



KNOW SOONER. ACT FASTER.



2017

ANNUAL REPORT

The many benefits of RapidResponse

Reduced finished goods inventory by **33%**



Reduced manufacturing lead times by **20%**



Total planning cycle reduced from:



Assessment of demand plan variation reduced from:



Kinaxis Customers



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John Sicard

President and Chief Executive Officer



To Our Shareholders

When reflecting on our performance in 2017, we are pleased to have delivered on our pedigree of strong subscription revenue growth and a very healthy profit margin. We have attained this financial success while continuing to invest wisely as we prepare to scale towards future growth.

It was early spring nearly 25 years ago when a group of software engineers would challenge the status quo of slow and siloed supply chain planning. During a time when conventional wisdom dictated that there was simply no better way, Kinaxis planted seeds of technology innovation designed to defy and destroy the barriers of the past. The potent seeds planted then are now well reflected in the strength of our company; in our strong financial performance and unique product differentiation.

We now have nearly 500 Kinaxis employees spanning 13 countries that rally each day

in support of our unifying purpose; to Revolutionize Planning. Our customer base continues to grow covering such diverse industries as Automotive, Life Sciences and Pharmaceuticals, Consumer Packaged Goods, High-Tech and Electronics, Industrial, and Aerospace and Defense. Kinaxis remains the sole source for acquiring a concurrent planning solution to drive breakthrough supply chain planning performance.

Delivering on 2017 Objectives

We began the year with several key business objectives: improving subscription growth while sustaining high profits, establishing a repeatable Partner Enablement Program, accelerating product innovations, and preparing the company for an acceleration in growth.

Financial Performance

Kinaxis surpassed a significant financial milestone in 2017, achieving over \$100 million in subscription revenue, which represented

23% growth over the previous year. Even more notably, for the first time in the company's history, the Life Sciences and Pharmaceuticals segment of our business overtook our long-standing High-Tech and Electronics segment as the largest contributor to subscription revenue.

Included in this mix was a win at Santen, our first Life Science customer in Japan. Further, 2017 became the year that Automotive saw significant momentum, with wins at several global car makers including Nissan and Toyota.

We have always followed a "land and expand" sales strategy, where we look to rapidly prove value with new customers and then expand our business with them as they achieve returns using RapidResponse. This strategy was clearly evident in our strong 2017 performance with 65% of the growth in subscription revenue attributable to new named customers, up from 60% in recent prior periods. Rather than any reflection on the expansion opportunities with existing customers, we see this as an indicator of market maturity for our breakthrough technology, and what we believe is an early indication of an increase in momentum.

In addition to growing revenue to over \$133 million, we are equally pleased to have driven a very strong Adjusted EBITDA of just over \$40 million, or 30% of revenue. Cash generation remained strong with cash and cash equivalents building to \$158 million, up approximately \$30 million from 2016.

Our overall financial position is a testament to the strength, resilience, and maturity

of our SaaS business model, and the management team in place to operate it. We remain confident in this framework and will work to sustain this performance as we continue to scale the business.

Product Innovation

Kinaxis has long been recognized by respected industry analyst groups such as Gartner and Nucleus Research, to be a world-class, leading innovator for supply chain planning. We remain obsessed with revolutionizing the industry. It started with inventing the truly unique ability to create a digital twin of an entire end-to-end supply chain data set, often measured in billions of records, in a fraction of a second. This allows any user to simulate any event anytime from anywhere, at any time. We have invented a computational planning engine that inextricably connects end-to-end concurrent planning. This is the silo-busting breakthrough technique our customers leverage through RapidResponse today. We have invented technologies to codify users' areas of responsibility, which facilitates automated, adaptive collaboration across very large and geographically dispersed user communities.

There is so much more. In 2017, we took the initial steps to integrate our end-to-end concurrent planning engine with machine learning capabilities to continuously track current supply chain performance against the planned design of the supply chain. This powerful capability will allow our customers to automate and "self-heal" design flaws in

their supply chain and dramatically improve their overall effectiveness and results.

We are also investing in Automated Intelligence, where our technology can automate the mundane and burdensome actions that confront people each day. Efficiency is a continuous improvement initiative for our customers and taking the “robot out of the person” will further drive customer value. We will be communicating other exciting product enhancements and innovations in 2018.

While we have created remarkable innovations organically, we will continue to integrate and leverage open source libraries and other general technology as a means to drive new customer value. Identifying and evaluating potential acquisition opportunities also remains another potential innovation source. We are disciplined in this regard and work to ensure that any acquisition meets minimum gates including:

- Is technically accretive to our mission
- Supports our SaaS business model
- Builds upon our strong company culture
- Is consistent with our financial goals

To date, we have not uncovered such an opportunity, but will remain open to smaller opportunities as they manifest themselves.

Partner Enablement Program

We have long believed that partners will play a key role in accelerating our success. We began our investments in building out a dedicated support team and a robust training and

certification program several years ago. I am pleased to announce that these investments are yielding returns. The vast majority of new business in 2017 was directly influenced through our growing number of partners. What started with Accenture, Deloitte, Barkawi, and others has blossomed into a rigorous and repeatable Partner Enablement Program designed to streamline our co-selling campaigns. More than ever, partners are taking on the lead role in deploying RapidResponse with our services staff providing them with expert support. As we expand rapidly through Europe, we expect to gain the support of local partners, such as mSE Solutions.

While our prime motive for the Partner Enablement Program is to accelerate sales and expand our deployment capacity, we continue to work with partners on developing a platform on which they can deliver their own unique solutions. I believe this approach will assist Kinaxis’ entry into new market segments and opportunities.

Building to Accelerate

We believe that we are in the early stages of accelerated growth. The Kinaxis management team has been working to build and adjust our organizational design and our talent pool to support and sustain this accelerated growth

At the executive ranks, we have successfully recruited new leadership in Sales, including an experienced Chief Revenue Officer, a Global Alliance executive, and an executive whose sole responsibility will be to grow our European business. With our geographic expansion accelerating, we very recently

added a strong Chief Marketing Officer with extensive global marketing experience and an impressive technical background. In addition, we successfully recruited a seasoned leader to further scale our global support organization, in particular, expanding our capabilities in Europe and Asia. These are but a few of the very talented people we have recently welcomed to the Kinaxis team. We will continue our quest to recruit a highly skilled and diverse work force to support of our growth mission.

Through the recognition of our unique product capabilities, coupled with the closure of several marquis customers in Europe and Asia, we are seeing new opportunities in these key markets and, are accelerating our investments accordingly. We opened a world class data center facility in Amsterdam in 2017 and we are launching two additional data centers in Japan in 2018 to further support that market place. In the opening months of 2018 we significantly expanded our European sales and support team and continued to build our Japan and North America sales capabilities.

Our Commitment

You have my commitment that we will continue this multi-faceted investment strategy to sustain our growth acceleration. We will continue to work to drive continuous value creation for our shareholders while simultaneously driving breakthrough results for our customers. We will continue to provide a challenging and rewarding environment for our talented, diverse and expanding workforce.

On this note, I want to thank our exceptionally talented and loyal global employees. Together with our capable partner base, they have delivered remarkable accomplishments and are building the foundation for future success. Their commitment to our cause has been vital to our success and will continue to be as we progress. I would also like to thank our passion in Kinaxis and for their continued collaboration with our leadership team to shape and support our mission for growth.

It is an honor and privilege to lead this remarkable company and to work with inspiring and gifted people every day. We are proud of what Kinaxis has already become yet remain fiercely committed to driving even greater future success. Thank you for your trust, your interest, and your continued support of Kinaxis.

Sincerely,



John Sicard

President and Chief Executive Officer
Kinaxis Inc.

Staying social on #KinaxisLife



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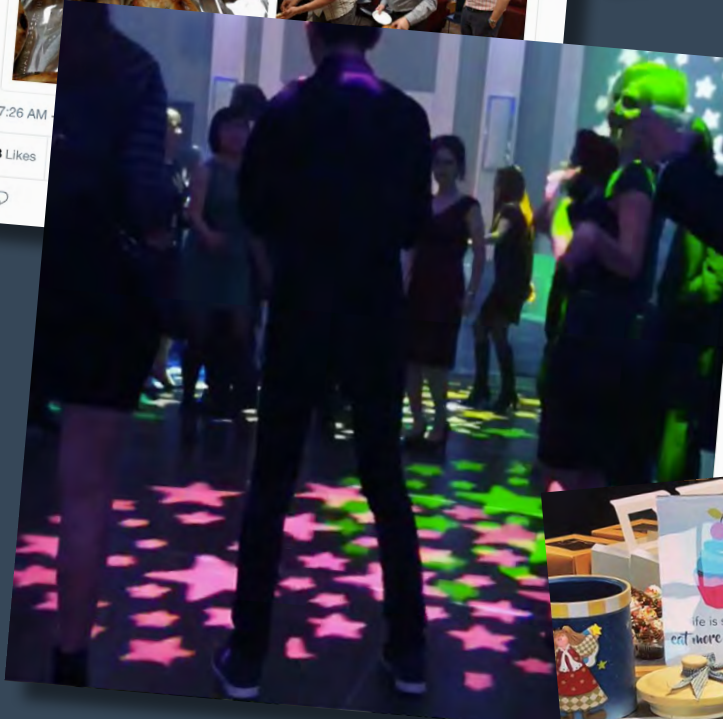
kinaxis Happy #emp team! You all rock #bestteamever

chapeauirois sth



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kinaxis Great party 🎉🎄 #KinaxisLife #holidayparty #techstars #dancingstars cassandraharris 😊



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kinaxis Happy #nationalcupcakeday! These beauties are on sale now in our Kanata office, all proceeds to @ottawahumane #kinaxislife #humansociety #ottawa #cupcakes laura.ullock Awesome!! Way to go.

15 likes

FEBRUARY 26

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Employee appreciation day
 #kinaxislife #kinaxis



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kinaxis Congrats Team Kinaxis 🏆
 #kinaxislife #ottawafodbank
 #sortchallenge
 megandcass Best company ever!!



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kinaxis Some of our Ugly Festive Sweater contest entries 🎄 #KinaxisLife #Saas #tech #stars #festivesweater

70 views
 DECEMBER 14, 2017
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Karolina Kural
 @KarolinaKural

Our male coworkers are very supportive and respectful every day but today they really surprised us! :) I only included a few pictures here but there were many more! @Kinaxis really is a great place to work at! #IWD2018 #PressForProgress #KinaxisLife #JustWorkHere



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kinaxis Our gang @cusec_official #cusec #kinaxislife #justworkhere #talent #engineers #saas

sthosick Great photo!

codingmelody good job at cusec! You all represented @kinaxis really well 🍌

marketing.automatizado Excelente

16 likes
 JANUARY 15
 Add a comment...



KINAXIS INC.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

DATED: February 28, 2018

Unless the context requires otherwise, all references in this management's discussion and analysis (the "MD&A") to "Kinaxis", "we", "us", "our" and the "Company" refer to Kinaxis Inc. and its subsidiaries as constituted on December 31, 2017. This MD&A has been prepared with an effective date of February 28, 2018.

This MD&A for the years ended December 31, 2017 and 2016 should be read in conjunction with our annual consolidated financial statements and the related notes thereto as at and for the year ended December 31, 2017. The financial information presented in this MD&A is derived from our annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A contains forward-looking statements that involve risks, uncertainties and assumptions, including statements regarding anticipated developments in future financial periods and our future plans and objectives. There can be no assurance that such information will prove to be accurate, and readers are cautioned not to place undue reliance on such forward-looking statements. See "Forward-Looking Statements".

This MD&A includes trade-marks, such as "Kinaxis", and "RapidResponse", which are protected under applicable intellectual property laws and are the property of Kinaxis. Solely for convenience, our trade-marks and trade names referred to in this MD&A may appear without the ® or ™ symbol, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights to these trade-marks and trade names. All other trade-marks used in this MD&A are the property of their respective owners.

All references to \$ or dollar amounts in this MD&A are to U.S. currency unless otherwise indicated.

Additional information relating to Kinaxis Inc., including the Company's most recently completed Annual Information Form, can be found on SEDAR at www.sedar.com.

