

Condensed Consolidated Interim Financial Statements of

Kinaxis Inc.

Six months ended June 30, 2018 and 2017

(Unaudited)

Kinaxis Inc.

Condensed Consolidated Interim Statements of Financial Position

As at June 30, 2018 and December 31, 2017
(Expressed in thousands of U.S. dollars)
(Unaudited)

	June 30, 2018	December 31, 2017*
Assets		
Current assets:		
Cash and cash equivalents	\$ 174,577	\$ 158,398
Trade and other receivables (note 4)	40,133	31,783
Investment tax credits recoverable	–	911
Prepaid expenses	5,901	4,196
	<u>220,611</u>	<u>195,288</u>
Non-current assets:		
Property and equipment (note 5)	23,576	17,350
Right-of-use assets (note 6)	13,342	–
Contract acquisition costs (note 7)	13,722	–
Unbilled receivables	492	–
Deferred tax assets	12	55
	<u>\$ 271,755</u>	<u>\$ 212,693</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade payables and accrued liabilities (note 8)	\$ 15,936	\$ 11,176
Deferred revenue (note 9)	58,635	67,040
Lease obligations (note 10)	3,076	–
	<u>77,647</u>	<u>78,216</u>
Non-current liabilities:		
Deferred revenue (note 9)	3,983	7,745
Lease obligations (note 10)	10,144	–
Deferred tax liabilities	9,761	1,944
	<u>23,888</u>	<u>9,689</u>
Shareholders' equity:		
Share capital (note 11)	118,688	108,253
Contributed surplus	21,683	19,294
Accumulated other comprehensive loss	(327)	(284)
Retained earnings (deficit)	30,176	(2,475)
	<u>170,220</u>	<u>124,788</u>
Contingencies (note 18)		
	<u>\$ 271,755</u>	<u>\$ 212,693</u>

See accompanying notes to condensed consolidated interim financial statements.

* The Company adopted IFRS 15 and 16 as described in Note 3. Under this adoption, the comparative information is not restated.

On behalf of the Board of Directors:

(signed) John (Ian) Giffen Director

(signed) John Sicard Director

Kinaxis Inc.

Condensed Consolidated Interim Statements of Comprehensive Income

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Revenue (note 13)	\$ 38,994	\$ 32,866	\$ 75,843	\$ 65,408
Cost of revenue	12,493	9,985	22,628	20,362
Gross profit	26,501	22,881	53,215	45,046
Operating expenses:				
Selling and marketing	8,897	7,367	16,283	14,298
Research and development	7,357	5,874	14,106	12,097
General and administrative	4,144	3,255	9,381	7,265
	20,398	16,496	39,770	33,660
Other income (expense):	6,103	6,385	13,445	11,386
Foreign exchange loss	(222)	(12)	(26)	(23)
Net finance income	193	310	338	477
	(29)	298	312	454
Profit before income taxes	6,074	6,683	13,757	11,840
Income tax expense	1,809	1,043	4,939	2,974
Profit	4,265	5,640	8,818	8,866
Other comprehensive income (loss)				
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences - foreign operations	(443)	(17)	(43)	129
Total comprehensive income	\$ 3,822	\$ 5,623	\$ 8,775	\$ 8,995
Basic earnings per share	\$ 0.17	\$ 0.22	\$ 0.34	\$ 0.35
Weighted average number of basic Common Shares (note 12)	25,720,014	25,331,522	25,631,985	25,188,312
Diluted earnings per share	\$ 0.16	\$ 0.21	\$ 0.33	\$ 0.34
Weighted average number of diluted Common Shares (note 12)	26,749,364	26,523,749	26,733,546	26,427,595

See accompanying notes to condensed consolidated interim financial statements.

* The Company adopted IFRS 15 and 16 as described in Note 3. Under this adoption, the comparative information is not restated.

Kinaxis Inc.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity

For the six months ended June 30, 2018 and 2017

(Expressed in thousands of U.S. dollars)

(Unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total equity*
Balance, December 31, 2016	\$ 97,164	\$ 13,924	\$ (519)	\$ (22,858)	\$ 87,711
Profit	–	–	–	8,866	8,866
Other comprehensive income	–	–	129	–	129
Total comprehensive income	–	–	129	8,866	8,995
Share options exercised	8,360	(2,438)	–	–	5,922
Share based payments (note 11)	–	5,113	–	–	5,113
Total shareholder transactions	8,360	2,675	–	–	11,035
Balance, June 30, 2017	\$ 105,524	\$ 16,599	\$ (390)	\$ (13,992)	\$ 107,741
Balance, December 31, 2017	\$ 108,253	\$ 19,294	\$ (284)	\$ (2,475)	\$ 124,788
Adjustment on initial application of IFRS 15 (note 3)	–	–	–	23,833	23,833
Adjusted balance, January 1, 2018	108,253	19,294	(284)	21,358	148,621
Profit	–	–	–	8,818	8,818
Other comprehensive loss	–	–	(43)	–	(43)
Total comprehensive income (loss)	–	–	(43)	8,818	8,775
Share options exercised	10,036	(2,897)	–	–	7,139
Deferred share units exercised	399	(399)	–	–	–
Share based payments (note 11)	–	5,685	–	–	5,685
Total shareholder transactions	10,435	2,389	–	–	12,824
Balance, June 30, 2018	\$ 118,688	\$ 21,683	\$ (327)	\$ 30,176	\$ 170,220

See accompanying notes to condensed consolidated interim financial statements.

* The Company adopted IFRS 15 and 16 as described in Note 3. Under this adoption, the comparative information is not restated.

Kinaxis Inc.

Condensed Consolidated Interim Statements of Cash Flows

For the three and six months ended June 30, 2018 and 2017
(Expressed in thousands of U.S. dollars)
(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Cash flows from operating activities:				
Profit	\$ 4,265	\$ 5,640	\$ 8,818	\$ 8,866
Items not affecting cash:				
Depreciation of property and equipment and right-of-use assets (note 14)	2,564	818	4,550	1,606
Share-based payments (note 11)	2,527	2,397	5,685	5,113
Amortization of lease inducement	—	(4)	—	(18)
Investment tax credits recoverable	—	(1,051)	911	(842)
Net finance income	(193)	—	(338)	—
Income tax expense	1,809	1,043	4,939	2,974
Change in operating assets and liabilities (note 15)	(848)	(168)	(2,607)	3,166
Interest received	446	—	807	—
Interest paid	(321)	—	(469)	—
Income taxes paid	(998)	(1,156)	(2,499)	(3,087)
	9,251	7,519	19,797	17,778
Cash flows used in investing activities:				
Purchase of property and equipment (note 5)	(4,529)	(1,327)	(9,350)	(1,644)
Cash flows from financing activities:				
Payment of lease obligations (note 10)	(534)	—	(1,282)	—
Common shares issued on exercise of stock options	4,361	1,952	7,139	5,922
	3,827	1,952	5,857	5,922
Increase in cash and cash equivalents	8,549	8,144	16,304	22,056
Cash and cash equivalents, beginning of period	166,631	141,989	158,398	127,910
Effects of exchange rates on cash and cash equivalents	(603)	292	(125)	459
Cash and cash equivalents, end of period	\$ 174,577	\$ 150,425	\$ 174,577	\$ 150,425

See accompanying notes to condensed consolidated interim financial statements.

* The Company adopted IFRS 15 and 16 as described in Note 3. Under this adoption, the comparative information is not restated.

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

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 condensed consolidated interim financial statements of the Company as at June 30, 2018 and for the three and six months ended June 30, 2018 and 2017 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; London, United Kingdom; and Ottawa, Canada.

2. Basis of preparation:

(a) Statement of compliance:

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and should be read in conjunction with the annual consolidated financial statements of the Company for the year ended December 31, 2017. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual consolidated financial statements as at and for the year ended December 31, 2017.

As at January 1, 2018, IFRS 15, IFRS 16 and IFRS 9 have been applied. Changes to significant accounting policies are described in Note 3.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 2, 2018.

(b) Use of estimates and judgments:

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

The significant judgments made by Management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2017, except for significant judgments and key sources of estimation uncertainty related to the application of IFRS 15, IFRS 16 and IFRS 9, which are described in Note 3.

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

3. Changes in significant accounting policies:

Except as described below, the accounting policies applied in these unaudited condensed consolidated interim financial statements are the same as those applied in the Company's consolidated financial statements as at and for the year ending December 31, 2017.

The changes in accounting policies will also be reflected in the Company's consolidated financial statements as at and for the year ended December 31, 2018.

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

Effective January 1, 2018, the Company adopted IFRS 15. The impact of the transition is shown in note 3(a)(i) below. The Company's accounting policy under IFRS 15 is as follows:

Revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for the products or services. The Company's contracts often include multiple products and services, which are generally capable of being distinct and accounted for as separate performance obligations.

Nature of products and services

The Company's hosted software-as-a-service ("SaaS") application, which allows customers to use hosted software over the contract period without taking possession of the software, is provided on a subscription basis, and recognized ratably over the contract period, commencing on the date an executed contract exists and the customer has the right-to-use and access to the platform.

