

Condensed Consolidated Interim Financial Statements of

**Kinaxis Inc.**

Three months ended March 31, 2017 and March 31, 2016

(Unaudited)

# Kinaxis Inc.

## Condensed Consolidated Interim Statements of Financial Position

As at March 31, 2017 and December 31, 2016

(Expressed in thousands of U.S. dollars)

(Unaudited)

	March 31, 2017	December 31, 2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 141,989	\$ 127,910
Trade and other receivables (note 5)	27,405	23,820
Investment tax credits receivable	1,592	1,583
Investment tax credits recoverable	546	755
Prepaid expenses	3,538	3,333
	175,070	157,401
Non-current assets:		
Property and equipment (note 4)	10,297	10,652
Deferred tax assets	195	239
	\$ 185,562	\$ 168,292
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Trade payables and accrued liabilities (note 6)	\$ 10,448	\$ 10,495
Deferred revenue	62,507	55,458
	72,955	65,953
Non-current liabilities:		
Lease inducement	4	18
Deferred revenue	13,629	13,198
Deferred tax liability	1,205	1,412
	14,838	14,628
Shareholders' equity:		
Share capital (note 7)	102,741	97,164
Contributed surplus	15,033	13,924
Accumulated other comprehensive loss	(373)	(519)
Deficit	(19,632)	(22,858)
	97,769	87,711
	\$ 185,562	\$ 168,292

See accompanying notes to condensed consolidated interim financial statements.

On behalf of the Board of Directors:

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

# Kinaxis Inc.

## Condensed Consolidated Interim Statements of Comprehensive Income

For the three months ended March 31, 2017 and 2016  
(Expressed in thousands of U.S. dollars, except share and per share data)  
(Unaudited)

	2017	2016
Revenue (note 9)	\$ 32,542	\$ 27,032
Cost of revenue	10,377	8,105
Gross profit	22,165	18,927
Operating expenses:		
Selling and marketing	6,931	5,979
Research and development (note 10)	6,223	4,737
General and administrative	4,010	3,005
	17,164	13,721
	5,001	5,206
Other income (expense):		
Foreign exchange gain (loss)	(11)	266
Net finance income	167	74
	156	340
Profit before income taxes	5,157	5,546
Income tax expense	1,931	2,177
Profit	3,226	3,369
Other comprehensive income		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences - foreign operations	146	61
Total comprehensive income	\$ 3,372	\$ 3,430
Basic earnings per share	\$ 0.13	\$ 0.14
Weighted average number of basic common shares (note 8)	25,043,512	24,445,630
Diluted earnings per share	0.12	0.13
Weighted average number of diluted common shares (note 8)	26,316,198	25,744,984

See accompanying notes to condensed consolidated interim financial statements.

# Kinaxis Inc.

## Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

For the three months ended March 31, 2017 and 2016

(Expressed in thousands of U.S. dollars)

(Unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total equity
Balance, December 31, 2015	\$ 90,808	\$ 8,873	\$ (474)	\$ (33,603)	\$ 65,604
Profit	–	–	–	3,369	3,369
Other comprehensive income	–	–	61	–	61
Total comprehensive income	–	–	61	3,369	3,430
Share options exercised	561	(188)	–	–	373
Share based payments (note 7)	–	2,280	–	–	2,280
Total shareholder transactions	561	2,092	–	–	2,653
Balance, March 31, 2016	\$ 91,369	\$ 10,965	\$ (413)	\$ (30,234)	\$ 71,687
Balance, December 31, 2016	\$ 97,164	\$ 13,924	\$ (519)	\$ (22,858)	\$ 87,711
Profit	–	–	–	3,226	3,226
Other comprehensive income	–	–	146	–	146
Total comprehensive income	–	–	146	3,226	3,372
Share options exercised	5,577	(1,607)	–	–	3,970
Share based payments (note 7)	–	2,716	–	–	2,716
Total shareholder transactions	5,577	1,109	–	–	6,686
Balance, March 31, 2017	\$ 102,741	\$ 15,033	\$ (373)	\$ (19,632)	\$ 97,769

See accompanying notes to condensed consolidated interim financial statements.