Non-IFRS Measures

This MD&A makes reference to certain non-IFRS measures such as "Adjusted profit", "Adjusted EBITDA" and "Adjusted diluted earnings per share". These non-IFRS measures are not recognized, defined or standardized measures under IFRS. Our definition of Adjusted profit, Adjusted EBITDA and Adjusted diluted earnings per share will likely differ from that used by other companies and therefore comparability may be limited.

Adjusted profit, Adjusted EBITDA and Adjusted diluted earnings per share should not be considered a substitute for or in isolation from measures prepared in accordance with IFRS. These non-IFRS measures should be read in conjunction with our annual consolidated financial statements and the related notes thereto as at and for the year ended December 31, 2017. Readers should not place undue reliance on non-IFRS measures and should instead view them in conjunction with the most comparable IFRS financial measures. See the reconciliations to these IFRS measures in the "Reconciliation of Non-IFRS Measures" section of this MD&A.

Forward-Looking Statements

This MD&A contains forward-looking statements that relate to our current expectations and views of future events. In some cases, these forward-looking statements can be identified by words or phrases such as "may", "will", "expect", "anticipate", "aim", "estimate", "intend", "plan", "seek", "believe", "potential", "continue", "is/are likely to" or the negative of these terms, or other similar expressions intended to identify forward-looking statements. Forward-looking statements are intended to assist readers in understanding management's expectations as of the date of this MD&A and may not be suitable for other purposes. We have based these forward-looking statements on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, among other things, statements relating to:

- our expectations regarding our revenue, expenses and operations;
- our anticipated cash needs;
- our ability to protect, maintain and enforce our intellectual property rights;
- third-party claims of infringement or violation of, or other conflicts with, intellectual property rights by us;
- our plans for and timing of expansion of our solutions and services;
- our future growth plans;

- the acceptance by our customers and the marketplace of new technologies and solutions;
- our ability to attract new customers and develop and maintain existing customers;
- our ability to attract and retain personnel;
- our expectations with respect to advancement in our technologies;
- our competitive position and our expectations regarding competition;
- regulatory developments and the regulatory environments in which we operate; and
- anticipated trends and challenges in our business and the markets in which we operate.

Forward-looking statements are based on certain assumptions and analysis made by us in light of our experience and perception of historical trends, current conditions and expected future developments and other factors we believe are appropriate. Expected future developments include growth in our target market, an increase in our subscription revenue and decrease in maintenance and support revenue based on trends in customer behaviour, increasing sales and marketing expenses, research and development expenses and general and administrative expenses based on our business plans and our continued ability to realize on the benefits of tax credits in the near term. Although we believe that the assumptions underlying the forward-looking statements are reasonable, they may prove to be incorrect.

This MD&A also includes forward-looking statements in relation to a contract dispute and arbitration proceeding with an Asian-based customer. These forward-looking statements are based on our assessment and analysis of the merits of the parties' positions. This assessment and analysis may evolve as the relevant proceedings are at a very early stage. Whether actual results, performance or achievements will conform to our expectations and predictions is subject to a number of known and unknown risks and uncertainties, including those set forth below under the heading "Risks and Uncertainties". These risks and uncertainties could cause our actual results, performance, achievements and experience to differ materially from the future expectations expressed or implied by the forward-looking statements. In light of these risks and uncertainties, readers should not place undue reliance on forward-looking statements.

The forward-looking statements made in this MD&A relate only to events or information as of the date on which the statements are made in this MD&A and are expressly qualified in their entirety by this cautionary statement. Except as required by law, we do not assume any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

Readers should read this MD&A with the understanding that our actual future results may be materially different from what we expect.

Risks and Uncertainties

We are exposed to risks and uncertainties in our business, including the risk factors set forth below:

- If we are unable to attract new customers or sell additional products to our existing customers, our revenue growth and profitability will be affected.
- We derive a significant portion of our revenue from a relatively small number of customers, and our growth depends on our ability to retain existing customers and add new customers.
- We encounter long sales cycles, particularly with our larger customers, which could have an adverse effect on the amount, timing and predictability of our revenue.
- We rely significantly on recurring revenue, and if recurring revenue declines or contracts are not renewed our future results of operations could be harmed.
- Downturns or upturns in new sales will not be immediately reflected in operating results and may be difficult to discern.

Management's Discussion and Analysis

- Our quarterly results of operations may fluctuate. As a result, we may fail to meet or exceed the expectations of investors or securities analysts which could cause our share price to decline.
- Our solutions are complex and customers may experience difficulty in implementing or upgrading our products successfully or otherwise achieving the benefits attributable to our products.
- Our ability to retain customers and attract new customers could be adversely affected by an actual or perceived breach of security relating to customer information.
- We have incurred operating losses in the past and may incur operating losses in the future.
- If we are unable to develop new products and services, sell our solutions into new markets or further penetrate our existing markets, our revenue will not grow as expected.
- If we do not maintain the compatibility of our solutions with third-party applications that our customers use in their business processes, demand for our solutions could decline.
- Our inability to assess and adapt to rapid technological developments could impair our ability to remain competitive.
- We enter into service level agreements with all of our customers. If we fail to meet these contractual commitments, we could be obligated to provide credits or refunds for prepaid amounts related to unused subscription services or face contract terminations, which could adversely affect our revenues.
- Downturns in general economic and market conditions and reductions in IT spending may reduce demand for our solutions, which could negatively affect our revenue, results of operations and cash flows.
- We are subject to fluctuations in currency exchange rates.
- If we fail to protect our intellectual property and proprietary rights adequately, our business could be adversely affected.
- An assertion by a third party that we are infringing its intellectual property could subject us to costly and time consuming litigation or expensive licenses which could harm our business.
- The markets in which we participate are highly competitive, and our failure to compete successfully would make it difficult for us to add and retain customers and would reduce or impede the growth of our business.
- If we fail to retain our key employees, our business would be harmed and we might not be able to implement our business plan successfully.
- Our growth is dependent upon the continued development of our direct sales force.
- As we increase our emphasis on our partnership program, we may encounter new risks, such as dependence on partners for a material portion of our revenue and potential channel conflict.
- If we experience significant fluctuations in our rate of anticipated growth and fail to balance our expenses with our revenue forecasts, our results could be harmed.
- Interruptions, delays or security breaches in the services provided by third-party data centers and/or internet service providers could impair the delivery of our solutions and our business could suffer.
- We may experience service failures or interruptions due to defects in the software, infrastructure, third-party components or processes that comprise our existing or new solutions, any of which could adversely affect our business.
- The use of open source software in our products may expose us to additional risks and harm our intellectual property.
- Mergers or other strategic transactions involving our competitors or customers could weaken our competitive position, which could harm our results of operations.

Management's Discussion and Analysis

- We may not receive significant revenue as a result of our current research and development efforts.
- Because our long-term success depends, in part, on our ability to continue to expand the sales of our solutions to customers located outside of North America, our business will be susceptible to risks associated with international operations.
- The outcome of any litigation, arbitration or other dispute resolution proceedings that we may engage in from time to time is inherently uncertain. We may become defendants in legal proceedings in which we are unable to assess our exposure and which could become significant liabilities in the event of an adverse judgment or decision.
- We are subject to taxation in various jurisdictions and the taxing authorities may disagree with our tax positions.
- If we fail to develop widespread brand awareness cost-effectively, our business may suffer.
- Our strategy includes pursuing acquisitions and our potential inability to successfully integrate the newly-acquired companies or businesses may adversely affect our financial results.
- The market price for our common shares may be volatile.
- We may issue additional common shares in the future which may dilute our shareholders' investments.

A comprehensive discussion of risks, including risks not specifically listed above, can be found in our most recently filed Annual Information Form. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of our shares to decline. If any of the noted risks actually occur, our business may be harmed and our financial condition and results of operations may suffer significantly.

Overview

We are a leading provider of cloud-based subscription software that enables our customers to improve and accelerate analysis and decision-making across their supply chain operations. Our RapidResponse product provides supply chain planning and analytics capabilities that create the foundation for managing multiple, interconnected supply chain management processes, including demand planning, supply planning, inventory management, order fulfillment and capacity planning. Our professional services team supports deployment of RapidResponse in new customers and assists existing customers in fully leveraging the benefits of the product.

Our target market is large global enterprises that have significant unresolved supply chain challenges. We believe this market is growing as a result of a number of factors, including increased complexity and globalization of supply chains, outsourcing, a diversity of data sources and systems, and competitive pressures on our customers.

We have established a consistent financial track record of strong revenue growth, solid earnings performance and cash generation. Our subscription and total annual revenues have grown at a compound annual growth rate (CAGR) of 25% and 24% respectively for the three years ended December 31, 2017. This growth is driven both by contracts with new customers and expansion of our solution and service engagements within our existing customer base. For the three months and year ended December 31, 2017, our Adjusted EBITDA was 32% and 30% of revenue and ending cash balances grew to \$158.4 million.

Our customers are generally large national or multinational enterprises with complex supply chain requirements. We target multiple key industry verticals including high technology and electronics manufacturing, aerospace and defense, industrial products, life sciences and pharmaceuticals, automotive, and consumer packaged goods.

We sell our product using a subscription-based model. Our agreements with customers are typically two to five years in length. Our subscription fee generally depends on the size of our customer, the number of applications deployed, the number of users and the number of manufacturing, distribution and inventory sites our product is required to model. Average annual contract value fluctuates from period to period depending on the size of new customers and the extent to which we are successful in expanding adoption of our products by existing customers.

For the year ended December 31, 2017, our ten largest customers accounted for approximately 44% of our total revenues with no one customer accounting for greater than 10% of total revenues.

Increasing revenues through new customer wins is one of our highest organizational priorities. Our sales cycle can be lengthy, as we generally target very large organizations with significant internal processes for adoption of new systems. We currently pursue a revenue growth model that includes both direct sales through our internal sales force, as well as indirect sales through channels including resellers and other partners.

Due to the growth in the market and increasing need for solutions, competition in the industry from new entrants and larger incumbent vendors will increase. In addition to this increased competitive pressure, changes in the global economy may have an impact on the timing and ability of these enterprises to make buying decisions, which may have an impact on our performance.

We continue to drive growth in our business through new customer acquisition and expansion of existing customers through our land and expand strategy. Over the last several years, approximately 65% of subscription growth has been derived from new customers. Our net revenue retention is greater than 100%, reflecting our longer term contract structure and renewal history.

We continue to invest in our partner capabilities with Accenture and Deloitte Consulting LLP. In February 2017, we announced an alliance with Bain & Company, which will enable Bain to extend the value they bring to their clients by leveraging the power of RapidResponse during their supply chain diagnostics engagement. In May 2017, we announced an extension of our strategic partnership with Barkawi Management Consultants which will combine our market leading supply chain planning platform with Barkawi's expertise in business solutions for supply chain and operations to help multinational organizations improve their supply chain and operational results. In October 2017, we announced a strategic partnership with mSE Solutions, which will help customers realize end-to-end supply chain optimization by combining our industry-leading concurrent planning solution with mSE's expertise, experience and vision for next-generation extended supply chains.

We are headquartered in Ottawa, Ontario. We have subsidiaries located in the United States, the Netherlands and Hong Kong and subsidiaries and offices in Seoul, South Korea and Tokyo, Japan. We continue to expand our operations internationally. In the year ended December 31, 2017, 88% of our revenues were derived from North American based customer contracts and our remaining revenues were derived principally from Asian and European based contracts.

Key Performance Indicators

The key performance indicators that we use to manage our business and evaluate our financial results and operating performance are: total revenue, total new customers, incremental subscription revenue and bookings, net revenue retention, secured subscription backlog, operating expenses, Adjusted profit (as discussed below), Adjusted EBITDA (as discussed below), Adjusted diluted earnings per share (as discussed below), and cash flow from operations. Some of these measures are non-IFRS measures. See “Non-IFRS Measures” above. Management reconciles non-IFRS measures to IFRS measures where a comparable IFRS measure exists. See “Reconciliation of Non-IFRS Measures” below. We evaluate our performance by comparing our actual results to budgets, forecasts and prior period results.