On-premise, fixed term subscription licenses and hybrid software subscriptions (where the customer has the option to take the hosted software on-premise) provide the customer with a right-to-use the software as it exists when made available to the customer. Revenue from distinct on-premise subscription licenses is recognized upfront at the point in time when the software is made available to the customer and the right to use the software has commenced. On-premise subscription licenses and hybrid subscriptions are bundled with software maintenance and support services and/or hosting for a term. The license component and maintenance and support/hosting components are each allocated revenue using their relative estimated standalone selling prices (SSP). Revenue allocated to the bundled maintenance and support and hosting is recognized ratably over the term of the maintenance and support services.

Professional services are provided for implementation and configuration of software licenses and SaaS, as well as ongoing technical services and training. Professional services are typically billed on a time and material basis and revenue is recognized over time as the services are performed. For professional services contracts billed on a fixed price basis, revenue is recognized over time based on the proportion of services performed.

Maintenance and support services provided to customers on legacy perpetual software licenses is recognized ratably over the term of the maintenance and support services.

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

3. Changes in significant accounting policies (continued):

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

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if it expect the costs to be recoverable, and has determined that certain sales incentive programs meet the requirements to be capitalized. Capitalized contract acquisition costs are amortized consistent with the pattern of transfer to the customer for the goods and services to which the asset relates. The amortization period includes specifically identifiable contract renewals where there is no substantive renewal commission. The expected customer renewal period is estimated based on the historical life of our customers, which the Company has determined to be six years. The Company applies the practical expedient available under IFRS 15 and does not capitalize incremental costs of obtaining contracts if the amortization period is one year or less.

The timing of revenue recognition often differs from contract payment schedules, resulting in revenue that has been earned but not billed. These amounts are included in unbilled receivables. Amounts billed in accordance with customer contracts, but not yet earned, are recorded and presented as part of deferred revenue.

The Company has elected to apply the practical expedient to not adjust the total consideration over the contract term for the effect of a financing component if the period between the transfer of services to the customer and the customer’s payment for these services is expected to be one year or less.

Significant judgments and estimates

Contracts with customers often include promises to deliver multiple products and services. Determining whether such bundled products and services are considered i) distinct performance obligations that should be separately recognized, or ii) non-distinct and therefore should be combined with another good or service and recognized as a combined unit of accounting may require significant judgment. In general, the Company’s professional services are capable of being distinct as they could be performed by third party service providers and do not involve significant customization of the licensed software.

The determination of the SSP for distinct performance obligations can also require judgment and estimates. The Company uses a single amount to estimate SSP for bundled items such as subscription licenses and maintenance and support in subscription arrangements that are not sold separately. The Company uses a range of amounts to estimate SSP when it sells each of the products and services separately and needs to determine whether there is a discount that needs to be allocated based on the relative SSP of the various products and services. In general, SSP for maintenance and support bundled in on-premise and hybrid subscription arrangements is established as a percentage of the subscription license fee as supported by third party evidence and internal analysis of similar vendor contracts. SSP for hosting and professional services is established based on observable prices for the same or similar services when sold separately, or estimated using a cost plus margin approach.

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

3. Changes in significant accounting policies (continued):

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

(i) Impact of transition to IFRS 15

Effective January 1, 2018, the Company adopted IFRS 15 using the cumulative effect method, with the effect of adopting this standard recognized on January 1, 2018, the date of initial application. Accordingly, the information presented for 2017 has not been restated. It remains as previously reported under IAS 18, IAS 11 and related interpretations.

Adoption of IFRS 15 has not impacted the accounting for the Company’s SaaS, professional services or legacy maintenance and support arrangements for the Company’s legacy perpetual software licenses. However, adoption has impacted the accounting for the Company’s on-premise and hybrid subscription license arrangements, its accounting for contract acquisition costs as well as requiring expanded disclosure on revenue, performance obligations and contract balances.

Prior to adopting IFRS 15, subscription fees for licenses and coterminous maintenance and support and hosting services were combined and recognized ratably over the term of the subscription contract. Under IFRS 15, the fees for on-premise and hybrid subscriptions are separately allocated to each distinct performance obligation. Revenue attributable to the distinct software license component is recognized upfront upon term commencement and revenue allocated to maintenance and support and hosting components is recognized ratably over the term. This results in earlier recognition of revenue for these subscription arrangements.

Prior to adopting IFRS 15, contract acquisition costs, including commissions paid to employees and referral fees to third parties, were expensed upon commencement of the related contract revenue.