# Kinaxis Inc.

## Condensed Consolidated Interim Statements of Cash Flows

For the three months ended March 31, 2017 and 2016

(Expressed in thousands of U.S. dollars)

(Unaudited)

	2017	2016
Cash flows from operating activities:		
Profit	\$ 3,226	\$ 3,369
Items not affecting cash:		
Depreciation of property and equipment (note 4)	788	520
Share-based payments (note 7)	2,716	2,280
Amortization of lease inducement	(14)	(11)
Investment tax credits recoverable	209	422
Income tax expense	1,931	2,177
Change in operating assets and liabilities (note 11)	3,334	743
Income taxes paid	(1,931)	(713)
	10,259	8,787
Cash flows used in investing activities:		
Purchase of property and equipment (note 4)	(317)	(358)
Cash flows from in financing activities:		
Common shares issued	3,970	373
Increase in cash and cash equivalents	13,912	8,802
Cash and cash equivalents, beginning of period	127,910	99,390
Effects of exchange rates on cash and cash equivalents	167	156
Cash and cash equivalents, end of period	\$ 141,989	\$ 108,348

See accompanying notes to condensed consolidated interim financial statements.

# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017 and March 31, 2016  
(Expressed in thousands of U.S. dollars, except share and per share amounts)  
(Unaudited)

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### 1. Corporate information:

Kinaxis Inc. ("Kinaxis" or the "Company") is incorporated under the Canada Business Corporations Act and domiciled in Ontario, Canada. The address of the Company's registered office is 700 Silver Seven Road, Ottawa, Ontario. The consolidated financial statements of the Company as at March 31, 2017 and for the three months ended March 31, 2017 and 2016 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; Seoul, South Korea; and Ottawa, Canada.

### 2. Basis of preparation:

#### (a) Statement of compliance:

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"). They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2016. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2016.

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

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 3, 2017.

#### (b) Use of estimates and judgments:

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

The significant judgements made by Management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2016.

# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017 and March 31, 2016  
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### 3. Significant accounting policies:

The accounting policies applied in these unaudited condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements as at and for the year ending December 31, 2016.

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

IFRS 15: Revenue from Contracts with Customers ("IFRS 15")

In May 2014, the IASB issued IFRS 15, which provides a single, principles-based five-step model for revenue recognition to be applied to all customer contracts, and requires enhanced disclosures. The standard also provides guidance relating to recognition of customer acquisition costs. In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance. This standard will be effective January 1, 2018 and allows early adoption. The Company does not intend to adopt this standard early.

The Company has begun an implementation plan to develop the necessary accounting policies, estimates and judgments required to adopt IFRS 15. The implementation plan includes an assessment of the standard and the Company's policy as well as any changes required to business processes, systems and internal controls upon adoption of IFRS 15. The Company is not currently in the position to determine the impact of IFRS 15 on the consolidated financial statements.

(b) Standards and interpretations in issue:

Amendments to IAS 7: Statement of Cash Flows ("IAS 7")

In January 2016, the IASB issued amendments to IAS 7. These amendments require entities to provide disclosures that help users of the financial statements to better understand changes in liabilities that arise from financing activities, including both changes arising from cash flow and non-cash changes. These amendments became effective for annual periods beginning on or after January 1, 2017. The adoption of these amendments did not have a material impact on the consolidated financial statements.

Amendments to IAS 12: Income Taxes ("IAS 12")

In January 2016, the IASB issued amendments to IAS 12. The amendments clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. These amendments became effective for annual periods beginning on or after January 1, 2017. The adoption of these amendments did not have a material impact on the consolidated financial statements.

# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017 and March 31, 2016  
(Expressed in thousands of U.S. dollars, except share and per share amounts)  
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### 4. Property and equipment:

The following table presents the property and equipment for the Company:

Cost	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
Balance, December 31, 2016	\$ 14,505	\$ 803	\$ 129	\$ 2,949	\$ 18,386
Additions	221	—	—	96	317
Effects of movement in exchange rates	115	—	12	—	127
Balance, March 31, 2017	\$ 14,841	\$ 803	\$ 141	\$ 3,045	\$ 18,830

Accumulated depreciation	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
Balance, December 31, 2016	\$ 4,893	\$ 503	\$ 97	\$ 2,241	\$ 7,734
Depreciation	709	40	4	35	788
Effects of movement in exchange rates	10	—	1	—	11
Balance, March 31, 2017	\$ 5,612	\$ 543	\$ 102	\$ 2,276	\$ 8,533

Carrying value	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
December 31, 2016	\$ 9,612	\$ 300	\$ 32	\$ 708	\$ 10,652
March 31, 2017	9,229	260	39	769	10,297

There were no asset dispositions in the three months ended March 31, 2017 (year ended December 31, 2016 – none).



# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017 and March 31, 2016  
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### 4. Property and equipment (continued):

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

	2017	2016
Cost of revenue	\$ 584	\$ 381
Selling and marketing	1	1
Research and development	134	92
General and administrative	69	46
	\$ 788	\$ 520

### 5. Trade and other receivables:

The following table presents the trade and other receivables for the Company:

	March 31, 2017	December 31, 2016
Trade accounts receivable	\$ 23,894	\$ 20,362
Other	4,002	3,696
	27,896	24,058
Allowance for doubtful accounts	(491)	(238)
	\$ 27,405	\$ 23,820

There have been no balances written off for the three months ended March 31, 2017 or the year ended December 31, 2016.

### 6. Trade payables and accrued liabilities:

The following table presents the trade payables and accrued liabilities for the Company:

	March 31, 2017	December 31, 2016
Trade accounts payable	\$ 2,286	\$ 2,201
Accrued liabilities	6,052	5,832
Taxes payable	2,110	2,462
	\$ 10,448	\$ 10,495

# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017 and March 31, 2016  
(Expressed in thousands of U.S. dollars, except share and per share amounts)  
(Unaudited)

### 7. Share capital:

#### *Authorized*

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

#### *Issued:*

	Common shares	
	Shares	Amount
Shares outstanding at December 31, 2015	24,420,004	\$ 90,808
Shares issued from exercised options	56,538	561
Shares outstanding at March 31, 2016	24,476,542	\$ 91,369
Shares outstanding at December 31, 2016	24,940,114	\$ 97,164
Shares issued from exercised options	348,146	5,577
Shares outstanding at March 31, 2017	25,288,260	\$ 102,741

#### *Stock option plans*

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

	Three months ended March 31, 2017		Year ended December 31, 2016	
	Shares	Weighted average exercise price (U.S. dollars)	Shares	Weighted average exercise price (U.S. dollars)
Options outstanding, beginning of period	2,459,872	\$ 21.42	2,571,206	\$ 15.62
Granted	217,500	56.35	336,000	44.64
Exercised	(348,146)	11.42	(435,334)	7.53
Forfeited	(135,500)	26.77	(12,000)	13.20
Options outstanding, end of period	2,193,726	\$ 25.24	2,459,872	\$ 21.42
Options exercisable, end of period	774,476	\$ 11.10	926,372	\$ 11.16

# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017 and March 31, 2016  
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### 7. Share capital (continued):

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

The following table summarizes information about stock options outstanding at March 31, 2017:

Options outstanding			Options exercisable		
Range of exercise prices	Number outstanding at 03/31/17	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at 03/31/17	Weighted average exercise price
\$ 1.60 to 3.20	323,763	4.54	\$ 1.93	323,763	\$ 1.93
6.60 to 9.95	433,100	6.85	9.63	263,100	9.67
10.00 to 14.50	96,200	7.60	13.09	26,200	13.05
18.00 to 24.50	145,000	8.08	21.01	20,000	19.13
28.00 to 30.50	107,413	8.59	28.92	21,163	28.92
33.00 to 35.50	574,750	8.75	34.02	120,250	34.02
45.00 to 49.00	513,500	9.69	45.95	–	–
	2,193,726	7.87	\$ 25.24	774,476	\$ 11.10

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

At March 31, 2017, there were 406,264 (year ended December 31, 2016 – 488,264) stock options available for grant under the Plan. During the three months ended March 31, 2017, the Company granted 217,500 (year ended December 31, 2016 – 336,000) options and recorded share-based compensation expense for the three months ended March 31, 2017 of \$1,533 (three months ended March 31, 2016 - \$1,524) related to the vesting of options granted in 2017 and previous years. The per share weighted-average fair value of stock options granted during the three months ended March 31, 2017 was \$18.61 (year ended December 31, 2016 - \$14.14) 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 1.90% (year ended December 31, 2016 - 1.16%), an expected life of 3 to 6 years (year ended December 31, 2016 – 3 to 6 years), and estimated volatility of 42% (year ended December 31, 2016 - 41%). Volatility is estimated by benchmarking to comparable publicly traded companies operating in a similar market segment. The forfeiture rate was estimated at 10% (year ended December 31, 2016 - 10%). The forfeiture rate is estimated based upon an analysis of actual forfeitures.

# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017 and March 31, 2016  
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### 7. Share capital (continued):

#### *Share Unit Plan*

At March 31, 2017, there were 457,824 share units available for grant under the Plan. During the three months ended March 31, 2017, the Company granted 45,500 (year ended December 31, 2016 – 58,588) restricted share units (“RSU”) and 16,197 were forfeited (year ended December 31, 2016 – nil). There were 100,031 (year ended December 31, 2016 – 70,728) RSUs outstanding at March 31, 2017. Each RSU entitles the participant to receive one Common Share. The RSUs vest based over time in three equal annual tranches. The fair value of the RSUs granted during the three months ended March 31, 2017 was \$55.71 (year ended December 31, 2016 - \$25.27) per unit using the fair value of a Common Share at time of grant. The Company recorded share-based compensation expense for the three months ended March 31, 2017 of \$283 (three months ended March 31, 2016 - \$261) related to the RSUs.

During the three months ended March 31, 2017, the Company granted 16,194 (year ended December 31, 2016 – 19,585) deferred share units (“DSU”). There were 37,862 (year ended December 31, 2016 – 21,668) DSUs outstanding at March 31, 2017. 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 \$55.71 (year ended December 31, 2016 – \$25.27) per unit using the fair value of a Common Share at time of grant. The Company recorded share-based compensation expense for the three months ended March 31, 2017 of \$900 (three months ended March 31, 2016 - \$495) related to the DSUs.

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

	2017	2016
Cost of revenue	\$ 321	\$ 272
Selling and marketing	463	343
Research and development	286	319
General and administrative	1,646	1,346
	\$ 2,716	\$ 2,280

# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017 and March 31, 2016  
(Expressed in thousands of U.S. dollars, except share and per share amounts)  
(Unaudited)

### 8. Earnings per share:

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

	2017	2016
Issued common shares at beginning of period	24,940,114	24,420,004
Effect of shares issued from exercise of options	103,398	25,626
Weighted average number of basic common shares at March 31	25,043,512	24,445,630
Effect of share options on issue	1,195,751	1,159,835
Effect of share units on issue	76,935	139,519
Weighted average number of diluted common shares at March 31	26,316,198	25,744,984

At March 31, 2017, 513,500 options (March 31, 2016 – 881,000 options) were excluded from the weighted average number of diluted common shares as their effect would have been anti-dilutive.