Net revenue retention

Our subscription customers generally enter into two to five year agreements, paid annually in advance, for use of our solution. In certain circumstances, customers will prepay subscription fees for the term of the agreement for various reasons. Subscription agreements are generally subject to price increases upon renewal reflecting both inflationary increases and the additional value provided by our solutions. In addition to the expected increase in subscription revenue from price increases over time, existing customers may subscribe for additional applications, users or sites during the terms of their agreements.

Our subscription model results in a high proportion of recurring revenue, which we define as subscription revenue plus maintenance and support revenue (see “Significant Factors Affecting Results of Operations – Revenue”). We believe the power of the subscription model is only fully realized when a vendor has high retention rates. High customer retention rates generate a long customer lifetime and a very high lifetime value of the customer. Our net revenue retention rates remain over 100%, which includes sales of additional applications, users and sites to existing customers.

The recurring nature of our revenue provides high visibility into future performance, and upfront payments result in cash flow generation in advance of revenue recognition. Typically, approximately 80% of our annual subscription revenue is recognized from customers that are in place at the beginning of the year (excluding the effect of renewals) and this continues to be our target model going forward. However, this also means that agreements with new customers or agreements with existing customers purchasing additional applications, users or sites in a quarter may not contribute significantly to revenue in the current quarter. For example, a new customer who enters into an agreement on the last day of a quarter will typically have no impact on the revenue recognized in that quarter.

Significant Factors Affecting Results of Operations

Our results of operations are influenced by a variety of factors, including:

Revenue

Our revenue consists of subscription fees, professional service fees and maintenance and support fees. Subscription revenue is comprised of fixed term fees for licensed on-premise use of RapidResponse or fees for provision as software as a service (“**SaaS**”) in a hosted/cloud environment.

Subscription revenue includes maintenance and support for the solution for the term of the contract as well as hosting services when provided under a SaaS arrangement.

Professional services revenue is comprised of fees charged to assist organizations to implement and integrate our solution and train their staff to use and deploy our solution. Professional service engagements are contracted on a time

and materials basis including billable travel expenses and are billed and recognized as revenue as the service is delivered. In certain circumstances, we enter into arrangements for professional services on a fixed price basis; in these cases, revenue is recognized by reference to the stage of completion of the contract.

Maintenance and support revenue relates to fees for maintenance and support for certain legacy customers who licensed our software on a perpetual basis prior to our conversion to a SaaS model in 2005. Over time, this revenue stream is expected to decline as more customers eventually convert to our more comprehensive, subscription based service or customers choose to let their support contracts lapse.

Cost of revenue

Cost of revenue consists of personnel, travel and other overhead costs related to implementation teams supporting initial deployments, training services and subsequent stand-alone engagements for additional services. Cost of revenue also includes personnel and overhead costs associated with our customer support team, the cost of our data center facilities where we physically host our on-demand solution, and network connectivity costs for the provisioning of hosting services under SaaS arrangements.

Sales and marketing expenses

Sales and marketing expenses consist primarily of personnel and related costs for our sales and marketing teams, including salaries and benefits, contract acquisition costs including commissions earned by sales personnel, partner programs support and training, and trade show and promotional marketing costs.

We plan to continue to invest in sales and marketing by expanding our domestic and international selling and marketing activities, building brand awareness, developing partners, and sponsoring additional marketing events. We expect that in the future, sales and marketing expenses will continue to increase.

Research and development expenses

Research and development (“**R&D**”) expenses consist primarily of personnel and related costs for the teams responsible for the ongoing research, development and product management of RapidResponse. These expenses are recorded net of any applicable scientific research and experimental development investment tax credits (“**investment tax credits**”) earned for expenses incurred in Canada against eligible projects. We only record non-refundable tax credits to the extent there is reasonable assurance we will be able to use the investment tax credits to reduce current or future tax liabilities. As the Company has an established history of profits, we do expect to realize the benefit of these tax credits in the near term. Further, we anticipate that spending on R&D will also be higher in absolute dollars as we expand our research and development and product management teams.

General and administrative expenses

General and administrative expenses consist primarily of personnel and related costs associated with administrative functions of the business including finance, human resources and internal information system support, as well as legal, accounting and other professional fees. We expect that, in the future, general and administrative expenses will increase in absolute dollars as we invest in our infrastructure and we incur additional employee-related costs and professional fees related to the growth of our business and international expansion.

Foreign exchange

Our presentation and functional currency is U.S. dollars with the exception of our subsidiaries in South Korea (Korean Won), Japan (Japanese Yen) and the Netherlands (Euro). We derive most of our revenue in U.S. dollars. Our head office and a significant portion of our employees are located in Ottawa, Canada, and as such approximately a third of our expenses are incurred in Canadian dollars.

Results of Operations

The following table sets forth a summary of our results of operations for the three months and years ended December 31, 2017 and 2016:

	Three months ended December 31,		Years ended December 31,		
	2017	2016	2017	2016	2015
	(In thousands of U.S. dollars, except earnings per share)				
Statement of Operations					
Revenue.....	\$ 34,423	\$ 30,264	\$ 133,317	\$ 115,951	\$ 91,271
Cost of revenue	9,737	9,493	39,780	35,777	25,743
Gross profit	24,686	20,771	93,537	80,174	65,528
Operating expenses	16,964	17,031	66,826	62,280	41,721
	7,722	3,740	26,711	17,894	23,807
Foreign exchange loss	(31)	(223)	(84)	(198)	(1,041)
Net finance income.....	378	78	1,131	307	128
Profit before income taxes.....	8,069	3,595	27,758	18,003	22,894
Income tax expense	2,584	1,884	7,375	7,258	10,216
Profit	\$ 5,485	\$ 1,711	\$ 20,383	\$ 10,745	\$ 12,678
Adjusted profit ⁽¹⁾	\$ 7,819	\$ 3,661	\$ 30,129	\$ 18,885	\$ 17,130
Adjusted EBITDA ⁽¹⁾	\$ 11,157	\$ 6,438	\$ 40,075	\$ 28,528	\$ 29,985
Basic earnings per share.....	\$ 0.22	\$ 0.07	\$ 0.81	\$ 0.44	\$ 0.53
Diluted earnings per share.....	\$ 0.21	\$ 0.07	\$ 0.77	\$ 0.41	\$ 0.50
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.30	\$ 0.14	\$ 1.14	\$ 0.73	\$ 0.67

As at December 31,

	As at December 31,		
	2017	2016	2015
	(In thousands of U.S. dollars)		
Total assets.....	\$ 212,693	\$ 168,292	\$ 128,096
Total non-current liabilities	9,689	14,628	15,256

Note:

- (1) Adjusted profit, Adjusted EBITDA and Adjusted diluted earnings per share are non-IFRS measures. See "Non-IFRS Measures". For a reconciliation of these measures to the closest IFRS measure, where a comparable IFRS measure exists, see "Reconciliation of Non-IFRS Measures" below.

Reconciliation of Non-IFRS Measures

Adjusted profit and Adjusted diluted earnings per share

Adjusted profit represents profit adjusted to exclude our equity compensation plans. Adjusted diluted earnings per share represents diluted earnings per share using Adjusted profit. We use Adjusted profit and Adjusted diluted earnings per share to measure our performance as these measures better align with our results and improve comparability against our peers.

Adjusted EBITDA

Adjusted EBITDA represents profit adjusted to exclude our equity compensation plans, income tax expense, depreciation, foreign exchange loss (gain) and net financing (income) expense. We use Adjusted EBITDA to provide readers with a supplemental measure of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures.

We believe that securities analysts, investors and other interested parties frequently use non-IFRS measures in the evaluation of issuers. Management also uses non-IFRS measures in order to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess our ability to meet our capital expenditure and working capital requirements.

We have reconciled Adjusted profit and Adjusted EBITDA to the most comparable IFRS financial measure as follows:

	Three months ended December 31,		Years ended December 31,		
	2017	2016	2017	2016	2015
(In thousands of U.S. dollars, except percentages)					
Statement of Operations					
Profit	\$ 5,485	\$ 1,711	\$ 20,383	\$ 10,745	\$ 12,678
Share-based compensation	2,334	1,950	9,746	8,140	4,452
Adjusted profit	<u>\$ 7,819</u>	<u>\$ 3,661</u>	<u>\$ 30,129</u>	<u>\$ 18,885</u>	<u>\$ 17,130</u>
Income tax expense	2,584	1,884	7,375	7,258	10,216
Depreciation	1,101	748	3,618	2,494	1,726
Foreign exchange loss	31	223	84	198	1,041
Net finance income.....	(378)	(78)	(1,131)	(307)	(128)
	<u>3,338</u>	<u>2,777</u>	<u>9,946</u>	<u>9,643</u>	<u>12,855</u>
Adjusted EBITDA.....	<u>\$ 11,157</u>	<u>\$ 6,438</u>	<u>\$ 40,075</u>	<u>\$ 28,528</u>	<u>\$ 29,985</u>
Adjusted EBITDA as a percentage of revenue.....	32%	21%	30%	25%	33%

Revenue

	Three months ended December 31,		2016 to 2017	Years ended December 31,		2016 to 2017
	2017	2016	%	2017	2016	%
(In thousands of U.S. dollars, except percentages)						
Revenue						
Subscription.....	\$ 26,961	\$ 22,660	19%	\$ 100,813	\$ 81,838	23%
Professional services	7,202	7,355	-2%	31,469	33,115	-5%
Maintenance and support.....	260	249	4%	1,035	998	4%
Total revenue.....	<u>34,423</u>	<u>30,264</u>	<u>14%</u>	<u>133,317</u>	<u>115,951</u>	<u>15%</u>

Total revenue for the fourth quarter of 2017 was \$34.4 million, an increase of \$4.2 million or 14% compared to the same period in 2016. Total revenue for fiscal 2017 was \$133.3 million, an increase of \$17.4 million or 15% compared to the same period in 2016.

Subscription revenue

Subscription revenue for the fourth quarter was \$27.0 million, an increase of 19% compared to the same period in 2016. Subscription revenue for fiscal 2017 was \$100.8 million, an increase of 23% compared to the same period in 2016. Subscription revenue increased \$4.3 million for the fourth quarter and \$19.0 million for the fiscal year compared

to the same periods in 2016 due to contracts secured with new customers, as well as expansion of existing customer subscriptions.

During the second quarter, an Asian-based customer did not make certain scheduled payments under its contract. We have since terminated the contract with this customer, ceased providing services to this customer, and, as per the dispute resolution procedures in our contract, we have initiated confidential, binding arbitration proceedings for payment of all amounts due under the contract and damages. The customer has denied our claims, alleges breach by Kinaxis, and has asserted its own counterclaims. We believe the customer's positions and assertions are without merit. We did not recognize subscription revenue in the second or subsequent quarters beyond payments received from this customer. As a result, we did not recognize approximately \$3.0 million of expected subscription revenue related to this contract for the year ended December 31, 2017. As at December 31, 2017, trade and other receivables from this customer totaled \$2.5 million. We believe that the receivables are collectible and that we will be successful in asserting our claims.

Professional services revenue

Professional services revenue varies quarter to quarter due to the size, timing and scheduling of customer engagements and the level of partner engagements. Professional services revenue for the fourth quarter was \$7.2 million, a decrease of 2% compared to the same period in 2016. Professional services revenue for fiscal 2017 was \$31.5 million, a decrease of 5% compared to the same period in 2016. Professional services revenue decreased \$0.2 million for the fourth quarter and \$1.6 million for the fiscal year compared to the same periods in 2016 due to a significant increase in our partners assuming deployment activity and the related professional services revenue.

Maintenance and support revenue

Maintenance and support revenue was consistent at \$0.3 million for the fourth quarter of 2017 and 2016, and \$1.0 million for fiscal 2017 and 2016. We expect maintenance and support revenue to continue to account for less than 1% of total revenue.

