Selling and marketing	2	5
Research and development	324	280
General and administrative	261	275
	$ 1,726	$ 1,151

6. Trade payables and accrued liabilities:

	2015	2014
Trade accounts payable	$ 721	$ 637
Accrued liabilities	5,569	6,176
Taxes payable	504	132
	$ 6,794	$ 6,945

7. Credit facility:

On October 30, 2015, the Company's revolving demand facility was increased to CAD$20,000. The revolving demand facility bears interest at bank prime plus 0.50% per annum and has not been drawn at December 31, 2015.

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, 2015 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;

8. Capital reorganization (continued):

- 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;
- 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.

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

9. Redeemable preferred shares:

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 during fiscal 2015 and 2014 were 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 December 31, 2013	54,135
Increase in fair value	6,760
Conversion to Common Shares (note 8)	(60,895)
Balance, December 31, 2014	$ –

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

10. Share capital:

Authorized

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

Issued:

	Common shares		Non-voting common shares	
	Shares	Amount	Shares	Amount
Shares outstanding at January 1, 2014	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	–	$ –
Shares issued from exercised options	622,328	2,721	–	–
Shares issued from vested restricted share units	58,334	868	–	–
Shares outstanding at December 31, 2015	24,420,004	$ 90,808	–	$ –

Stock option plans

The Company has outstanding stock options issued under its 2000, 2010 and 2012 stock option plans. No further options may be granted under the 2000 and 2010 stock option plans. In January 2014, the aggregate pool of options to purchase common stock that could be granted under the 2012 plan was increased by 400,000 to 1,500,000. In June 2015, the option pool was increased by 715,698 to 2,215,698. 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.

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

10. Share capital (continued):

Stock option plans (continued):

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

	December 31, 2015		December 31, 2014	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Options outstanding, beginning of year	2,170,802	$ 5.74	1,945,580	$ 2.21
Granted	1,048,000	29.71	865,000	10.91
Exercised	(622,328)	2.99	(534,272)	1.25
Forfeited	(24,818)	9.26	(102,506)	5.58
Expired	(450)	0.87	(3,000)	3.20
Options outstanding, end of year	2,571,206	$ 15.62	2,170,802	$ 5.74
Options exercisable, end of year	787,393	$ 3.97	880,642	$ 2.26

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

Options outstanding				Options exercisable	
Range of exercise prices	Number outstanding at 12/31/15	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at 12/31/15	Weighted average exercise price
$ 0.95 to 3.20	736,056	6.06	$ 2.51	620,743	$ 2.38
6.60 to 9.75	654,150	8.09	9.57	144,150	9.45
10.50 to 15.35	135,000	8.86	12.61	22,500	12.57
15.70 to 22.65	261,000	9.30	19.76	–	–
27.39 to 32.90	785,000	9.96	32.10	–	–
	2,571,206	8.24	$ 15.62	787,393	$ 3.97

10. Share capital (continued):

Stock option plans (continued):

At December 31, 2015, there were 72,698 (2014 -384,250) stock options available for grant under the Plan. In 2015, the Company granted 1,048,000 (2014 - 865,000) options and recorded share-based compensation expense of $2,997 (2014 - $2,144) related to the vesting of options granted in 2015 and previous years. The per share weighted-average fair value of stock options granted in 2015 was $9.84 (2014 - $5.73) 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 1.64% (2014 - 1.98%), an expected life of 3 to 8 years (2014 - 8 years), and estimated volatility of 40% (2014 - 46%). Volatility is estimated based on Kinaxis' historical volatility and also by benchmarking to comparable publicly traded companies operating in a similar market segment. The forfeiture rate was estimated at 10% (2014 - 5%). In 2015, optionholders that had options with U.S. dollar strike prices were given the option to convert them to Canadian dollar strike prices based on the exchange rate that would be in effect on the date of the election, being May 7, 2015. The conversion was accounted for as a modification. As the fair value of the options was the same immediately prior to and after the conversion there was no accounting impact resulting from the modification.

Share Unit Plan

At December 31, 2015, there were 566,000 (2014 – 670,000) share units available for grant under the Plan. In 2015, the Company granted 95,000 (2014 – 80,000) restricted share units ("RSU"). There were 89,999 (2014 – 53,333) RSUs outstanding at December 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 in 2015 was $17.35 (2014 - $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, 2015 of $1,299 (2014 - $514) related to the RSUs. On December 10, 2015, 58,334 of the RSUs granted in 2015 and prior years vested and were released.