Effective January 1, 2018, revenue from SaaS arrangements, maintenance and support from on-premise and hybrid arrangements and hosting services from hybrid arrangements are reported as subscription services revenue. Revenue recognized for the software license component from on-premise arrangements is separately reported as subscription term license revenue. Professional services and revenue from maintenance and support on legacy perpetual licenses arrangements continue to be reported separately.

In its adoption of IFRS 15, the Company has elected to apply the requirements of the new standard only to contracts that are incomplete at the date of initial application. The Company has also elected to apply the contract modification practical expedient and reflect the aggregate effect of all contract modifications prior to the transition date.

The following table summarizes the impact of transition to IFRS 15 on the Company’s retained earnings as at January 1, 2018.

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

3. Changes in significant accounting policies (continued):

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

	Impact of adopting IFRS 15 at January 1, 2018
Accelerated recognition of on-premise software component	\$ 20,919
Capitalization of previously expensed contract acquisition costs	11,514
Related income tax impact	(8,600)
Impact at January 1, 2018	\$ 23,833

(b) IFRS 16: Leases ("IFRS 16"):

Effective January 1, 2018, the Company early adopted 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 major leases. The impact of the transition is shown in note 3(b)(i) below. The Company's accounting policy under IFRS 16 is as follows:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company has elected to apply the practical expedient to account for each lease component and any non-lease components as a single lease component.

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from 2 to 6 years for offices and data centres. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

3. Changes in significant accounting policies (continued):

(b) IFRS 16: Leases ("IFRS 16") (continued):

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognized as an expense on a straight-line basis over the lease term.

(i) Impact of transition to IFRS 16

Effective January 1, 2018, the Company early adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2017 has not been restated. It remains as previously reported under IAS 17 and related interpretations.

On initial application, the Company has elected to record right-of-use assets based on the corresponding lease liability. Right-of-use assets and lease obligations of \$10,822 were recorded as of January 1, 2018, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2018. The weighted-average rate applied is 5.5%.

The Company has elected to apply the practical expedient to account for leases for which the lease term ends within 12 months of the date of initial application as short-term leases.

The Company has elected to apply the practical expedient to grandfather the assessment of which transactions are leases on the date of initial application, as previously assessed under IAS 17 and IFRIC 4. The Company applied the definition of a lease under IFRS 16 to contracts entered into or changed on or after January 1, 2018.

The following table reconciles the Company's operating lease obligations at December 31, 2017, as previously disclosed in the Company's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at January 1, 2018.

Operating lease commitments at December 31, 2017	\$ 11,847
Discounted using the incremental borrowing rate at January 1, 2018	10,515
Recognition exemption for short-term leases	(23)
Extension options reasonably certain to be exercised	330
<u>Lease obligations recognized at January 1, 2018</u>	<u>\$ 10,822</u>

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

3. Changes in significant accounting policies (continued):

(c) IFRS 9: Financial Instruments (“IFRS 9”):

Effective January 1, 2018, the Company adopted IFRS 9, which sets out requirements for recognition and measurement, impairment, derecognition and general hedge accounting. 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.

Trade and other receivables that were classified as loans and receivables under IAS 39 are classified as financial assets measured at amortized cost. There is no change to the initial measurement of the Company’s financial assets. Impairment of financial assets is based on an expected credit loss (“ECL”) model under IFRS 9, rather than the incurred loss model under IAS 39. ECLs are a probability-weighted estimate of credit losses. The Company calculated ECLs based on consideration of customer-specific factors and actual credit loss experience over the past five years. As a percentage of revenue, the Company’s actual credit loss experience has not been material.

The adoption of IFRS 9 has not had an effect on the Company’s accounting policies related to financial liabilities.

There was no material impact of transition to IFRS 9 on the Company’s statement of financial position at January 1, 2018 .

(d) Impact of adopting IFRS 15 and 16:

The following tables summarize the impact of adopting IFRS 15 and IFRS 16 on the Company’s condensed consolidated interim statements of financial position as at June 30, 2018 and its interim statements of comprehensive income for the three and six months ended June 30, 2018. There was no material impact on the Company’s interim statements of cash flows for the three and six months ended June 30, 2018.