Cost of Revenue

	Three months ended December 31,		2016 to 2017	Years ended December 31,		2016 to 2017
	2017	2016	%	2017	2016	%
	(In thousands of U.S. dollars, except percentages)					
Cost of revenue	\$ 9,737	\$ 9,493	3%	\$ 39,780	\$ 35,777	11%
Gross profit	24,686	20,771	19%	93,537	80,174	17%
Gross profit percentage	72%	69%		70%	69%	

Cost of revenue for the fourth quarter of 2017 was \$9.7 million, an increase of \$0.2 million or 3% compared to the same period in 2016. Cost of revenue for fiscal 2017 was \$39.8 million, an increase of \$4.0 million or 11% compared to the same period in 2016. The increase in costs was due to an increase in headcount and related compensation costs, which was driven by our customer growth and global expansion. The increase in costs also reflects increased use of third party providers as we continue to leverage our partners' expertise to support customer engagements. Higher depreciation and operating costs associated with the expansion of the data center capacity to support new and ongoing customer engagements as well as our global team expansion were also incurred in fiscal 2017 compared to the same period in 2016.

Gross profit for the three months and year ended December 31, 2017 was \$24.7 million and \$93.5 million, respectively, compared to \$20.7 million and \$80.2 million for the same periods in 2016. For the fourth quarter of 2017, gross profit as a percentage of revenue increased to 72% from 69% in the same period in 2016. For fiscal 2017, gross profit as a percentage of revenue increased to 70% from 69% in the same period in 2016. The percentage increase for the three months and year ended December 31, 2017 reflects the higher growth rate of revenue.

Selling and Marketing Expenses

	Three months ended December 31,		2016 to 2017	Years ended December 31,		2016 to 2017
	2017	2016	%	2017	2016	%
	(In thousands of U.S. dollars, except percentages)					
Selling and marketing.....	\$ 7,882	\$ 8,503	-7%	\$ 29,280	\$ 30,350	-4%
As a percentage of revenue	23%	28%		22%	26%	

Selling and marketing expenses for the fourth quarter of 2017 were \$7.9 million, a decrease of \$0.6 million or 7% compared to the same period in 2016. Selling and marketing expenses for fiscal 2017 were \$29.3 million, a decrease of \$1.1 million or 4% compared to the same period in 2016. Selling and marketing expenses decreased due to a decrease in contract acquisition costs compared to the prior period due to timing of securing new contracts. Our policy is to expense contract acquisition costs related to new or expanded customer arrangements on commencement of the related revenue. Consequently, selling and marketing expenses for the fourth quarter of 2017 do not reflect customer acquisition costs for certain contracts secured with customers in the fourth quarter of 2017 for which revenue recognition commences in fiscal year 2018. The decrease in selling and marketing expenses was offset by an increase in headcount and related compensation to support our investment in our knowledge services organization, and an increase in share-based compensation.

For the fourth quarter of 2017, selling and marketing expenses as a percentage of revenue decreased to 23% from 28% in the same period in 2016. For fiscal 2017, selling and marketing expenses as a percentage of revenue decreased to 22% from 26% in the same period in 2016. The decrease reflects the higher growth rate of revenue and lower contract acquisition costs. Selling and marketing expenses will vary from quarter to quarter due to the timing of marketing programs and events as well as the timing of closing of customer contracts and related variable compensation.

Research and Development Expenses

	Three months ended December 31,		2016 to 2017	Years ended December 31,		2016 to 2017
	2017	2016	%	2017	2016	%
	(In thousands of U.S. dollars, except percentages)					
Research and development – gross..	\$ 6,399	\$ 5,866	9%	\$ 25,822	\$ 22,116	17%
Less: Investment tax credits	(791)	(371)	113%	(2,131)	(1,464)	46%
Research and development.....	5,608	5,495	2%	23,691	20,652	15%
As a percentage of revenue						
Gross	19%	19%		19%	19%	
Net.....	16%	18%		18%	18%	

Gross research and development expenses for the fourth quarter of 2017 were \$6.4 million, an increase of \$0.5 million or 9% compared to the same period in 2016. Gross research and development expenses for fiscal 2017 were \$25.8 million, an increase of \$3.7 million or 17% from the same period in 2016. The increase in research and development expenses was due to an increase in headcount and related compensation costs. The investment in headcount supports ongoing programs to develop the RapidResponse product and solution offering and our knowledge solutions for new and existing customers.

Investment tax credits earned on research and development activity in Canada increased 113% in the fourth quarter of 2017 to \$0.8 million and 46% for fiscal 2017 to \$1.5 million, compared to the same periods in 2016. The increase in tax credits recognized was due to an increase in research and development activity.

Gross research and development expenses as a percentage of revenue remained consistent at 19% for the fourth quarter of 2017 and 2016, as well as fiscal 2017 and 2016. Net research and development expenses as a percentage of

revenue for the fourth quarter of 2017 were 16%, compared to 18% for the same period in 2016. Net research and development expenses as a percentage of revenue for fiscal 2017 and 2016 were consistent at 18%. These relatively comparable percentages reflect the growth in product development expenses matching the growth in revenue for the three months and year ended December 31, 2017.

General and Administrative Expenses

	Three months ended December 31,		2016 to 2017	Years ended December 31,		2016 to 2017
	2017	2016	%	2017	2016	%
(In thousands of U.S. dollars, except percentages)						
General and administrative.....	\$ 3,474	\$ 3,033	15%	\$ 13,855	\$ 11,278	23%
As a percentage of revenue	10%	10%		10%	10%	

General and administrative expenses for the fourth quarter of 2017 were \$3.5 million, an increase of \$0.4 million or 15% compared to the same period in 2016. General and administrative expenses for fiscal 2017 were \$13.9 million, an increase of \$2.6 million or 23% compared to the same period in 2016. The increase in general and administrative expenses was due to an increase in share-based payments and comparatively higher information technology, legal, compliance, and consulting costs supporting our growth. General and administrative expenses as a percentage of revenue remained consistent at 10% for the fourth quarter of 2017 and 2016, as well as fiscal 2017 and 2016.

Other Income and Expense

	Three months ended December 31,		2016 to 2017	Years ended December 31,		2016 to 2017
	2017	2016	%	2017	2016	%
(In thousands of U.S. dollars, except percentages)						
Other income (expense)						
Foreign exchange gain (loss)...	\$ (31)	\$ (223)	-86%	\$ (84)	\$ (198)	-58%
Net finance income.....	378	78	385%	1,131	307	268%
Total other income (expense)	347	(145)	-(1)	1,047	109	861%

Note:

(1) The percentage change has been excluded as it is not meaningful.

Other income for the fourth quarter of 2017 was \$0.3 million compared to an expense of \$0.1 million for the same period in 2016. Other income for fiscal 2017 was \$1.0 million compared to \$0.1 million for the same period in 2016. The increase in other income is due to an increase in interest income earned on the increased cash position during 2017.

Income Taxes

	Three months ended December 31,		2016 to 2017	Years ended December 31,		2016 to 2017
	2017	2016	%	2017	2016	%
(In thousands of U.S. dollars, except percentages)						
Income tax expense	\$ 2,584	\$ 1,884	37%	\$ 7,375	\$ 7,258	2%
As a percentage of profit before income taxes.....	32%	52%		27%	40%	

Income tax expense for the fourth quarter of 2017 was \$2.6 million compared to \$1.9 million for the same period in 2016. Income tax expense for fiscal 2017 was \$7.4 million compared to \$7.3 million for the same period in 2016. Income tax expense as a percentage of profit before income taxes for fiscal 2017 was 27% compared to 40% for the same period in 2016. The increase in income tax expense is due to an increase in profit before taxes, offset by one-time adjustments to filed positions and estimates included in tax provisions, as well as foreign exchange losses incurred upon converting results to Canadian dollars for Canadian tax purposes. The percentage of profit before income taxes is generally higher than statutory income tax rates in Canada due primarily to share-based payments expense incurred not considered deductible for income tax purposes in Canada. For the year ended December 31, 2017, the percentage of profit before income taxes is lower compared to the same period for 2016 due to the foreign exchange losses incurred upon converting results to Canadian dollars for Canadian tax purposes.

Profit

	Three months ended December 31,		2016 to 2017	Years ended December 31,		2016 to 2017
	2017	2016	%	2017	2016	%
(In thousands of U.S. dollars, except percentages and earnings per share)						
Profit	\$ 5,485	\$ 1,711	221%	\$ 20,383	\$ 10,745	90%
Adjusted profit ⁽¹⁾	7,819	3,661	114%	30,129	18,885	60%
Adjusted EBITDA ⁽¹⁾	11,157	6,438	73%	40,075	28,528	40%
Basic earnings per share	\$ 0.22	\$ 0.07		\$ 0.81	\$ 0.44	
Diluted earnings per share	\$ 0.21	\$ 0.07		\$ 0.77	\$ 0.41	
Adjusted diluted earnings per share ⁽¹⁾	\$ 0.30	\$ 0.14		\$ 1.14	\$ 0.73	

Note:

- (1) Adjusted profit, Adjusted EBITDA and Adjusted diluted earnings per share are non-IFRS measures. See “Non-IFRS Measures”. For a reconciliation of these measures to the closest IFRS measure, where a comparable IFRS measure exists, see “Reconciliation of Non-IFRS Measures” above.

Profit for the fourth quarter of 2017 increased \$3.8 million to \$5.5 million or \$0.22 per basic share and \$0.21 per diluted share, from \$1.7 million or \$0.07 per basic share and diluted share for the same period in 2016. Profit for fiscal 2017 increased \$9.6 million to \$20.4 million or \$0.81 per basic share and \$0.77 per diluted share, from \$10.7 million or \$0.44 per basic share and \$0.41 per diluted share for the same period in 2016. The increase in profit was driven primarily by the increase in subscription revenue, partially offset by our investment in professional service and data center capacity, research and development and an increase in share-based payments.

Adjusted EBITDA for the fourth quarter of 2017 was \$11.2 million, an increase of \$4.7 million from \$6.4 million for the same period in 2016. Adjusted EBITDA for fiscal 2017 was \$40.1 million, an increase of \$11.5 million from \$28.5 million for the same period in 2016. The increase in adjusted EBITDA was due to higher growth of revenue compared to operating expenses excluding share-based compensation.

Key Balance Sheet Items

	As at December 31, 2017	As at December 31, 2016
(In thousands of U.S. dollars)		
Total assets	\$ 212,693	\$ 168,292
Total liabilities	87,905	80,581

An analysis of the key balance sheet items driving the change in total assets and liabilities is as follows:

Management's Discussion and Analysis

Trade and other receivables

	As at December 31, 2017	As at December 31, 2016
	(In thousands of U.S. dollars)	
Trade and other receivables	\$ 31,783	\$ 23,820

Trade and other receivables were \$31.8 million at December 31, 2017, an increase of \$8.0 million compared to December 31, 2016. The increase in trade and other receivables was due to timing of billings and collections on receivables, which can have a significant impact on the balance at any point in time due to the timing of the annual subscription billing cycle for each customer and when new customer contracts are secured. The aging of trade receivables is generally current. We have an allowance for doubtful accounts of \$0.5 million as at December 31, 2017. Trade and other receivables includes the \$2.5 million, referenced under our discussion of *Subscription Revenue*.

Investment tax credits

	As at December 31, 2017	As at December 31, 2016
	(In thousands of U.S. dollars)	
Investment tax credits receivable.....	\$ –	\$ 1,583
Investment tax credits recoverable	911	755

Investment tax credits receivable have decreased to \$nil as at December 31, 2017 compared to \$1.6 million as at December 31, 2016 due to the receipt of the tax credits during the second quarter of 2017. Investment tax credits recoverable are the non-refundable portion of investment tax credits earned. The balance increased to \$0.9 million at December 31, 2017 from \$0.8 million at December 31, 2016 due to the estimated non-refundable credits earned during 2017, offset by utilization of investment tax credits against current income taxes payable.

Deferred revenue

	As at December 31, 2017	As at December 31, 2016
	(In thousands of U.S. dollars)	
Current.....	\$ 67,040	\$ 55,458
Non-current	7,745	13,198
	74,785	68,656

Deferred revenue was \$74.8 million at December 31, 2017, an increase of \$6.1 million compared to December 31, 2016. We generally bill our customers annually in advance for subscriptions resulting in initially recording the amount billed as deferred revenue which is subsequently drawn down to revenue over the term. Deferred revenue increased due to contracts secured with new customers and expansion of existing customer subscriptions. Deferred revenue also varies depending on the timing of billings for new and existing customer contracts. Deferred revenue relating to subscription term periods beyond one year totaled \$7.7 million at December 31, 2017 compared to \$13.2 million at December 31, 2016.