In 2015, the Company granted 9,000 deferred share units ("DSU"). There were 9,000 DSUs outstanding at December 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 year ended December 31, 2015 of $156 (2014 - $NIL) related to the DSUs.

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

10. Share capital (continued):

Stock option plans (continued):

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

	2015	2014
Cost of revenue	$ 854	$ 331
Selling and marketing	863	621
Research and development	995	533
General and administrative	1,740	1,173
	$ 4,452	$ 2,658

11. Earnings (loss) per share:

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

	2015	2014
Issued common shares at beginning of period	23,739,342	13,006,553
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	210,911	350,851
Effect of shares issued from vesting of restricted share units	3,356	1,538
Weighted average number of basic common shares at December 31	23,953,609	19,076,464
Effect of share options on issue	1,401,382	–
Effect of share units on issue	110,641	–
Weighted average number of diluted common shares at December 31	25,465,632	19,076,464

For the year ended December 31, 2015, 841,000 options were excluded from the weighted average number of diluted common shares as their effect would have been anti-dilutive. Due to the loss in December 31, 2014 all outstanding options, restricted share units and redeemable preferred shares were excluded from the diluted weighted average number of shares as their effect would have been anti-dilutive.

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

12. Revenue:

	2015	2014
Subscription	$ 65,199	$ 51,119
Professional services	25,002	17,755
Maintenance and support	1,070	1,180
	$ 91,271	$ 70,054

13. Research and development:

	2015	2014
Research and development expenses	$ 16,786	$ 15,422
Investment tax credits	(1,589)	(1,993)
	$ 15,197	$ 13,429

14. Personnel expenses:

The following table presents the personnel expenses incurred by the Company for the years ended December 31, 2015, and 2014:

	2015	2014
Salaries including bonuses	$ 33,099	$ 31,028
Benefits	5,334	4,555
Commissions	5,718	5,783
Share-based payments	4,452	2,658
	$ 48,603	$ 44,024

15. Net finance (expense) income:

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

	2015	2014
Interest income on cash equivalents	$ 128	$ 40
Less finance costs:		
Interest expense on long term debt	–	(530)
	$ 128	$ (490)

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

16. Income taxes:

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

	2015	2014
Current tax expense		
Current income tax	$ 3,487	$ 819
	3,487	819
Deferred tax expense (recovery):		
Origination and reversal of temporary differences	6,729	3,823
	6,729	3,823
	$ 10,216	$ 4,642

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

	2015	2014
Canadian tax rate	26.50%	26.50%
Expected Canadian income tax expense	$ 6,067	$ 1,172
Increase (reduction) in income taxes resulting from:		
Tax effect of loss due to change in fair value of preferred shares	–	1,791
Difference between current and future tax rates and other	(149)	(5)
Foreign tax rate differences	214	221
Permanent difference of share-based payments	1,180	704
Foreign exchange differences	2,904	759
	$ 10,216	$ 4,642

Taxable foreign exchange differences arise upon conversion of the financial statements of Kinaxis Inc. from U.S. dollars, its functional currency, to Canadian dollars, the currency used for tax filing purposes.

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

16. Income taxes (continued):

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

	2015	2014
Deferred tax assets (liabilities):		
Non-capital loss carry-forwards	$ –	$ 2,509
Unclaimed scientific research and experimental development	–	2,013
Tax effect of investment tax credits	(948)	(867)
Share issuance costs	732	1,138
Property and equipment	(827)	863
Other	40	70
	$ (1,003)	$ 5,726

The movements in the deferred tax balances were as follows:

	Balance at January 1, 2015	Recognized in profit and loss	Recognized in equity	Balance at December 31 2015
Non-capital loss carry-forwards	$ 2,509	$ (2,509)	$ –	$ –
Unclaimed scientific research and experimental development	2,013	(2,013)	–	–
Tax effect of investment tax credits	(867)	(81)	–	(948)
Share issuance costs	1,138	(406)	–	732
Property and equipment	863	(1,690)	–	(827)
Other	70	(30)	–	40
	$ 5,726	$ (6,729)	$ –	$ (1,003)

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

16. Income taxes (continued):

	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 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 $Nil as at December 31, 2015 (2014 - $9,470). The Company has investment tax credits available to reduce federal income taxes payable in Canada of $2,083 as at December 31, 2015 (2014 - $2,643) which begin to expire in 2033 and provincial income taxes payable in Ontario of $Nil as at December 31, 2015 (2014 - $448).

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

Deferred tax 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, 2015 was $4,660 (2014 - $3,860).