### 9. Revenue:

The following table presents the revenue of the Company for the three months ended March 31:

	2017	2016
Subscription	\$ 23,854	\$ 18,490
Professional services	8,441	8,304
Maintenance and support	247	238
	\$ 32,542	\$ 27,032

### 10. Research and development:

The following table presents the research and development expenses of the Company for the three months ended March 31:

	2017	2016
Research and development expenses	\$ 6,559	\$ 5,076
Investment tax credits	(336)	(339)
	\$ 6,223	\$ 4,737

# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017 and March 31, 2016  
(Expressed in thousands of U.S. dollars, except share and per share amounts)  
(Unaudited)

### 11. Statement of cash flow:

Changes in operating assets and liabilities:

	2017	2016
Trade and other receivables	\$ (3,546)	\$ 1,841
Investment tax credits receivable	(10)	(111)
Prepaid expenses	(196)	(574)
Accounts payable and accrued liabilities	(251)	(2,822)
Deferred revenue	7,337	2,409
	<u>\$ 3,334</u>	<u>\$ 743</u>

### 12. Financial instruments:

(a) Fair value of financial instruments:

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

		March 31, 2017		December 31, 2016	
		Carrying value	Fair value	Carrying value	Fair value
Financial assets					
Loans and receivables, measured at amortized cost:					
Cash and cash equivalents	\$ 141,989	\$ 141,989	\$ 127,910	\$ 127,910	
Trade and other receivables	27,405	27,405	23,820	23,820	
Investment tax credits receivable	1,592	1,592	1,583	1,583	
	<u>\$ 170,986</u>	<u>\$ 170,986</u>	<u>\$ 153,313</u>	<u>\$ 153,313</u>	

		March 31, 2017		December 31, 2016	
		Carrying value	Fair value	Carrying value	Fair value
Financial liabilities					
Other financial liabilities, measured at amortized cost:					
Trade payables and accrued liabilities	\$ 10,448	\$ 10,448	\$ 10,495	\$ 10,495	
	<u>\$ 10,448</u>	<u>\$ 10,448</u>	<u>\$ 10,495</u>	<u>\$ 10,495</u>	

# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017 and March 31, 2016  
(Expressed in thousands of U.S. dollars, except share and per share amounts)  
(Unaudited)

### 12. Financial instruments (continued):

(b) Credit risk:

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

	March 31, 2017	December 31, 2016
Canada	\$ 1,013	\$ 1,164
United States	18,769	17,969
Other foreign	3,621	991
	<u>\$ 23,403</u>	<u>\$ 20,124</u>

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

	March 31, 2017	December 31, 2016
Current	\$ 11,003	\$ 11,806
Past due:		
0 – 30 days	\$ 9,341	\$ 5,746
31 – 60 days	230	1,603
Greater than 60 days	2,829	969
	<u>\$ 23,403</u>	<u>\$ 20,124</u>

At March 31, 2017, two customers accounted for greater than 10% of total trade receivables (December 31, 2016 – two customers). For the three months ended March 31, 2017 one customer accounted for greater than 10% of revenue (three months ended March 31, 2016 – one customer).

# Kinaxis Inc.

## Notes to Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2017 and March 31, 2016  
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### 13. Segmented information:

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

#### *Geographic information*

Revenue from external customers is attributed to geographic areas based on the location of the contracting customers. External revenue on a geographic basis for the three months ending March 31 is as follows:

	2017	2016
United States	\$ 28,053	\$ 23,470
Asia	3,178	1,224
Canada	674	1,643
Europe	637	695
	<u>\$ 32,542</u>	<u>\$ 27,032</u>

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

	March 31, 2017	December 31, 2016
Canada	\$ 7,154	\$ 7,410
United States	1,607	1,741
Asia	1,536	1,501
	<u>\$ 10,297</u>	<u>\$ 10,652</u>