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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

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
	195,288	157,401
Non-current assets:		
Property and equipment (note 4)	17,350	10,652
Deferred tax assets (note 13)	55	239
	$ 212,693	$ 168,292
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade payables and accrued liabilities (note 6)	$ 11,176	$ 10,495
Deferred revenue	67,040	55,458
	78,216	65,953
Non-current liabilities:		
Lease inducement	–	18
Deferred revenue	7,745	13,198
Deferred tax liabilities (note 13)	1,944	1,412
	9,689	14,628
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)
	124,788	87,711
Commitments (note 17)		
Contingencies (note 20)		
	$ 212,693	$ 168,292

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
	26,711	17,894
Other income (expense):		
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.

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.

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.

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.

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

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.

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:

Financial Asset	Classification under IAS 39
Cash and cash equivalents	Loans and receivables – amortized cost
Trade and other receivables	Loans and receivables – amortized cost
Investment tax credits receivable	Loans and receivables – amortized cost

Loans and receivables

Financial assets classified as loans and receivables have fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost by using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate except for short-term receivables where the interest revenue would be immaterial.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt or asset instrument and allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

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.

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:

Financial liability	Classification under IAS 39
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

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.

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.

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

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.

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.

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.

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

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).

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

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

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

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

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

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.

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

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
	$ 9,746	$ 8,140

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

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

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

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.

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

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)

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

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
	$ (2,761)	$ 3,408

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

15. Financial instruments:

Fair value of financial instruments

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

	2017		2016	
Financial assets	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

	2017		2016	
Financial liabilities	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.

(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	Level 1	Level 2	Level 3
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	$ –

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

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).

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

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:

		Contractual cash flows				
December 31, 2017	Carrying amount	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	$ –	$ –	$ –

		Contractual cash flows				
December 31, 2016	Carrying amount	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	$ –	$ –	$ –

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)

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

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

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.

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

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.

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.