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

17. Statement of cash flows:

Changes in operating assets and liabilities:

		2015		2014
Trade and other receivables	$	1,141	$	(4,696)
Investment tax credits receivable		442		(644)
Prepaid expenses		18		(729)
Trade payables and accrued liabilities		(2,737)		651
Deferred revenue		17,236		13,218
	$	16,100	$	7,800

18. Financial instruments:

Fair value of financial instruments

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

				2015				2014
Financial assets		Carrying value		Fair value		Carrying value		Fair value
Loans and receivables, measured at amortized cost:								
Cash and cash equivalents	$	99,390	$	99,390	$	56,725	$	56,725
Trade and other receivables		15,833		15,833		17,023		17,023
Investment tax credits receivable		1,532		1,532		1,974		1,974
	$	116,755	$	116,755	$	75,722	$	75,722

				2015				2014
Financial liabilities		Carrying value		Fair value		Carrying value		Fair value
Other financial liabilities, measured at amortized cost:								
Accounts payables and accrued liabilities	$	6,794		6,794		6,945		6,945
	$	6,794	$	6,794	$	6,945	$	6,945

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.

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

18. Financial instruments (continued):

Financial risk management:

(a) Credit risk:

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

The nature of the Company's subscription based business results in payments being received in advance of the majority of the services being delivered; as a result, the Company's credit risk exposure is low. At December 31, 2015, two customers accounted for greater than 10% of total trade receivables (2014 - one customer - 10%). For the year ended December 31, 2015, one customer individually accounted for 10.6% of revenue (2014 - no customer accounted for greater than 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:

	2015	2014
Canada	$ 265	$ 430
United States	14,056	15,049
Other foreign	591	908
	$ 14,912	$ 16,387

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

	2015	2014
Current	$ 10,096	$ 13,757
Past due:		
0 – 30 days	$ 4,440	$ 2,250
31 – 60 days	235	195
Greater than 60 days	141	185
	$ 14,912	$ 16,387

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

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, 2015, 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, 2015 (2014 - $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:

	2015	2014
Cash and cash equivalents	$ 99,390	$ 56,725
Trade and other receivables	15,833	17,023
Investment tax credits receivable	1,532	1,974
	$ 116,755	$ 75,722

(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, 2015, the Company had cash and cash equivalents totaling $99,390 (2014 - $56,725). Further, the Company has a credit facility as disclosed in note 7.

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

18. Financial instruments (continued):

(b) Liquidity risk (continued):

The following are the remaining contractual maturities of financial liabilities at December 31, 2015 and 2014:

		Contractual cash flows				
December 31, 2015	Carrying amount	Total	3 months or less	3 to 12 months	1 to 5 years	More than 5 years
Trade payables and accrued liabilities	$ 6,794	$ 6,794	$ 6,794	$ –	$ –	$ –
	$ 6,794	$ 6,794	$ 6,794	$ –	$ –	$ –

		Contractual cash flows				
December 31, 2014	Carrying amount	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	$ –	$ –	$ –

(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, 2015, 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 $1,099 lower (2014 - $984 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, 2015 In thousands of (local currency)	USD	CAD	JPY	EUR	HKD
Trade receivables	14,321	–	27,986	329	–
Other receivables	587	253	3,891	152	–
Trade payables	(86)	(301)	(46,872)	22	(43)
Accrued liabilities	(3,198)	(3,337)	(33,092)	(105)	(278)
	11,624	(3,385)	(48,087)	398	(321)

December 31, 2014 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)

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, 2015, the Company has not drawn on the revolving demand facility.

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

19. Segmented information:

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

Geographic information

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

	2015	2014
United States	$ 75,864	$ 56,317
Canada	7,923	5,829
Europe	2,955	4,077
Japan	4,403	3,693
Other foreign	126	138
	$ 91,271	$ 70,054

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

	2015	2014
Canada	$ 5,263	$ 3,453
United States	2,084	1,284
Japan	5	7
	$ 7,352	$ 4,744

20. Commitments:

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

Less than one year	$ 1,462
Between one and five years	5,097
More than five years	1,374
	$ 7,933

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, 2015 was $961 (2014 - $898).

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

21. Related party transactions:

Details of the Company's subsidiaries at December 31, 2015 and 2014 are as follows:

Name of subsidiary	Principle activity	Place of incorporation and operation	Proportion of ownership interest and voting power held	
			2015	2014
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%

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 did not enter into any related party transactions.

Compensation of key management personnel

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

	2015	2014
Salary and other short-term benefits	$ 3,206	$ 2,772
Share-based payments	2,456	1,309
	$ 5,662	$ 4,081

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 0.50% per annum which has not been drawn as at December 31, 2015. 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.