Summary of Quarterly Results

The following table summarizes selected results for the eight most recent completed quarters to December 31, 2017.

	Three months ended							
	December 31, 2017	September 30, 2017	June 30, 2017	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016
Revenue:								
Subscription	\$ 26,961	\$ 25,796	\$ 24,202	\$ 23,854	\$ 22,660	\$ 20,753	\$ 19,935	\$ 18,490
Professional services	7,202	7,431	8,395	8,441	7,355	8,918	8,538	8,304
Maintenance and support	260	259	269	247	249	250	261	238
	<u>34,423</u>	<u>33,486</u>	<u>32,866</u>	<u>32,542</u>	<u>30,264</u>	<u>29,921</u>	<u>28,734</u>	<u>27,032</u>
Cost of revenue.....	<u>9,737</u>	<u>9,681</u>	<u>9,985</u>	<u>10,377</u>	<u>9,493</u>	<u>9,466</u>	<u>8,713</u>	<u>8,105</u>
Gross profit.....	<u>24,686</u>	<u>23,805</u>	<u>22,881</u>	<u>22,165</u>	<u>20,771</u>	<u>20,455</u>	<u>20,021</u>	<u>18,927</u>
Operating expenses.....	<u>16,964</u>	<u>16,202</u>	<u>16,496</u>	<u>17,164</u>	<u>17,031</u>	<u>16,386</u>	<u>15,142</u>	<u>13,721</u>
	<u>7,722</u>	<u>7,603</u>	<u>6,385</u>	<u>5,001</u>	<u>3,740</u>	<u>4,069</u>	<u>4,879</u>	<u>5,206</u>
Foreign exchange (loss) gain	(31)	(30)	(12)	(11)	(223)	(53)	(188)	266
Net finance income	<u>378</u>	<u>276</u>	<u>310</u>	<u>167</u>	<u>78</u>	<u>96</u>	<u>59</u>	<u>74</u>
Profit before income taxes	<u>8,069</u>	<u>7,849</u>	<u>6,683</u>	<u>5,157</u>	<u>3,595</u>	<u>4,112</u>	<u>4,750</u>	<u>5,546</u>
Income tax expense	<u>2,584</u>	<u>1,817</u>	<u>1,043</u>	<u>1,931</u>	<u>1,884</u>	<u>1,687</u>	<u>1,510</u>	<u>2,177</u>
Profit.....	<u>\$ 5,485</u>	<u>\$ 6,032</u>	<u>\$ 5,640</u>	<u>\$ 3,226</u>	<u>\$ 1,711</u>	<u>\$ 2,425</u>	<u>\$ 3,240</u>	<u>\$ 3,369</u>
Share-based compensation.....	<u>2,334</u>	<u>2,299</u>	<u>2,397</u>	<u>2,716</u>	<u>1,950</u>	<u>2,060</u>	<u>1,850</u>	<u>2,280</u>
Adjusted profit ⁽¹⁾	<u>\$ 7,819</u>	<u>\$ 8,331</u>	<u>\$ 8,037</u>	<u>\$ 5,942</u>	<u>\$ 3,661</u>	<u>\$ 4,485</u>	<u>\$ 5,090</u>	<u>\$ 5,649</u>
Income tax expense	<u>2,584</u>	<u>1,817</u>	<u>1,043</u>	<u>1,931</u>	<u>1,884</u>	<u>1,687</u>	<u>1,510</u>	<u>2,177</u>
Depreciation	<u>1,101</u>	<u>911</u>	<u>818</u>	<u>788</u>	<u>748</u>	<u>683</u>	<u>543</u>	<u>520</u>
Foreign exchange (gain) loss	<u>31</u>	<u>30</u>	<u>12</u>	<u>11</u>	<u>223</u>	<u>53</u>	<u>188</u>	<u>(266)</u>
Net finance (income) expense.....	<u>(378)</u>	<u>(276)</u>	<u>(310)</u>	<u>(167)</u>	<u>(78)</u>	<u>(96)</u>	<u>(59)</u>	<u>(74)</u>
	<u>3,338</u>	<u>2,482</u>	<u>1,563</u>	<u>2,563</u>	<u>2,777</u>	<u>2,327</u>	<u>2,182</u>	<u>2,357</u>
Adjusted EBITDA ⁽¹⁾	<u>\$ 11,157</u>	<u>\$ 10,813</u>	<u>\$ 9,600</u>	<u>\$ 8,505</u>	<u>\$ 6,438</u>	<u>\$ 6,812</u>	<u>\$ 7,272</u>	<u>\$ 8,006</u>
Basic earnings per share	\$0.22	\$0.24	\$0.22	\$0.13	\$0.07	\$0.10	\$0.13	\$0.14
Diluted earnings per share	\$0.21	\$0.23	\$0.21	\$0.12	\$0.07	\$0.09	\$0.13	\$0.13
Adjusted diluted earnings per share ⁽¹⁾	\$0.30	\$0.31	\$0.30	\$0.23	\$0.14	\$0.17	\$0.20	\$0.22

Note:

- (1) Adjusted profit, Adjusted EBITDA and Adjusted diluted earnings per share are non-IFRS measures. See "Non-IFRS Measures". For a reconciliation of these measures to the closest IFRS measure, where a comparable IFRS measure exists, see "Reconciliation of Non-IFRS Measures" above.

Subscription revenue has increased steadily over the last eight quarters due to the acquisition of new customers and expansion of existing customers. Professional services revenue varies quarter to quarter due to the size, timing and scheduling of customer engagements. Maintenance and support revenue has remained consistent over the quarters reflecting support contracts with legacy customers with perpetual licenses that continue to be renewed. Cost of revenue has increased as we continue to invest in the capacity to support the growth in our business with gross margin ranging from 68% to 72% of revenue. Operating expenses have increased as we invest in sales, marketing, and product development. In addition to increased investment, our quarterly operating expenses are impacted by timing of contract acquisition costs and marketing events. As a significant component of our operating expenses are denominated in Canadian dollars, fluctuations in the foreign exchange rate with the U.S. dollar have had a positive impact on operating expenses and quarterly profit in fiscals 2016 to 2017.

Liquidity and Capital Resources

Our primary source of cash flow is sales of subscriptions for our software and sales of services. Our approach to managing liquidity is to ensure, to the extent possible, that we always have sufficient liquidity to meet our liabilities as they come due. We do so by continuously monitoring cash flow and actual operating expenses compared to budget.

	<u>As at December 31, 2017</u>	<u>As at December 31, 2016</u>
	(In thousands of U.S. dollars)	
Cash and cash equivalents	\$ 158,398	\$ 127,910

Cash and cash equivalents increased \$30.5 million to \$158.4 million at December 31, 2017 from \$127.9 million at December 31, 2016.

In addition to the cash balances, we have a Cdn. \$20.0 million revolving demand facility available to meet ongoing working capital requirements. Our principal cash requirements are for working capital and capital expenditures. Excluding deferred revenue, working capital at December 31, 2017 was \$184.1 million. Given the ongoing cash generated from operations and our existing cash and credit facilities, we believe there is sufficient liquidity to meet our current contractual obligations of \$28.3 million and our longer-term growth.

The following table provides a summary of cash inflows and outflows by activity:

	<u>Three months ended December 31,</u>		<u>Years ended December 31,</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
	(In thousands of U.S. dollars)			
Cash inflow (outflow) by activity				
Operating activities	\$ 12,514	\$ 17,089	\$ 33,563	\$ 31,126
Investing activities	(5,845)	(669)	(10,149)	(5,794)
Financing activities	281	300	6,713	3,267
Effects of exchange rates.....	13	(471)	361	(79)
Net cash inflows.....	<u>6,963</u>	<u>16,249</u>	<u>30,488</u>	<u>28,520</u>

Cash provided by operating activities

Cash generated by operating activities for the fourth quarter of 2017 was \$12.5 million compared to \$17.1 million for the same period in 2016. The decrease is due to an increase in trade and other receivables during the fourth quarter of 2017 compared to a decrease in trade and other receivables during the same period in 2016, partially offset by an increase in profit. Cash generated by operating activities for fiscal 2017 was \$33.6 million compared to \$31.1 million for the same period in 2016. The increase is due to an increase in profit, partially offset by a smaller increase in deferred revenue during fiscal 2017 compared to the same period in 2016.

Cash used in investing activities

Cash used in investing activities is driven by purchases of property and equipment primarily related to computer equipment for use in our hosting facilities and to support research and development requirements. Cash used in investing activities was \$5.8 million for the fourth quarter of 2017 compared to \$0.7 million for the same period in 2016. Cash used in investing activities for fiscal 2017 was \$10.1 million compared to \$5.8 million for the same period in 2016. The increase is due to investment in computer equipment for our new data center located in Amsterdam. We expect to continue to invest in additional property and equipment to support the growth in our customer base and to take advantage of new and advanced technology.

Cash provided by financing activities

Cash provided by financing activities was \$0.3 million and \$6.7 million for the three months and year ended December 31, 2017, respectively, compared to \$0.3 million and \$3.3 million for the same periods in 2016. These amounts represent proceeds received upon exercise of options.

Revolving Credit Facility and Term Loan

We have a Cdn. \$20.0 million revolving demand credit facility (the “**Revolving Facility**”). As of December 31, 2017, and as of the date of this MD&A, no amounts have been drawn against the Revolving Facility.

The interest rate on the Revolving Facility is RBC U.S. prime plus 0.50% per annum for U.S. dollar denominated amounts and RBC U.S. base rate plus 0.50% per annum for Canadian dollar denominated amounts. In the event our aggregate borrowings under the Revolving Facility exceed Cdn. \$2.5 million a borrowing limit applies that is based principally on our accounts receivable.

Contractual Obligations

Our operating lease commitments are primarily for office premises and secure data center facilities with expiry dates that range from August 2017 to May 2023. The majority of the lease commitments relate to our head office in Ottawa, Canada, the lease of which expires in May 2023. Given the ongoing cash generated from operations and our existing cash and credit facilities, we believe there is sufficient liquidity to meet our contractual obligations.

The following table summarizes our contractual obligations as at December 31, 2017, including commitments relating to leasing contracts:

	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years	Total amount
	(In thousands of U.S. dollars)				
Commitments					
Operating lease agreements.....	\$ 2,908	\$ 6,824	\$ 2,115	\$ –	\$ 11,847
Financial Obligations					
Trade payables and accrued liabilities..	11,176	–	–	–	11,176
Total Contractual Obligations	\$ 14,084	\$ 6,824	\$ 2,115	\$ –	\$ 23,023

The following table summarizes our contractual obligations as at December 31, 2016, including commitments relating to leasing contracts:

	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years	Total amount
	(In thousands of U.S. dollars)				
Commitments					
Operating lease agreements.....	\$ 1,902	\$ 3,637	\$ 2,424	\$ 501	\$ 8,464
Financial Obligations					
Trade payables and accrued liabilities....	10,495	–	–	–	10,495
Total Contractual Obligations	\$ 12,397	\$ 3,637	\$ 2,424	\$ 501	\$ 18,959

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements, other than operating leases (which have been disclosed under “*Liquidity and Capital Resources - Contractual Obligations*”), that have, or are likely to have, a current or future material effect on our consolidated financial position, financial performance, liquidity, capital expenditures or capital resources.

Transactions with Related Parties

We did not have any transactions during the three months and years ended December 31, 2017 and 2016 that would be considered to be between the Company and a related party.

Financial Instruments and Other Instruments

We recognize financial assets and liabilities when we become party to the contractual provisions of the instrument. On initial recognition, financial assets and liabilities are measured at fair value plus transaction costs directly attributable to the financial assets and liabilities, except for financial assets or liabilities at fair value through profit and loss, whereby the transactions costs are expensed as incurred. The carrying amounts of our financial instruments approximate fair market value due to the short-term maturity of these instruments.

