

Condensed Consolidated Interim Financial Statements  
(Expressed in U.S. dollars)

## **REDKNEE SOLUTIONS INC.**

Three months ended December 31, 2015 and 2014  
(Unaudited)

# REDKNEE SOLUTIONS INC.

Condensed Consolidated Interim Statements of Financial Position  
(Expressed in U.S. dollars)  
(Unaudited)

|                                                                | December 31,<br>2015  | September 30,<br>2015 |
|----------------------------------------------------------------|-----------------------|-----------------------|
| <b>Assets</b>                                                  |                       |                       |
| Current assets:                                                |                       |                       |
| Cash and cash equivalents (note 4)                             | \$ 43,225,618         | \$ 55,047,577         |
| Trade accounts and other receivables (note 5)                  | 65,212,319            | 67,439,885            |
| Unbilled revenue                                               | 40,234,965            | 38,612,499            |
| Prepaid expenses                                               | 2,649,713             | 2,535,936             |
| Income taxes receivable                                        | 1,687,830             | 1,399,564             |
| Other assets (note 6)                                          | 376,114               | 392,195               |
| Inventories                                                    | 797,887               | 812,987               |
| Total current assets                                           | 154,184,446           | 166,240,643           |
| Restricted cash (note 13(a))                                   | 5,810,179             | 5,972,087             |
| Property and equipment                                         | 7,779,025             | 8,435,008             |
| Deferred income taxes                                          | 3,712,970             | 4,286,459             |
| Investment tax credits                                         | 336,978               | 351,385               |
| Other assets (note 6)                                          | 1,802,212             | 1,816,640             |
| Intangible assets                                              | 42,179,057            | 44,821,478            |
| Goodwill                                                       | 31,281,092            | 31,281,092            |
| <b>Total assets</b>                                            | <b>\$ 247,085,959</b> | <b>\$ 263,204,792</b> |
| <b>Liabilities and Shareholders' Equity</b>                    |                       |                       |
| Current liabilities:                                           |                       |                       |
| Trade payables                                                 | \$ 11,624,856         | \$ 9,128,710          |
| Accrued liabilities                                            | 29,965,445            | 32,305,136            |
| Provisions (note 14)                                           | 6,984,952             | 8,772,519             |
| Income taxes payable                                           | 2,529,168             | 2,364,983             |
| Settlement accrual and contingent consideration (note 3(b)(i)) | 3,604,425             | 10,244,224            |
| Deferred revenue                                               | 12,244,252            | 13,363,696            |
| Loans and borrowings (note 7)                                  | 2,100,000             | 1,800,000             |
| Total current liabilities                                      | 69,053,098            | 77,979,268            |
| Deferred revenue                                               | 889,458               | 870,937               |
| Other liabilities                                              | 1,743,704             | 2,615,163             |
| Pension and other long-term employment benefit plans           | 11,691,735            | 11,417,481            |
| Loans and borrowings (note 7)                                  | 54,267,647            | 54,961,066            |
| Provisions (note 14)                                           | 2,961,754             | 4,006,354             |
| <b>Total liabilities</b>                                       | <b>140,607,396</b>    | <b>151,850,269</b>    |
| Shareholders' equity:                                          |                       |                       |
| Share capital                                                  | 173,308,039           | 174,082,815           |
| Treasury stock                                                 | (141,917)             | (141,917)             |
| Contributed surplus                                            | 8,180,871             | 7,899,360             |
| Deficit                                                        | (71,391,715)          | (67,086,722)          |
| Accumulated other comprehensive loss                           | (3,476,715)           | (3,399,013)           |
| Total shareholders' equity                                     | 106,478,563           | 111,354,523           |
| <b>Total liabilities and shareholders' equity</b>              | <b>\$ 247,085,959</b> | <b>\$ 263,204,792</b> |

Restricted cash, guarantees and contingent liabilities (note 13)  
Subsequent event (note 15)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# REDKNEE SOLUTIONS INC.