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

3. Changes in significant accounting policies (continued):

(d) Impact of adopting IFRS 15 and 16 (continued):

Impact on the condensed consolidated interim statements of financial position as at June 30, 2018:

	As reported	IFRS 15 Adjustment	IFRS 16 Adjustment	Amount without IFRS 15 and 16
Assets				
Current assets:				
Cash and cash equivalents	\$ 174,577	\$ –	\$ –	\$ 174,577
Trade and other receivables	40,133	(6,388)	–	33,745
Prepaid expenses	5,901	–	–	5,901
	220,611	(6,388)	–	214,223
Non-current assets:				
Property and equipment	23,576	–	–	23,576
Right-of-use assets	13,342	–	(13,342)	–
Contract acquisition costs	13,722	(13,722)	–	–
Unbilled receivables	492	(492)	–	–
Deferred tax assets	12	166	–	178
	\$ 271,755	\$ (20,436)	\$ (13,342)	\$ 237,977
Liabilities and Shareholders' Equity				
Current liabilities:				
Trade payables and accrued liabilities	\$ 15,936	\$ (889)	\$ (11)	\$ 15,036
Deferred revenue	58,635	14,103	–	72,738
Lease obligations	3,076	–	(3,076)	–
	77,647	13,214	(3,087)	87,774
Non-current liabilities:				
Deferred revenue	3,983	(208)	–	3,775
Lease obligations	10,144	–	(10,144)	–
Deferred tax liabilities	9,761	(8,440)	(38)	1,283
	23,888	(8,648)	(10,182)	5,058
Shareholders' equity:				
Share capital	118,688	–	–	118,688
Contributed surplus	21,683	–	–	21,683
Accumulated other comprehensive loss	(327)	(59)	–	(386)
Retained earnings	30,176	(24,943)	(73)	5,160
	170,220	(25,002)	(73)	145,145
	\$ 271,755	\$ (20,436)	\$ (13,342)	\$ 237,977

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

3. Changes in significant accounting policies (continued):

(d) Impact of adopting IFRS 15 and 16 (continued):

Impact on the condensed consolidated interim statements of comprehensive income for the three months ended June 30, 2018:

	As reported	IFRS 15 Adjustment	IFRS 16 Adjustment	Amount without IFRS 15 and 16
Revenue:				
Subscription services	\$ 26,542	\$ 3,536	\$ –	\$ 30,078
Subscription term licenses	2,543	(2,543)	–	–
Professional services	9,640	–	–	9,640
Maintenance and support	269	–	–	269
	38,994	993	–	39,987
Cost of revenue	12,493	–	–	12,493
Gross profit	26,501	993	–	27,494
Operating expenses:				
Selling and marketing	8,897	656	1	9,554
Research and development	7,357	–	22	7,379
General and administrative	4,144	(70)	10	4,084
	20,398	586	33	21,017
	6,103	407	(33)	6,477
Other income (expense):				
Foreign exchange gain	(222)	–	(149)	(371)
Net finance income	193	68	185	446
	(29)	68	36	75
Profit before income taxes	6,074	475	3	6,552
Income tax expense	1,809	404	(86)	2,127
Profit	4,265	71	89	4,425
Other comprehensive income:				
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences – foreign operations	(443)	259	–	(184)
Total comprehensive income	\$ 3,822	\$ 330	\$ 89	\$ 4,241
Basic earnings per share	\$ 0.17	\$ –	\$ –	\$ 0.17
Diluted earnings per share	\$ 0.16	\$ –	\$ –	\$ 0.17

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

3. Changes in significant accounting policies (continued):

(d) Impact of adopting IFRS 15 and 16 (continued):

Impact on the condensed consolidated interim statements of comprehensive income for the six months ended June 30, 2018:

	As reported	IFRS 15 Adjustment	IFRS 16 Adjustment	Amount without IFRS 15 and 16
Revenue:				
Subscription services	\$ 52,531	\$ 7,051	\$ –	\$ 59,582
Subscription term licenses	7,037	(7,037)	–	–
Professional services	15,750	–	–	15,750
Maintenance and support	525	–	–	525
	75,843	14	–	75,857
Cost of revenue	22,628	–	55	22,683
Gross profit	53,215	14	(55)	53,174
Operating expenses:				
Selling and marketing	16,283	2,225	5	18,513
Research and development	14,106	–	51	14,157
General and administrative	9,381	(70)	21	9,332
	39,770	2,155	77	42,002
	13,445	(2,141)	(132)	11,172
Other income (expense):				
Foreign exchange gain	(26)	–	(323)	(349)
Net finance income	338	136	333	807
	312	136	10	458
Profit before income taxes	13,757	(2,005)	(122)	11,630
Income tax expense	4,939	(895)	(49)	3,995
Profit	8,818	(1,110)	(73)	7,635
Other comprehensive income:				
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences – foreign operations	(43)	(59)	–	(102)
Total comprehensive income	\$ 8,775	\$ (1,169)	\$ (73)	\$ 7,533
Basic earnings per share	\$ 0.34	\$ (0.04)	\$ –	\$ 0.30
Diluted earnings per share	\$ 0.33	\$ (0.04)	\$ –	\$ 0.29