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. Our credit risk is primarily attributable to trade and other receivables.

The nature of our subscription based business results in payments being received in advance of the majority of the services being delivered; as a result, our credit risk exposure is low.

We invest our 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. We manage our credit risk on investments by dealing only with major Canadian banks and investing only in instruments that we believe have high credit ratings. Given these high credit ratings, we do not expect any counterparties to these investments to fail to meet their obligations.

Currency risk

A portion of our revenues and operating costs are realized in currencies other than our functional currency, such as the Canadian dollar, Japanese Yen, Euro, Great British Pound, and Korean Won. As a result, we are exposed to currency risk on these transactions. Also, additional earnings volatility arises from the translation of monetary assets and liabilities, investment tax credits recoverable and deferred tax assets and liabilities denominated in foreign currencies at the rate of exchange on each date of our consolidated statements of financial position; the impact of which is reported as a foreign exchange gain or loss or as income tax expense for deferred tax assets and liabilities.

Our objective in managing our currency risk is to minimize exposure to currencies other than our functional currency. We do not engage in hedging activities. We manage currency risk by matching foreign denominated assets with foreign denominated liabilities.

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. We believe that interest rate risk is low for our financial assets as the majority of investments are made in fixed rate instruments. We do have interest rate risk related to our credit facilities. The rates on our Revolving Facility are variable to bank prime rate.

Capital management

Our capital is composed of shareholders' equity which includes our common shares. Our objective in managing our capital is financial stability and sufficient liquidity to increase shareholder value through organic growth and investment in sales, marketing and product development. Our senior management team 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 our growth strategy. The Board of Directors is responsible for overseeing this process. In order to maintain or adjust our capital structure, we could issue new shares, repurchase shares, approve special dividends or issue debt.

Critical Accounting Policies and Estimates

Revenue

We derive revenue from subscriptions for our product comprised of our hosted SaaS application and fixed term subscription licenses of our software products ("On-premise licenses"). In addition, we derive 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 our software products. Professional services do not include significant customization to, or development of, the software.

We commence 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.

We provide our 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 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. We determine 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, we determine 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.

We enter 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, we enter 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.

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, we 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 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

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 we operate and generate taxable income.

Deferred income tax assets and liabilities are recorded for the temporary differences between transactions that have been included in the 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.

The recognition of deferred tax assets requires that we assess future taxable income available to utilize deferred tax assets related to deductible or taxable temporary differences. We consider the nature and carry-forward period of deferred tax assets, our 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 our operating results and lower future taxable income.

Investment tax credits recoverable

The recognition of investment tax credits recoverable requires that we assess future tax payable available to utilize the investment tax credits. We consider the carry-forward period of the investment tax credits, our recent earnings history and forecast of future earnings in performing this assessment. We determine the value of effort expended towards research and development projects that qualify for investment tax credits and calculate 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

We use 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.

Adoption of New Accounting Standards

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.

Changes to standards and interpretations

IFRS 9: Financial Instruments (“IFRS 9”)

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. We will adopt this standard for the annual period beginning January 1, 2018. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

IFRS 15: Revenue from Contracts with Customers (“IFRS 15”)

In May 2014, the IASB issued IFRS 15, with amendments in 2016, 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 contract acquisition and fulfillment 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. IFRS 15 may be applied retrospectively to each prior period presented (full retrospective method) or with the cumulative effect of adoption recognized as at the date of initial application (modified retrospective method). We will adopt this standard for the annual period beginning January 1, 2018 and apply the modified retrospective method. The cumulative effect of adopting this standard January 1, 2018 will be recognized as an adjustment to our opening balance of retained earnings.

We continue our implementation plan for IFRS 15. The project plan includes developing the necessary accounting policies, estimates and judgments required to adopt IFRS 15, as well as any changes required to business processes, systems and internal controls to implement the policies and disclosures required upon adoption of IFRS 15. We have determined that the most significant impacts relate to accounting for our on-premise, fixed term subscription arrangements, capitalization of contract acquisition costs and expanded disclosure on revenue, performance obligations and contract balances. In some instances, a fixed term license is provided to the customer for their use on-premise. Under current revenue recognition policies, license revenue from on-premise, fixed term subscription arrangements is deferred and recognized ratably over the contract term. Under IFRS 15, revenue attributable to the implied software component for on-premise license arrangements will be recognized upon term commencement and revenue associated with the implied maintenance and support component will be recognized ratably over the term. Under our current accounting policies, contract acquisition costs, including incremental commissions paid to employees, are expensed upon commencement of the related contract revenue. Under IFRS 15, we will capitalize and amortize such contract acquisition costs where revenue is recognized ratably over the term. We continue to assess the financial impact of adopting this standard which will be completed and disclosed in the financial statements for the first quarter of 2018.

IFRS 16: Leases (“IFRS 16”)

In January 2016, the IASB issued IFRS 16, 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 has also been applied. IFRS 16 may be applied retrospectively to each prior period presented (full retrospective method) or with the cumulative effect of adoption recognized as at the date of initial application (modified retrospective method). We have elected to adopt this standard early concurrent with the adoption of IFRS 15 effective January 1, 2018 and apply the modified retrospective method.

We are currently evaluating the impact of adopting this standard; however, we expect the adoption of this standard to increase assets and liabilities as we will be required to record a right-of-use asset and a corresponding lease liability

in our financial statements. We continue to assess the financial impact of adopting this standard which will be completed and disclosed in the financial statements for the first quarter of 2018.

Controls and Procedures

Disclosure Controls and Procedures

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining our disclosure controls and procedures. We maintain a set of disclosure controls and procedures designed to provide reasonable assurance that information required to be publicly disclosed is recorded, processed, summarized and reported on a timely basis. Our CEO and CFO have evaluated the design and effectiveness of our disclosure controls and procedures at the financial year end and based on the evaluation have concluded that the disclosure controls and procedures are effective.

Internal Controls over Financial Reporting

Our internal controls over financial reporting ("ICFR") are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Our management is responsible for establishing and maintaining adequate ICFR. Management, including our CEO and CFO, does not expect that our ICFR will prevent or detect all errors and all fraud or will be effective under all future conditions. A control system is subject to inherent limitations and even those systems determined to be effective can provide only reasonable, but not absolute, assurance that the control objectives will be met with respect to financial statement preparation and presentation.

National Instrument 52-109 of the Canadian Securities Administrators requires our CEO and CFO to certify that they are responsible for establishing and maintaining ICFR and that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Our CEO and CFO are also responsible for disclosing any changes to our internal controls during the most recent period that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Our management under the supervision of our CEO and CFO has evaluated the design of our ICFR based on the Internal Control – Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. As at December 31, 2017, management assessed the effectiveness of our ICFR. Management concluded that our ICFR is effective and there are no material weaknesses that have been identified by management. There were no significant changes to our ICFR for the three months and year ended December 31, 2017.

Outstanding Share Information

As of December 31, 2017, our authorized capital consists of an unlimited number of common shares with no stated par value. Changes in the number of common shares, options, restricted share units and deferred share units outstanding for the year ended December 31, 2017 and as of February 28, 2018 are summarized as follows:

Class of Security	Number outstanding at December 31, 2016	Net issued	Number outstanding at December 31, 2017	Net issued	Number outstanding at February 28, 2018
Common shares	24,940,114	567,808	25,507,922	23,836	25,531,758
Stock options	2,459,872	(227,137)	2,232,735	(23,836)	2,208,899
Restricted Share Units	70,728	(25,631)	45,097	–	45,097
Deferred Share Units	21,668	16,194	37,862	–	37,862

Our outstanding common shares increased by 567,808 shares in 2017 due to the exercise of 512,874 options and 54,934 restricted share units.

Our outstanding stock options decreased by 227,137 options during 2017 due to the grant of 493,300 options less 512,874 options exercised and 207,563 options forfeited. Each option is exercisable for one common share.

Our outstanding restricted share units decreased by 45,097 during 2017 due to the grant of 45,500 restricted share units less 54,934 units exercised and 16,197 units forfeited. Our outstanding deferred share units increased by 16,194 during 2017 due to the grant of 16,194 deferred share units. Upon vesting, each restricted share unit and deferred share unit can be paid out or settled in cash, an equivalent number of common shares, or a combination thereof, as elected by the Compensation Committee of the Board of Directors.

Consolidated Financial Statements of

Kinaxis Inc.

Years ended December 31, 2017 and 2016



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Kinaxis Inc.

We have audited the accompanying consolidated financial statements of Kinaxis Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of comprehensive income, statements of changes in shareholders' equity and cash flows for the years ended December 31, 2017, and December 2016, 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, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2017 and December 31, 2016 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
Ottawa, Canada
February 28, 2018

Kinaxis Inc.

Consolidated Statements of Financial Position

As at December 31

(Expressed in thousands of U.S. dollars)

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 158,398	\$ 127,910
Trade and other receivables (note 5)	31,783	23,820
Investment tax credits receivable (note 13)	–	1,583
Investment tax credits recoverable (note 13)	911	755
Prepaid expenses	4,196	3,333
	<u>195,288</u>	<u>157,401</u>
Non-current assets:		
Property and equipment (note 4)	17,350	10,652
Deferred tax assets (note 13)	55	239
	<u>\$ 212,693</u>	<u>\$ 168,292</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade payables and accrued liabilities (note 6)	\$ 11,176	\$ 10,495
Deferred revenue	67,040	55,458
	<u>78,216</u>	<u>65,953</u>
Non-current liabilities:		
Lease inducement	–	18
Deferred revenue	7,745	13,198
Deferred tax liabilities (note 13)	1,944	1,412
	<u>9,689</u>	<u>14,628</u>
Shareholders' equity:		
Share capital (note 8)	108,253	97,164
Contributed surplus	19,294	13,924
Accumulated other comprehensive loss	(284)	(519)
Deficit	(2,475)	(22,858)
	<u>124,788</u>	<u>87,711</u>
Commitments (note 17)		
Contingencies (note 20)		
	<u>\$ 212,693</u>	<u>\$ 168,292</u>

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

For the years ended December 31

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

	2017	2016
Revenue (note 10)	\$ 133,317	\$ 115,951
Cost of revenue	39,780	35,777
Gross profit	93,537	80,174
Operating expenses:		
Selling and marketing	29,280	30,350
Research and development (note 11)	23,691	20,652
General and administrative	13,855	11,278
	66,826	62,280
Other income (expense):	26,711	17,894
Foreign exchange loss	(84)	(198)
Net finance income	1,131	307
	1,047	109
Profit before income taxes	27,758	18,003
Income tax expense (note 13):		
Current	6,659	7,088
Deferred	716	170
	7,375	7,258
Profit	20,383	10,745
Other comprehensive income (loss):		
Items that are or may be reclassified subsequently to profit or loss:		
Foreign currency translation differences - foreign operations	235	(45)
Total comprehensive income	\$ 20,618	\$ 10,700
Basic earnings per share	\$ 0.81	\$ 0.44
Weighted average number of basic Common Shares (note 9)	25,314,091	24,654,369
Diluted earnings per share	\$ 0.77	\$ 0.41
Weighted average number of diluted Common Shares (note 9)	26,479,621	25,977,615

See accompanying notes to consolidated financial statements.

Kinaxis Inc.

Consolidated Statements of Changes in Shareholders' Equity

For the years ended December 31
(Expressed in thousands of U.S. dollars)

	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	–	–	–	10,745	10,745
Other comprehensive loss	–	–	(45)	–	(45)
Total comprehensive income	–	–	(45)	10,745	10,700
Share options exercised	4,845	(1,578)	–	–	3,267
Restricted share units vested	1,360	(1,360)	–	–	–
Deferred share units vested	151	(151)	–	–	–
Share based payments (note 8)	–	8,140	–	–	8,140
Total shareholder transactions	6,356	5,051	–	–	11,407
Balance, December 31, 2016	\$ 97,164	\$ 13,924	\$ (519)	\$ (22,858)	\$ 87,711
Profit	–	–	–	20,383	20,383
Other comprehensive income	–	–	235	–	235
Total comprehensive income	–	–	235	20,383	20,618
Share options exercised	9,437	(2,724)	–	–	6,713
Restricted share units vested	1,652	(1,652)	–	–	–
Share based payments (note 8)	–	9,746	–	–	9,746
Total shareholder transactions	11,089	5,370	–	–	16,459
Balance, December 31, 2017	\$ 108,253	\$ 19,294	\$ (284)	\$ (2,475)	\$ 124,788

See accompanying notes to consolidated financial statements.