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)  
(Expressed in U.S. dollars)  
(Unaudited)

|                                                                      | Three months ended<br>December 31, |               |
|----------------------------------------------------------------------|------------------------------------|---------------|
|                                                                      | 2015                               | 2014          |
| Revenue:                                                             |                                    |               |
| Software, services and other                                         | \$ 25,118,234                      | \$ 37,955,600 |
| Support and subscription                                             | 24,997,577                         | 24,621,329    |
|                                                                      | 50,115,811                         | 62,576,929    |
| Cost of revenue                                                      | 20,397,916                         | 25,988,490    |
| Gross profit                                                         | 29,717,895                         | 36,588,439    |
| Operating expenses:                                                  |                                    |               |
| Sales and marketing                                                  | 8,401,274                          | 9,462,239     |
| General and administrative                                           | 7,288,271                          | 7,062,384     |
| Research and development                                             | 12,755,071                         | 12,329,782    |
| Acquisition and related costs (note 3)                               | 833,704                            | 415,051       |
| Restructuring costs (note 14(a))                                     | 278,546                            | 336,714       |
|                                                                      | 29,556,866                         | 29,606,170    |
| Income from operations                                               | 161,029                            | 6,982,269     |
| Foreign exchange loss                                                | (493,008)                          | (2,668,913)   |
| Finance income                                                       | 5,374                              | 4,482         |
| Finance costs                                                        | (1,048,531)                        | (898,217)     |
| Income (loss) before income taxes                                    | (1,375,136)                        | 3,419,621     |
| Income tax expense (note 9):                                         |                                    |               |
| Current                                                              | 2,381,289                          | 1,399,795     |
| Deferred                                                             | 548,568                            | 8,865         |
|                                                                      | 2,929,857                          | 1,408,660     |
| Net income (loss)                                                    | (4,304,993)                        | 2,010,961     |
| Other comprehensive loss:                                            |                                    |               |
| Pension actuarial adjustment                                         | (77,702)                           | —             |
| Comprehensive income (loss)                                          | \$ (4,382,695)                     | \$ 2,010,961  |
| Net income (loss) per common share:                                  |                                    |               |
| Basic                                                                | (0.04)                             | 0.02          |
| Diluted                                                              | (0.04)                             | 0.02          |
| Weighted average number of common shares<br>outstanding (note 8(a)): |                                    |               |
| Basic                                                                | 109,136,362                        | 108,944,276   |
| Diluted                                                              | 109,136,362                        | 111,410,637   |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# REDKNEE SOLUTIONS INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity  
(Expressed in U.S. dollars)

Three months ended December 31, 2015 and 2014  
(Unaudited)

|                                                                     | Share capital         |                       |                     |                        |                        | Accumulated<br>other<br>comprehensive<br>loss | Total<br>shareholders'<br>equity |
|---------------------------------------------------------------------|-----------------------|-----------------------|---------------------|------------------------|------------------------|-----------------------------------------------|----------------------------------|
|                                                                     | Number<br>outstanding | Amount                | Treasury<br>stock   | Contributed<br>surplus | Deficit                |                                               |                                  |
| Balance, September 30, 2015                                         | 109,230,576           | \$ 174,082,815        | \$ (141,917)        | \$ 7,899,360           | \$ (67,086,722)        | \$ (3,399,013)                                | \$ 111,354,523                   |
| Net loss for the period                                             | —                     | —                     | —                   | —                      | (4,304,993)            | —                                             | (4,304,993)                      |
| Share-based compensation                                            | —                     | —                     | —                   | 575,717                | —                      | —                                             | 575,717                          |
| Pension actuarial adjustment                                        | —                     | —                     | —                   | —                      | —                      | (77,702)                                      | (77,702)                         |
| Purchase of shares under<br>normal course issuer bid<br>(note 8(b)) | (517,700)             | (825,068)             | —                   | (281,414)              | —                      | —                                             | (1,106,482)                      |
| Stock options exercised                                             | 40,050                | 50,292                | —                   | (12,792)               | —                      | —                                             | 37,500                           |
| <b>Balance, December 31, 2015</b>                                   | <b>108,752,926</b>    | <b>\$ 173,308,039</b> | <b>\$ (141,917)</b> | <b>\$ 8,180,871</b>    | <b>\$ (71,391,715)</b> | <b>\$ (3,476,715)</b>                         | <b>\$ 106,478,563</b>            |
| Balance, September 30, 2014                                         | 108,903,734           | \$ 173,757,863        | \$ (21,226)         | \$ 5,665,135           | \$ (57,080,147)        | \$ (4,174,949)                                | \$ 118,146,676                   |
| Net income and comprehensive<br>income                              | —                     | —                     | —                   | —                      | 2,010,961              | —                                             | 2,010,961                        |
| Share-based compensation                                            | —                     | —                     | —                   | 476,871                | —                      | —                                             | 476,871                          |
| Stock options exercised                                             | 185,250               | 107,855               | —                   | (43,725)               | —                      | —                                             | 64,130                           |
| <b>Balance, December 31, 2014</b>                                   | <b>109,088,984</b>    | <b>\$ 173,865,718</b> | <b>\$ (21,226)</b>  | <b>\$ 6,098,281</b>    | <b>\$ (55,069,186)</b> | <b>\$ (4,174,949)</b>                         | <b>\$ 120,698,638</b>            |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# REDKNEE SOLUTIONS INC.