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

4. Trade and other receivables:

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

	June 30, 2018	December 31, 2017
Trade accounts receivable	\$ 28,414	\$ 28,136
Unbilled receivables	8,792	1,507
Taxes receivable	919	665
Other	2,008	1,966
	40,133	32,274
Allowance for doubtful accounts	–	(491)
	\$ 40,133	\$ 31,783

Trade accounts receivable of \$561 were written off during the six months ended June 30, 2018 (year ended December 31, 2017 – no balances written off). Trade and other receivables as at June 30, 2018 and December 31, 2017 include the \$2,532 referenced under Contingencies in Note 18.

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

5. Property and equipment:

The following table presents property and equipment for the Company:

Cost	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
Balance, December 31, 2017	\$ 23,827	\$ 919	\$ 335	\$ 3,569	\$ 28,650
Additions	7,261	834	91	1,164	9,350
Effects of movement in exchange rates	(126)	–	–	(11)	(137)
Balance, June 30, 2018	\$ 30,962	\$ 1,753	\$ 426	\$ 4,722	\$ 37,863

Accumulated depreciation	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
Balance, December 31, 2017	\$ 8,108	\$ 664	\$ 123	\$ 2,405	\$ 11,300
Depreciation	2,635	148	44	198	3,025
Effects of movement in exchange rates	(34)	–	–	(4)	(38)
Balance, June 30, 2018	\$ 10,709	\$ 812	\$ 167	\$ 2,599	\$ 14,287

Carrying value	Computer equipment	Computer software	Office furniture and equipment	Leasehold improvements	Total property and equipment
December 31, 2017	\$ 15,719	\$ 255	\$ 212	\$ 1,164	\$ 17,350
June 30, 2018	\$ 20,253	\$ 941	\$ 259	\$ 2,123	\$ 23,576

There were no asset dispositions in the six months ended June 30, 2018 (year ended December 31, 2017 – no proceeds associated with the asset dispositions).

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

6. Right-of-use assets:

The following table presents the right-of-use assets for the Company:

	Offices	Data centres	Total right-of-use assets
Balance, January 1, 2018	\$ 7,515	\$ 3,307	\$ 10,822
Additions	–	4,090	4,090
Depreciation	(815)	(710)	(1,525)
Effects of movement in exchange rates	(13)	(32)	(45)
Balance, June 30, 2018	\$ 6,687	\$ 6,655	\$ 13,342

7. Contract acquisition costs:

The Company's total capitalized contract acquisition costs net of accumulated amortization are \$13,722 as at June 30, 2018 and relate primarily to costs incurred and previously expensed prior to adopting IFRS 15. During the six months ended June 30, 2018, amortization of \$1,700 and an impairment loss of \$100 were recorded in selling and marketing expenses related to the contract acquisition costs.

8. Trade payables and accrued liabilities:

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

	June 30, 2018	December 31, 2017
Trade accounts payable	\$ 4,567	\$ 3,307
Accrued liabilities	7,347	5,516
Taxes payable	4,022	2,353
	\$ 15,936	\$ 11,176

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

9. Deferred revenue:

The following table presents changes in the deferred revenue balances for the six months ended June 30:

Balance, December 31, 2017	\$ 74,785
Adjustment on initial application of IFRS 15	(11,146)
Adjusted balance, January 1, 2018	63,639
Amounts invoiced and revenue deferred	39,307
Recognition of deferred revenue included in the adjusted balance at the beginning of the period	(40,328)
Balance, June 30, 2018	\$ 62,618
Current	\$ 58,635
Non-current	\$ 3,983

10. Lease obligations:

The following table presents the contractual undiscounted cash flows for lease obligations as of June 30:

Less than one year	\$ 3,575
One to five years	10,884
More than five years	465
Total undiscounted lease obligations	\$ 14,924

Interest expense on lease obligations for the six months ended June 30, 2018 was \$333. Total cash outflow for leases was \$1,775, including \$160 for short-term leases. Expenses for leases of low-dollar value items are not material. There are no variable lease payments which are not included in the measurement of lease obligations. All extension options have been included in the measurement of lease obligations.