Kinaxis Inc.

Consolidated Statements of Cash Flows

For the years ended December 31
(Expressed in thousands of U.S. dollars)

	2017	2016
Cash flows from operating activities:		
Profit	\$ 20,383	\$ 10,745
Items not affecting cash:		
Depreciation of property and equipment (note 4)	3,618	2,494
Share-based payments (note 8)	9,746	8,140
Amortization of lease inducement	(18)	(44)
Investment tax credits recoverable	(156)	1,328
Income tax expense (note 13)	7,375	7,258
Change in operating assets and liabilities (note 14)	(2,761)	3,408
Income taxes paid	(4,624)	(2,203)
	33,563	31,126
Cash flows used in investing activities:		
Purchase of property and equipment (note 4)	(10,149)	(5,794)
Cash flows from financing activities:		
Common shares issued on exercise of stock options	6,713	3,267
Increase in cash and cash equivalents	30,127	28,599
Cash and cash equivalents, beginning of year	127,910	99,390
Effects of exchange rates on cash and cash equivalents	361	(79)
Cash and cash equivalents, end of year	\$ 158,398	\$ 127,910

See accompanying notes to consolidated financial statements.

Kinaxis Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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

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 years ended December 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 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 five wholly-owned subsidiaries, Kinaxis Corp., Kinaxis Asia Limited, Kinaxis Japan K.K., Kinaxis Korea Limited and Kinaxis Europe B.V.

The consolidated financial statements were authorized for issue by the Board of Directors on February 28, 2018.

(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.

Kinaxis Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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

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., Kinaxis Korea Limited 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., Kinaxis Korea Limited 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; the financial statements of Kinaxis Korea Limited are measured using the Korean Won 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.

(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 are not limited to, the allocation of consideration for a multiple element revenue arrangement, recognition of deferred tax assets, valuation of trade and other receivables, 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.

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2. Basis of preparation (continued):

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

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.

Trade and other receivables

The recognition of trade and other receivables and allowances for doubtful accounts requires the Company to assess credit risk and collectability. The Company considers historical trends and any available information indicating a customer could be experiencing liquidity or going concern problems and the status of any contractual or legal disputes with customers in performing this assessment.

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.

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2. Basis of preparation (continued):

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

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 8.

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.

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

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For the years ended December 31, 2017 and 2016

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3. Significant accounting policies (continued):

(b) Revenue recognition (continued):

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.

(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.

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For the years ended December 31, 2017 and 2016

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3. Significant accounting policies (continued):

(c) Financial instruments (continued):

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:

<u>Financial Asset</u>	<u>Classification under IAS 39</u>
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.

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.

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3. Significant accounting policies (continued):

(c) Financial instruments (continued):

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:

<u>Financial liability</u>	<u>Classification under IAS 39</u>
Trade payables and accrued liabilities	Other financial liabilities – amortized cost

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.

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

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3. Significant accounting policies (continued):

(e) Property and equipment (continued):

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 prospectively 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.

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.

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3. Significant accounting policies (continued):

(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.

(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.

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3. Significant accounting policies (continued):

(j) Income taxes (continued):

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.

(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

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3. Significant accounting policies (continued):

(k) Share-based payments (continued):

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. Options 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.

(n) 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.

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3. Significant accounting policies (continued):

(n) Standards and interpretations in issue (continued):

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.

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

IFRS 9: Financial Instruments ("IFRS 9")

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 will adopt this standard for the annual period beginning January 1, 2018. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

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

In May 2014, the IASB issued IFRS 15, with amendments in 2016, 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 contract acquisition and fulfillment 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. IFRS 15 may be applied retrospectively to each prior period presented (full retrospective method) or with the cumulative effect of adoption recognized as at the date of initial application (modified retrospective method). The Company will adopt this standard for the annual period beginning January 1, 2018 and apply the modified retrospective method. The cumulative effect of adopting this standard January 1, 2018 will be recognized as an adjustment to our opening balance of retained earnings.

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3. Significant accounting policies (continued):

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

The Company continues its implementation plan for IFRS 15. The project plan includes developing the necessary accounting policies, estimates and judgments required to adopt IFRS 15, as well as any changes required to business processes, systems and internal controls to implement the policies and disclosures required upon adoption of IFRS 15. The Company has determined that the most significant impacts relate to accounting for its on-premise, fixed term subscription arrangements, capitalization of contract acquisition costs and expanded disclosure on revenue, performance obligations and contract balances. In some instances, a fixed term license is provided to the customer for their use on-premise. Under current revenue recognition policies, license revenue from on-premise, fixed term subscription arrangements is deferred and recognized ratably over the contract term. Under IFRS 15, revenue attributable to the implied software component for on-premise license arrangements will be recognized upon term commencement and revenue associated with the implied maintenance and support component will be recognized ratably over the term. Under the Company's current accounting policies, contract acquisition costs, including incremental commissions paid to employees, are expensed upon commencement of the related contract revenue. Under IFRS 15, the Company will capitalize and amortize such contract acquisition costs where revenue is recognized ratably over the term. The Company continues to assess the financial impact of adopting this standard which will be completed and disclosed in the financial statements for the first quarter of 2018.

IFRS 16: Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, 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 has also been applied. IFRS 16 may be applied retrospectively to each prior period presented (full retrospective method) or with the cumulative effect of adoption recognized as at the date of initial application (modified retrospective method). The Company has elected to adopt this standard early concurrent with the adoption of IFRS 15 effective January 1, 2018 and apply the modified retrospective method.

The Company is currently evaluating the impact of adopting this standard; however, it expects the adoption of this standard to increase assets and liabilities as it will be required to record a right-of-use asset and a corresponding lease liability in its financial statements. The Company continues to assess the financial impact of adopting this standard which will be completed and disclosed in the financial statements for the first quarter of 2018.

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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, 2015	\$ 9,357	\$ 700	\$ 124	\$ 2,411	\$ 12,592
Additions	5,148	103	5	538	5,794
Balance, December 31, 2016	\$ 14,505	\$ 803	\$ 129	\$ 2,949	\$ 18,386
Additions	9,207	116	206	620	10,149
Dispositions	(84)	—	—	—	(84)
Effects of movement in exchange rates	199	—	—	—	199
Balance, December 31, 2017	\$ 23,827	\$ 919	\$ 335	\$ 3,569	\$ 28,650

Accumulated depreciation	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
Balance, December 31, 2015	\$ 2,677	\$ 350	\$ 81	\$ 2,132	\$ 5,240
Depreciation	2,216	153	16	109	2,494
Balance, December 31, 2016	\$ 4,893	\$ 503	\$ 97	\$ 2,241	\$ 7,734
Depreciation	3,267	161	26	164	3,618
Dispositions	(84)	—	—	—	(84)
Effects of movement in exchange rates	32	—	—	—	32
Balance, December 31, 2017	\$ 8,108	\$ 664	\$ 123	\$ 2,405	\$ 11,300

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
December 31, 2017	\$ 15,719	\$ 255	\$ 212	\$ 1,164	\$ 17,350

There were no proceeds associated with the asset dispositions in 2017 (2016 – no asset dispositions).

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4. Property and equipment (continued):

The following table presents the depreciation expense by function:

	2017	2016
Cost of revenue	\$ 2,745	\$ 1,864
Selling and marketing	4	2
Research and development	593	414
General and administrative	276	214
	\$ 3,618	\$ 2,494

5. Trade and other receivables:

The following table presents the trade and other receivables for the Company as at December 31:

	2017	2016
Trade accounts receivable	\$ 28,136	\$ 20,362
Taxes receivable	665	–
Other	3,473	3,696
	32,274	24,058
Allowance for doubtful accounts	(491)	(238)
	\$ 31,783	\$ 23,820

There have been no balances written off in 2017 (2016 – none). Trade and other receivables for the year ended December 31, 2017 includes the \$2,532 referenced under Contingencies in Note 20.

6. Trade payables and accrued liabilities:

The following table presents the trade payables and accrued liabilities for the Company as at December 31:

	2017	2016
Trade accounts payable	\$ 3,307	\$ 2,201
Accrued liabilities	5,516	5,832
Taxes payable	2,353	2,462
	\$ 11,176	\$ 10,495

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7. Credit facility:

The Company has a CAD\$20.0 million revolving demand credit facility which bears interest at bank prime plus 0.50% per annum and has not been drawn as at December 31, 2017.

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, 2017 and continues to be at the time of approval of these consolidated financial statements. In the event that the Company's aggregate borrowings under the revolving facility exceed CAD\$2.5 million, a borrowing limit applies that is based principally on the Company's accounts receivable.

8. 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	435,334	4,845
Shares issued from vested restricted share units	77,859	1,360
Shares issued from exercised deferred share units	6,917	151
Shares outstanding at December 31, 2016	24,940,114	\$ 97,164
Shares issued from exercised options	512,874	9,437
Shares issued from vested restricted share units	54,934	1,652
Shares outstanding at December 31, 2017	25,507,922	\$ 108,253

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8. Share capital (continued):

Stock options plans

The following table presents the status of the stock option plans:

	2017		2016	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Options outstanding, beginning of period	2,459,872	\$ 21.42	2,571,206	\$ 15.62
Granted	493,300	56.25	336,000	44.64
Exercised	(512,874)	13.07	(435,334)	7.53
Forfeited	(207,563)	29.74	(12,000)	13.20
Options outstanding, end of period	2,232,735	\$ 31.92	2,459,872	\$ 21.42
Options exercisable, end of period	774,685	\$ 14.58	926,372	\$ 11.16

The following table presents information about stock options outstanding at December 31, 2017:

Options outstanding				Options exercisable		
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price	
\$ 1.50 to 3.50	297,454	3.70	\$ 1.87	297,454	\$ 1.87	
9.00 to 10.50	381,250	6.11	9.74	233,750	9.74	
13.00 to 14.50	76,250	6.81	13.93	38,750	13.93	
20.00 to 25.50	113,750	7.29	22.15	11,250	21.68	
30.00 to 31.50	87,500	7.85	30.80	27,500	30.63	
36.00 to 37.00	507,625	7.98	36.12	101,875	36.13	
48.00 to 52.00	311,406	4.67	49.46	64,106	49.20	
57.50 to 60.50	457,500	4.53	58.98	—	—	
	2,232,735	5.84	\$ 31.92	774,685	\$ 14.58	

The Company has outstanding stock options issued under its 2010 and 2012 stock option plans. No further options may be granted under the 2010 and 2012 stock option plans. In June 2017, the Company adopted a new Canadian Resident Plan and a new Non-Canadian Resident Plan. Stock options granted under the new plans will have 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 these options will be five years. Options are granted periodically and typically vest over four years.

Kinaxis Inc.

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For the years ended December 31, 2017 and 2016

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8. Share capital (continued):

At December 31, 2017, there were 2,027,200 stock options available for grant under the Plans. In 2017, the Company granted 493,300 (2016 – 336,000) options and recorded share-based compensation expense of \$6,930 (2016 – \$6,329) related to the vesting of options granted in 2017 and previous years. The per share weighted-average fair value of stock options granted in 2017 was \$17.15 (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 of 0%, risk-free interest rate of 1.81% (2016 – 1.16%), an expected life of 2 to 6 years (2016 – 3 to 6 years), and estimated volatility of 42% (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% (2016 – 10%). The forfeiture rate is estimated based upon an analysis of actual forfeitures.

Share Unit Plan

At December 31, 2017, there were 426,133 share units available for grant under the Plan. In 2017, the Company granted 45,500 (2016 – 58,588) restricted share units (“RSU”) and 16,197 were forfeited (2016 – nil). There were 45,097 (2016 – 70,728) RSUs outstanding at December 31, 2017. Each RSU entitles the participant to receive one Common Share. The RSUs vest over time in three equal annual tranches. The grant date fair value of the RSUs granted in 2017 was \$55.71 (2016 – \$25.27) per unit using the fair value of a Common Share at time of grant. The Company recorded share-based compensation expense of \$1,916 (2016 – \$1,316) related to the RSUs.