Condensed Consolidated Interim Statements of Cash Flows  
(Expressed in U.S. dollars)  
(Unaudited)

|                                                                         | Three months ended<br>December 31, |                |
|-------------------------------------------------------------------------|------------------------------------|----------------|
|                                                                         | 2015                               | 2014           |
| Cash provided by (used in):                                             |                                    |                |
| Operating activities:                                                   |                                    |                |
| Net income (loss)                                                       | \$ (4,304,993)                     | \$ 2,010,961   |
| Adjustments for:                                                        |                                    |                |
| Depreciation of property and equipment                                  | 1,003,027                          | 942,236        |
| Amortization of intangible assets                                       | 2,287,866                          | 1,812,382      |
| Finance income                                                          | (5,374)                            | (4,482)        |
| Finance costs                                                           | 1,048,531                          | 898,217        |
| Pension expense                                                         | 196,552                            | 169,791        |
| Income tax expense                                                      | 2,929,857                          | 1,408,660      |
| Unrealized foreign exchange loss                                        | 1,103,147                          | 1,865,646      |
| Share-based compensation                                                | 249,609                            | 465,166        |
| Revaluation of contingent consideration                                 | —                                  | (576,243)      |
| Change in provisions                                                    | (2,832,167)                        | (3,438,084)    |
| Change in non-cash operating working capital (note 10)                  | (719,629)                          | (9,096,004)    |
|                                                                         | 956,426                            | (3,541,754)    |
| Interest paid                                                           | (320,768)                          | (49,754)       |
| Interest received                                                       | 11,685                             | 49,504         |
| Income taxes paid                                                       | (2,456,657)                        | (871,201)      |
|                                                                         | (1,809,314)                        | (4,413,205)    |
| Financing activities:                                                   |                                    |                |
| Proceeds from exercise of stock options                                 | 37,500                             | 64,130         |
| Purchase of shares under normal course issuer bid                       | (1,106,482)                        | —              |
| Interest paid on loans and borrowings                                   | (829,640)                          | (931,655)      |
| Repayment of loans and borrowings                                       | (450,000)                          | (375,000)      |
| Transaction costs on loans and borrowings                               | (90,496)                           | —              |
|                                                                         | (2,439,118)                        | (1,242,525)    |
| Investing activities:                                                   |                                    |                |
| Purchase of property and equipment                                      | (507,420)                          | (331,868)      |
| Purchase of intangible assets                                           | (11,259)                           | (136,296)      |
| Decrease (increase) in restricted cash                                  | 161,908                            | (146,218)      |
| Settlement accrual paid                                                 | (6,639,799)                        | —              |
|                                                                         | (6,996,570)                        | (614,382)      |
| Effect of foreign exchange rate changes on<br>cash and cash equivalents | (576,957)                          | (1,865,646)    |
| Decrease in cash and cash equivalents                                   | (11,821,959)                       | (8,135,758)    |
| Cash and cash equivalents, beginning of period                          | 55,047,577                         | 108,636,797    |
| Cash and cash equivalents, end of period                                | \$ 43,225,618                      | \$ 100,501,039 |

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements  
(Expressed in U.S. dollars)

Three months ended December 31, 2015 and 2014  
(Unaudited)

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Redknee Solutions Inc. (the "Company" or "Redknee"), through its predecessors, commenced operations on March 29, 1999. The Company was incorporated under the Canada Business Corporations Act on November 1, 2006. The Company's registered head office is located at 2560 Matheson Blvd East, Suite 500, Mississauga, Ontario, Canada. The Company is publicly traded on the Toronto Stock Exchange (TSX: RKN).

Redknee is a leading global provider of innovative communication software products, solutions and services. Redknee's revenue and subscriber management platform provides innovative converged billing, charging, customer care and payments solutions for voice, messaging and data services to over 250 service providers in over 90 countries. The Company's software products manage and analyze, in real-time, complex and critical network operations, such as service provisioning, network management and customer care, and provide real-time rating, charging and billing. Redknee is the parent of the wholly owned operating subsidiary, Redknee Inc., and its various subsidiaries.

## 1. Basis of preparation:

### (a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, using accounting policies consistent with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), and do not include all of the information required for full annual consolidated financial statements.