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

11. 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, 2016	24,940,114	\$ 97,164
Shares issued from exercised options	465,030	8,360
Shares outstanding at June 30, 2017	25,405,144	\$ 105,524
Shares outstanding at December 31, 2017	25,507,922	\$ 108,253
Shares issued from exercised options	416,423	10,036
Shares issued from exercised deferred share units	8,916	399
Shares outstanding at June 30, 2018	25,933,261	\$ 118,688

Stock options plans

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

	Six months ended June 30, 2018		Year ended December 31, 2017	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Options outstanding, beginning of period	2,232,735	\$ 31.92	2,459,872	\$ 21.42
Granted	298,000	65.83	493,300	56.25
Exercised	(416,423)	17.14	(512,874)	13.07
Forfeited	(50,250)	59.29	(207,563)	29.74
Options outstanding, end of period	2,064,062	\$ 37.53	2,232,735	\$ 31.92
Options exercisable, end of period	758,611	\$ 19.12	774,685	\$ 14.58

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

11. Share capital (continued):

The following table presents information about stock options outstanding at June 30, 2018:

Range of exercise prices	Options outstanding			Options exercisable		
	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price	
\$ 1.00 to 3.50	265,029	3.20	\$ 1.81	265,029	\$ 1.81	
9.00 to 10.00	144,500	5.59	9.69	144,500	9.69	
12.50 to 14.00	55,000	6.31	13.29	20,000	13.29	
19.00 to 24.00	65,000	6.78	21.03	13,750	20.45	
28.50 to 35.00	558,250	2.95	33.75	235,250	33.83	
46.00 to 50.00	292,931	3.26	47.21	45,631	46.92	
55.00 to 58.00	386,852	4.10	56.06	34,451	57.52	
61.50 to 66.00	296,500	4.73	64.53	–	–	
	2,064,062	3.89	\$ 37.53	758,611	\$ 19.12	

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.

At June 30, 2018, there were 1,730,700 stock options available for grant under the Plans. During the six months ended June 30, 2018, the Company granted 298,000 options (year ended December 31, 2017 – 493,300) and recorded share-based compensation expense of \$3,902 (six months ended June 30, 2017 – \$3,343) related to the vesting of options granted in 2018 and previous years. The per share weighted-average fair value of stock options granted during the six months ended June 30, 2018 was \$18.08 (year ended December 31, 2017 – \$17.15) 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 2.50% (2017 – 1.81%), an expected life of 2 to 5 years (2017 – 2 to 6 years), and estimated volatility of 39% (2017 – 42%). The forfeiture rate was estimated at 10% (2017 – 10%). The forfeiture rate is estimated based upon an analysis of actual forfeitures.

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

11. Share capital (continued):

Share Unit Plan

At June 30, 2018, there were 359,333 share units available for grant under the Plan. During the six months ended June 30, 2018, the Company granted 53,000 restricted share units ("RSU") (year ended December 31, 2017 – 45,500) and 13,098 RSUs were forfeited (year ended December 31, 2017 – 16,197 RSUs forfeited). At June 30, 2018, there were 84,999 RSUs outstanding (December 31, 2017 – 45,097). 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 during the six months ended June 30, 2018 was \$65.23 per unit (year ended December 31, 2017 – \$55.71) using the fair value of a Common Share at time of grant. The Company recorded share-based compensation expense of \$883 (six months ended June 30, 2017 – \$870) related to the RSUs.

During the six months ended June 30, 2018, the Company granted 13,800 deferred share units ("DSU") (year ended December 31, 2017 – 16,194). At June 30, 2018, there were 42,746 DSUs outstanding (December 31, 2017 – 37,862). 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 during the six months ended June 30, 2018 was \$65.23 per unit (year ended December 31, 2017 – \$55.71) using the fair value of a Common Share at time of grant. The Company recorded share-based compensation of \$900 (six months ended June 30, 2017 – \$900) related to the DSUs.

The following table presents the share-based payments expense by function for the three and six months ended June 30:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Cost of revenue	\$ 235	\$ 325	\$ 446	\$ 646
Selling and marketing	1,044	739	2,036	1,202
Research and development	289	287	506	573
General and administrative	959	1,046	2,697	2,692
	\$ 2,527	\$ 2,397	\$ 5,685	\$ 5,113

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

12. Earnings per share:

The following table summarizes the calculation of the weighted average number of basic and diluted common shares for the six months ended June 30:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Issued Common Shares at beginning of period	25,639,881	25,288,260	25,507,922	24,940,114
Effect of shares issued from exercise of options	79,153	43,262	123,570	248,198
Effect of shares issued from vesting of deferred share units	980	–	493	–
Weighted average number of basic Common Shares	25,720,014	25,331,522	25,631,985	25,188,312
Effect of share options on issue	940,500	1,091,873	997,562	1,148,736
Effect of share units on issue	88,850	100,354	103,999	90,547
Weighted average number of diluted Common Shares	26,749,364	26,523,749	26,733,546	26,427,595

For the three and six months ended June 30, 2018, 683,352 and 683,352 options were excluded from the weighted average number of diluted common shares as their effect would have been anti-dilutive (three and six months ended June 30, 2017– 217,500 and 513,500).