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

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

	2017	2016
Cost of revenue	\$ 1,183	\$ 1,251
Selling and marketing	2,813	1,471
Research and development	1,110	1,254
General and administrative	4,640	4,164
	<u>\$ 9,746</u>	<u>\$ 8,140</u>

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9. Earnings per share:

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

	2017	2016
Issued Common Shares at beginning of period	24,940,114	24,420,004
Effect of shares issued from exercise of options	370,967	227,639
Effect of shares issued from vesting of restricted share units	3,010	4,042
Effect of shares issued from vesting of deferred share units	–	2,684
Weighted average number of basic Common Shares at end of period	25,314,091	24,654,369
Effect of share options on issue	1,043,105	1,172,787
Effect of share units on issue	122,425	150,459
Weighted average number of diluted Common Shares at end of period	26,479,621	25,977,615

For the year ended December 31, 2017, 736,106 (2016 – 1,000,750) options were excluded from the weighted average number of diluted common shares as their effect would have been anti-dilutive.

10. Revenue:

The following table presents the revenue of the Company:

	2017	2016
Subscription	\$ 100,813	\$ 81,838
Professional services	31,469	33,115
Maintenance and support	1,035	998
	\$ 133,317	\$ 115,951

11. Research and development:

The following table presents the research and development expenses of the Company:

	2017	2016
Research and development expense	\$ 25,822	\$ 22,116
Investment tax credits	(2,131)	(1,464)
	\$ 23,691	\$ 20,652

Kinaxis Inc.

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12. Personnel expenses:

The following table presents the personnel expenses of the Company:

	2017	2016
Salaries including bonuses	\$ 49,106	\$ 43,849
Benefits	7,627	6,639
Commissions	5,293	8,866
Share-based payments	9,746	8,140
	\$ 71,772	\$ 67,494

13. Income tax expense:

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

	2017	2016
Current tax expense		
Current income tax	\$ 6,659	\$ 7,088
Deferred tax expense		
Origination and reversal of temporary differences	716	170
	\$ 7,375	\$ 7,258

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

	2017	2016
Canadian tax rate	26.50%	26.50%
Expected Canadian income tax expense	\$ 7,356	\$ 4,771
Increase (reduction) in income taxes resulting from:		
Difference between current and future tax rates and other	(776)	512
Foreign tax rate differences	400	260
Permanent difference of share-based payments	2,004	2,157
Foreign exchange differences	(1,609)	(442)
	\$ 7,375	\$ 7,258

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.

Kinaxis Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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13. Income tax expense (continued):

The deferred tax assets and liabilities are as follows:

	2017	2016
Deferred tax assets	\$ 55	\$ 239
Deferred tax liabilities	(1,944)	(1,412)
	\$ (1,889)	\$ (1,173)

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

	2017	2016
Deferred tax assets (liabilities):		
Tax effect of investment tax credits	\$ (1,202)	\$ (937)
Share issuance costs	336	540
Property and equipment	(1,448)	(1,056)
Other	425	280
	\$ (1,889)	\$ (1,173)

The movements in the deferred tax balances were as follows:

	Balance at January 1, 2017	Recognized in profit and loss	Balance at December 31, 2017
Deferred tax assets (liabilities):			
Tax effect of investment tax credits	\$ (937)	\$ (265)	\$ (1,202)
Share issuance costs	540	(204)	336
Property and equipment	(1,056)	(392)	(1,448)
Other	280	145	425
	\$ (1,173)	\$ (716)	\$ (1,889)

	Balance at January 1, 2016	Recognized in profit and loss	Balance at December 31, 2016
Deferred tax assets (liabilities):			
Tax effect of investment tax credits	\$ (948)	\$ 11	\$ (937)
Share issuance costs	732	(192)	540
Property and equipment	(827)	(229)	(1,056)
Other	40	240	280
	\$ (1,003)	\$ (170)	\$ (1,173)

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13. Income tax expense (continued):

The Company has investment tax credits available to reduce federal income taxes payable in Canada of \$911 as at December 31, 2017 (2016 – \$755) which begin to expire in 2029. The Company does not have investment tax credits receivable as at December 31, 2017 (2016 – \$1,583) relating to refundable investment tax credits filed.

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, 2017 was \$8,491 (2016 – \$7,271).

14. Statement of cash flow:

Changes in operating assets and liabilities:

	2017	2016
Trade and other receivables	\$ (6,967)	\$ (7,968)
Investment tax credit receivable	1,583	(51)
Prepaid expenses	(838)	(1,429)
Trade payables and accrued liabilities	(2,296)	(1,183)
Deferred revenue	5,757	14,039
	<u>\$ (2,761)</u>	<u>\$ 3,408</u>

Kinaxis Inc.

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15. Financial instruments:

Fair value of financial instruments

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

Financial assets	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Loans and receivables, measured at amortized cost:				
Cash and cash equivalents	\$ 158,398	\$ 158,398	\$ 127,910	\$ 127,910
Trade and other receivables	31,783	31,783	23,820	23,820
Investment tax credits receivable	–	–	1,583	1,583
	\$ 190,181	\$ 190,181	\$ 153,313	\$ 153,313

Financial liabilities	2017		2016	
	Carrying value	Fair value	Carrying value	Fair value
Other financial liabilities, measured at amortized cost:				
Trade payables and accrued liabilities	\$ 11,176	\$ 11,176	\$ 10,495	\$ 10,495

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.

Kinaxis Inc.

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

15. Financial instruments (continued):

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.

During the year ended December 31, 2017, there were no transfers between level 1, level 2 and level 3 classified assets and liabilities. The fair values of the Company's financial instruments are considered to approximate the carrying amounts.

The following tables provide the disclosures of the fair value and the level in the hierarchy:

As at December 31, 2017	Level 1	Level 2	Level 3
Financial assets classified as loans and receivables:			
Cash and cash equivalents	\$ 158,398	\$ –	\$ –
Trade and other receivables	–	31,783	–
Financial liabilities at amortized cost:			
Trade payables and accrued liabilities	\$ –	\$ 11,176	\$ –
As at December 31, 2016			
Financial assets classified as loans and receivables:			
Cash and cash equivalents	\$ 127,910	\$ –	\$ –
Trade and other receivables	–	23,820	–
Investment tax credits receivable	–	1,583	–
Financial liabilities at amortized cost:			
Trade payables and accrued liabilities	\$ –	\$ 10,495	\$ –

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

	2017	2016
United States	\$ 23,790	\$ 17,969
Asia	2,520	903
Europe	1,335	88
Canada	–	1,164
	\$ 27,645	\$ 20,124

The aging of the net trade receivables at December 31 was as follows:

	2017	2016
Current	\$ 23,158	\$ 11,806
Past due:		
0 – 30 days	2,609	5,746
31 – 60 days	13	1,603
Greater than 60 days	1,865	969
	\$ 27,645	\$ 20,124

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, 2017, three customers individually accounted for greater than 10% of total trade receivables (December 31, 2016 – two customers). For the year ended December 31, 2017, no customers individually accounted for more than 10% of revenue (2016 – one customer accounted for 12.3%).

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. Amounts considered uncollectible are written off. During the year ended December 31, 2017, the Company did not write off any trade receivables that were deemed not collectible (2016 – none). As at December 31, 2017, the Company has recorded an allowance for doubtful accounts of \$491 (2016 – \$238).

Kinaxis Inc.

Notes to Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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15. Financial instruments (continued):

(a) Credit risk (continued):

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.

(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 is to 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, 2017, the Company had cash and cash equivalents totaling \$158,398 (2016 – \$127,910). Further, the Company has a credit facility as disclosed in note 7.

The following are the remaining contractual maturities of financial liabilities:

December 31, 2017	Carrying amount	Contractual cash flows				
		Total	3 months or less	3 to 12 months	1 to 5 years	More than 5 years
Trade payables and accrued liabilities	\$ 11,176	\$ 11,176	\$ 11,176	\$ –	\$ –	\$ –

December 31, 2016	Carrying amount	Contractual cash flows				
		Total	3 months or less	3 to 12 months	1 to 5 years	More than 5 years
Trade payables and accrued liabilities	\$ 10,495	\$ 10,495	\$ 10,495	\$ –	\$ –	\$ –

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15. Financial instruments (continued):

(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, Japanese Yen, Euro, Great British Pound, and Korean Won. As a result, the Company is exposed to currency risk on these transactions. 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. The Company is also subject to currency risk on its income tax expense due to foreign exchange impacts resulting from translating financial results to local currency for Canadian tax reporting purposes.

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, 2017, 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 \$1,764 lower (2016 – \$1,652 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, 2017						
In thousands of local currency	USD	CAD	JPY	EUR	GBP	KRW
Trade receivables	26,547	–	49,250	551	–	–
Other receivables	2,350	747	44,104	107	2	5,181
Trade payables	(1,774)	(713)	(96,992)	(34)	(27)	(24,742)
Accrued liabilities	(2,934)	(2,701)	(9,159)	(261)	–	(18,913)
	24,189	(2,667)	(12,797)	363	(25)	(38,474)

Kinaxis Inc.

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15. Financial instruments (continued):

(c) Market risk (continued):

December 31, 2016						
In thousands of local currency	USD	CAD	JPY	EUR	HKD	KRW
Trade receivables	20,035	–	–	84	–	–
Other receivables	2,547	1,348	7,591	1	–	62,897
Trade payables	(1,413)	(214)	(42,164)	(40)	(146)	(252,648)
Accrued liabilities	(4,594)	(4,313)	(14,426)	(186)	(265)	(62,800)
	16,575	(3,179)	(48,999)	(141)	(411)	(252,551)

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. As of December 31, 2017, the Company has not drawn on the revolving demand facility.

16. 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:

	2017	2016
United States	\$ 115,532	\$ 99,167
Asia	10,419	9,549
Europe	5,090	2,642
Canada	2,276	4,593
	\$ 133,317	\$ 115,951

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16. Segmented information (continued):

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

	2017	2016
Canada	\$ 10,895	\$ 7,410
United States	2,876	1,741
Europe	2,205	–
Asia	1,374	1,501
	\$ 17,350	\$ 10,652

17. Commitments:

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

Less than one year	\$ 2,908
Between one and three years	6,824
Between four and five years	2,115
More than five years	–
	\$ 11,847

The Company's operating leases are primarily for office space and data centers. These leases generally contain no renewal option or a one year renewal option, 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, 2017 was \$2,562 (2016 – \$1,964).

18. Related party transactions:

Details of the Company's subsidiaries at December 31, 2017 and 2016 are as follows:

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held	
			2017	2016
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 Limited	Sales	Hong Kong	100%	100%
Kinaxis Korea Limited	Sales	South Korea	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.

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18. Related party transactions (continued):

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:

	2017	2016
Salary and other short-term benefits	\$ 3,225	\$ 4,260
Share-based payments	5,949	5,646
	\$ 9,174	\$ 9,906

19. 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, 2017. The terms of the facility require the Company to meet certain financial covenants which are monitored by senior management to ensure compliance.

20. Contingencies:

- a) During the second quarter of 2017, an Asian-based customer did not make certain scheduled payments under its contract. During the third quarter of 2017, the Company terminated the contract, the Company ceased providing services to this customer, and, as per the dispute resolution procedures in its contract with the customer, the Company has initiated confidential, binding arbitration proceedings for payment of all amounts due under the contract and damages. The customer has denied the Company's claims, alleges breach by the Company, and has asserted its own counterclaims. The Company has not recorded any liability for the customer's counterclaims as it believes the customer's positions and assertions are without merit. While the Company did not recognize revenue for this customer effective with the second quarter of 2017, as at December 31, 2017, trade and other receivables from this customer totaled \$2,532. The Company believes the receivables recorded are collectible and it will be successful in asserting its claims.

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20. Contingencies (continued):

- b) 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.

- c) 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.



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