These condensed consolidated interim financial statements for the three months ended December 31, 2015 and 2014 were authorized for issuance by the Board of Directors of the Company on February 10, 2016.

### (b) Judgments and estimates:

In preparing these 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 expenses. 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 September 30, 2015 (the "2015 annual financial statements").

# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in U.S. dollars)

Three months ended December 31, 2015 and 2014  
(Unaudited)

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## 2. Significant accounting policies:

### (a) Basis of measurement and presentation:

The notes presented in these condensed consolidated interim financial statements include, in general, only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the annual audited consolidated financial statements, including the notes thereto, for the 2015 annual financial statements. Except as discussed below, these condensed consolidated interim financial statements follow the same accounting policies and methods of application as the 2015 annual financial statements.

### (b) Basis of consolidation:

The condensed consolidated interim financial statements include the financial statements of the Company, Redknee Inc. and its wholly owned subsidiary companies. All significant intercompany balances and transactions have been eliminated upon consolidation.

### (c) Functional currency:

The condensed consolidated interim financial statements are presented in U.S. dollars, which is the Company's functional currency.

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities not denominated in the functional currency are translated at the period-end rates of exchange. Foreign exchange gains and losses are recognized in the condensed consolidated interim statements of comprehensive income (loss).

# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in U.S. dollars)

Three months ended December 31, 2015 and 2014  
(Unaudited)

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## 2. Significant accounting policies (continued):

### (d) New accounting pronouncements:

The IASB has issued new standards and amendments to existing standards. These changes in accounting are not yet effective at December 31, 2015 and could have an impact on future periods.

#### (i) IFRS 9, Financial Instruments ("IFRS 9"):

The IASB issued IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), and which establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduces more judgment to assess the effectiveness of a hedging relationship. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with certain exemptions. The Company is in the process of assessing the impact of this standard on its condensed consolidated interim financial statements.

#### (ii) IFRS 15, Revenue from Contracts with Customers ("IFRS 15"):

The IASB issued IFRS 15, which is effective for annual periods beginning on or after January 1, 2018. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time and over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company is in the process of assessing the impact of this standard on its condensed consolidated interim financial statements.



# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in U.S. dollars)

Three months ended December 31, 2015 and 2014  
(Unaudited)

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## 2. Significant accounting policies (continued):

### (iii) IFRS 16, Leases ("IFRS 16"):

On January 13, 2016 the IASB issued IFRS 16. The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17, Leases ("IAS 17"). This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company intends to adopt IFRS 16 in its condensed consolidated interim financial statements for the annual period beginning on October 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

## 3. Business acquisition:

### (a) Acquisition of Orga Systems ("Orga"):

On July 31, 2015, the Company completed the acquisition (the "Acquisition") of Orga. Orga provides monetization solutions to approximately 45 customers in the communications, automotive, energy, and railway industries. As part of the acquisition, the Company acquired Orga's customer and supplier contracts, intellectual property rights, property and equipment and certain liabilities, along with highly skilled team of approximately 500 employees across Europe, Middle East, and Africa, the Americas and Asia Pacific, further broadening its global reach.

The Acquisition has been accounted for as a business combination under the purchase method. The results of the operations of the Orga business since the date of the Acquisition have been consolidated.

# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in U.S. dollars)

Three months ended December 31, 2015 and 2014  
(Unaudited)

## 3. Business acquisition (continued):

### (i) Consideration transferred:

The Company financed the acquisition with cash. The consideration for the Acquisition was €38,000,000 in gross proceeds. Also on the closing date, the Company received cash from the vendors of approximately €650,960 relating to the vendor's tax liability on the sale of the subsidiary's shares that will be remitted by the Company to the appropriate tax authorities and €630,000 for restructuring costs relating to certain employees that will be terminated by the Company post acquisition.

### (ii) Identifiable assets acquired and liabilities assumed:

The preliminary allocation of the purchase price to the fair values of the assets acquired and liabilities assumed upon acquisition are as follows:

|                                                            | Purchase price allocation |                |
|------------------------------------------------------------|---------------------------|----------------|
|                                                            | (Euros)                   | (U.S. dollars) |
| Net assets acquired:                                       |                           |                |
| Cash and cash equivalents                                  | € 3,074,577               | \$ 3,383,800   |
| Trade accounts and other receivables                       | 7,908,696                 | 8,703,995      |
| Unbilled revenue                                           | 5,072,257                 | 5,582,323      |
| Other assets                                               | 1,309,668                 | 1,441,379      |
| Property and equipment and intangible assets               | 1,877,998                 | 2,066,850      |
| Deferred income taxes                                      | 2,479,032                 | 2,728,324      |
| Trade payables and accrued liabilities                     | (6,151,083)               | (6,769,636)    |
| Other liabilities                                          | (135,004)                 | (148,580)      |
| Deferred revenue                                           | (6,467,775)               | (7,118,175)    |
| Provisions                                                 | (6,664,589)               | (7,334,780)    |
| Pension and non-pension post-employment benefit obligation | (486,024)                 | (534,899)      |
|                                                            | 1,817,753                 | 2,000,601      |
| Acquired intangible assets:                                |                           |                |
| Customer relationships                                     | 9,500,000                 | 10,455,320     |
| Acquired technology                                        | 5,200,000                 | 5,722,912      |
| Goodwill                                                   | 21,482,247                | 23,642,492     |
|                                                            | 36,182,247                | 39,820,724     |
|                                                            | € 38,000,000              | \$ 41,821,325  |

# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in U.S. dollars)

Three months ended December 31, 2015 and 2014  
(Unaudited)

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### 3. Business acquisition (continued):

The Company applied significant estimates and assumptions in accounting for the Acquisition of Orga relating to the preliminary allocation of the purchase price, valuation of intangible assets, valuation of accounts receivable and other valuations used in the business acquisition, such as deferred revenue and contract loss provisions.

The Company allocated €14,700,000 (\$16,178,232) to intangible assets, including customer relationships and developed technology based on their estimated fair values at the date of purchase. These intangible assets will be amortized over their estimated useful lives, expected to be in the range of 5 to 10 years. The useful lives of the intangible assets are to be determined as the period of time over which the assets are anticipated to contribute to the Company future cash flows. It is expected that the intangible assets will be deductible for tax purposes.

#### (iii) Goodwill:

Goodwill of \$23,642,492 was recognized in this business combination, due to the acquisition price being higher than the estimated fair market value of the net assets acquired.

In the three months ending December 31, 2015, Redknee obtained additional information about the facts and circumstances that existed at the acquisition date, requiring a measurement period adjustment, increasing the goodwill and deferred revenue by an amount of \$451,872.

#### (iv) Other items:

For the three months ended December 31, 2015, the Company incurred acquisition and related costs of \$713,710 (2014 - nil), which included expenses for legal, professional and other costs. These costs have been presented separately as acquisition and related costs in the condensed consolidated interim statements of comprehensive income (loss).

# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in U.S. dollars)

Three months ended December 31, 2015 and 2014  
(Unaudited)

## 3. Business acquisition (continued):

### (b) Acquisition of Business Support Systems ("BSS"):

On March 29, 2013, the Company acquired Nokia Networks' BSS business. Nokia Networks' BSS business provided real-time charging, rating, policy and customer care solutions to more than 130 communication service providers.

### (i) Settlement accrual and contingent consideration:

As part of the BSS acquisition, the Company agreed to pay additional consideration of up to a maximum of €25,000,000 for certain performance-based cash earn-outs over 12 to 48 months post-closing.

On June 23, 2015, the Company entered into an agreement with Nokia Networks to settle all outstanding matters related to the acquisition of the BSS business including finalization of the contingent consideration. As a result of this final settlement, the amount payable to Nokia Networks was \$15,620,960 to be paid within one year. The balance amount payable at September 30, 2015 was at \$10,244,224, of which an amount of \$6,639,799 was paid as at December 31, 2015. The balance of \$3,604,425 is presented as a settlement accrual on the condensed consolidated interim statements of financial position as at December 31, 2015.

### (ii) Other items:

During the three months ended December 31, 2015, the Company incurred direct acquisition and related costs of \$119,994 (2014 - \$415,051), which included expenses for legal, professional, restructuring and other costs. These costs have been charged to acquisition and related costs in the condensed consolidated interim statements of comprehensive income (loss).

## 4. Cash and cash equivalents:

|                  | December 31,<br>2015 | September 30,<br>2015 |
|------------------|----------------------|-----------------------|
| Cash             | \$ 43,195,035        | \$ 55,003,802         |
| Cash equivalents | 30,583               | 43,775                |
|                  | <u>\$ 43,225,618</u> | <u>\$ 55,047,577</u>  |

# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in U.S. dollars)

Three months ended December 31, 2015 and 2014  
(Unaudited)

## 5. Trade accounts and other receivables:

|                                                           | December 31,<br>2015 | September 30,<br>2015 |
|-----------------------------------------------------------|----------------------|-----------------------|
| Trade receivables, net of allowance for doubtful accounts | \$ 55,532,354        | \$ 58,749,604         |
| Other receivables (a)                                     | 9,304,764            | 8,017,424             |
| Employee receivables (b)                                  | 375,201              | 672,857               |
|                                                           | <u>\$ 65,212,319</u> | <u>\$ 67,439,885</u>  |

(a) The other receivables balance mainly includes amounts relating to initial net working capital acquired through the Acquisition of Orga.