13. Revenue:

The following table presents revenue for the three and six months ended June 30:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Subscription services	\$ 26,542	\$ 24,202	\$ 52,531	\$ 48,056
Subscription term licenses	2,543	–	7,037	–
Professional services	9,640	8,395	15,750	16,836
Maintenance and support	269	269	525	516
	\$ 38,994	\$ 32,866	\$ 75,843	\$ 65,408

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

13. Revenue (continued):

The following table presents revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at June 30, 2018:

	Remainder of 2018	2019	2020 and thereafter	Total
Subscription services	\$ 50,303	\$ 79,663	\$ 68,756	\$ 198,722

14. Depreciation:

The following table presents the total depreciation expense by function for the three and six months ended June 30:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Cost of revenue	\$ 1,695	\$ 607	\$ 2,931	\$ 1,191
Selling and marketing	1	1	2	2
Research and development	293	142	533	276
General and administrative	575	68	1,084	137
	\$ 2,564	\$ 818	\$ 4,550	\$ 1,606

15. Statement of cash flow:

The following table presents the changes in operating assets and liabilities for the three and six months ended June 30:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
Trade and other receivables	\$ 1,804	\$ 5,455	\$ 570	\$ 1,909
Investment tax credit receivable	–	1,593	–	1,583
Prepaid expenses	392	429	(1,727)	233
Contract acquisition costs	(614)	–	(2,208)	–
Trade payables and accrued liabilities	(1,648)	(937)	1,590	(1,188)
Deferred revenue	(782)	(6,708)	(832)	629
	\$ (848)	\$ (168)	\$ (2,607)	\$ 3,166

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

16. Financial instruments:

(a) Fair value of financial instruments:

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

Financial assets	June 30, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets at amortized cost:				
Cash and cash equivalents	\$ 174,577	\$ 174,577	\$ 158,398	\$ 158,398
Trade and other receivables	40,133	40,133	31,783	31,783
Unbilled receivables	492	492	–	–
	\$ 215,202	\$ 215,202	\$ 190,181	\$ 190,181

Financial liabilities	June 30, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Other financial liabilities, measured at amortized cost:				
Trade payables and accrued liabilities	\$ 15,936	\$ 15,936	\$ 11,176	\$ 11,176

(b) Credit risk:

The following table presents maximum exposure to credit risk for net trade receivables by geographic region:

	June 30, 2018	December 31, 2017
United States	\$ 15,186	\$ 23,790
Europe	9,669	1,335
Asia	3,397	2,520
Canada	162	–
	\$ 28,414	\$ 27,645

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

16. Financial instruments (continued):

(b) Credit risk (continued):

The following table presents aging of the net trade receivables:

	June 30, 2018	December 31, 2017
Current	\$ 18,069	\$ 23,158
Past due:		
0 – 30 days	2,649	2,609
31 – 60 days	2,459	13
Greater than 60 days	5,237	1,865
	\$ 28,414	\$ 27,645

At June 30, 2018, no customers individually accounted for greater than 10% of total trade receivables (December 31, 2017 – three customers). For the three and six months ended June 30, 2018, no customers individually accounted for greater than 10% of revenue (three and six months ended June 30, 2017 – one customer).

17. 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. The following table presents external revenue on a geographic basis for the three and six months ended June 30:

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
United States	\$ 30,969	\$ 29,127	\$ 61,805	\$ 57,180
Europe	4,247	914	7,463	1,551
Asia	3,325	2,241	5,619	5,419
Canada	453	584	956	1,258
	\$ 38,994	\$ 32,866	\$ 75,843	\$ 65,408

Kinaxis Inc.

Notes to Condensed Consolidated Interim Financial Statements

For the six months ended June 30, 2018 and 2017

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

(Unaudited)

17. Segmented information (continued):

The following table presents total property and equipment on a geographic basis:

	June 30, 2018	December 31, 2017
Canada	\$ 12,060	\$ 10,895
Asia	5,244	1,374
United States	4,003	2,876
Europe	2,269	2,205
	\$ 23,576	\$ 17,350

The following table presents total right-of-use assets on a geographic basis:

	June 30, 2018
Canada	\$ 7,928
Asia	3,394
Europe	1,220
United States	800
	\$ 13,342

18. Contingencies:

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 June 30, 2018, 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.