(b) Employee receivables represent advances for business travel.

## 6. Other assets:

|                                       | December 31,<br>2015 | September 30,<br>2015 |
|---------------------------------------|----------------------|-----------------------|
| Deferred contract costs - current     | \$ 376,114           | \$ 392,195            |
| Deferred contract costs - non-current | 160,593              | 265,507               |
| Lease deposits - non-current          | 1,641,619            | 1,551,133             |
|                                       | <u>1,802,212</u>     | <u>1,816,640</u>      |
|                                       | <u>\$ 2,178,326</u>  | <u>\$ 2,208,835</u>   |

The Company recognized upfront direct costs related to one customer contract as an asset. It is probable that these assets will be recovered through future minimum contractual payment terms. The costs are being amortized over the pattern of recognition of the related contract revenue. During the three months ended December 31, 2015, \$120,995 was amortized and recorded in cost of revenue (2014 - \$283,151).

# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in U.S. dollars)

Three months ended December 31, 2015 and 2014  
(Unaudited)

## 7. Loans and borrowings:

|                                                                                                             | December 31,<br>2015 | September 30,<br>2015 |
|-------------------------------------------------------------------------------------------------------------|----------------------|-----------------------|
| Term loan (effective August 4, 2015),<br>bearing interest at LIBOR floor of<br>1.00% plus applicable margin | \$ 59,100,000        | \$ 59,550,000         |
| Less embedded derivative at inception                                                                       | 1,206,496            | 1,206,496             |
|                                                                                                             | 57,893,504           | 58,343,504            |
| Less unamortized deferred financing costs                                                                   | 2,032,990            | 2,053,227             |
| Add loan accretion                                                                                          | 507,133              | 470,789               |
|                                                                                                             | 56,367,647           | 56,761,066            |
| Less current portion of loans and borrowings                                                                | 2,100,000            | 1,800,000             |
| Long-term portion of loans and borrowings                                                                   | \$ 54,267,647        | \$ 54,961,066         |

On August 4, 2015, the Company entered into an amended and restated credit agreement with Wells Fargo Capital Finance, part of Wells Fargo & Company and its two partners the Royal Bank of Canada and Capital One. The amended credit agreement added to the Company's existing credit facility, increasing the revolving line of credit to \$40,000,000 and the term loan to \$60,000,000 for a total credit facility in the amount of \$100,000,000.

The Company uses the credit facilities for working capital, general corporate purposes, capital expenditures and for potential acquisitions. The credit facilities are secured by the assets of Redknee Inc., Redknee Solutions (UK) Limited ("Redknee UK") and Redknee Germany GmbH ("Redknee Germany"). The Company, Redknee UK, and Redknee Germany have guaranteed the obligations of Redknee Inc. The Company's guarantee is secured by a pledge of all of its shares in Redknee Inc.

As at December 31, 2015, \$59,100,000 (September 30, 2015 - \$59,550,000) is outstanding and principal and interest are payable quarterly over the term of five years, maturing August 4, 2020. The Company incurred \$3,373,730 of transaction costs and has recorded these costs as deferred financing costs that are being amortized over the expected five-year term of the loans using the effective interest rate method. During the three months ended December 31, 2015, \$110,426 of deferred financing fees was amortized and recorded in finance costs (2014 - \$97,599).

# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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## 7. Loans and borrowings (continued):

Interest is at LIBOR plus an applicable margin, which was 4.0% at December 31, 2015 and 2014. LIBOR is defined to have a floor of no less than 1.00%, which has been determined to be an embedded derivative. The fair value of the embedded derivative liability is estimated at \$405,807 at December 31, 2015 (September 30, 2015 - \$869,806), using the assumption that the expected repayment of this line of credit will be at maturity and repayment of the term loans are per the repayment terms. The change in fair value of \$463,999 for the three months ended December 31, 2015 (2014 - \$36,209) was recorded in finance costs in the condensed consolidated interim statements of comprehensive income (loss). The embedded derivative liability is included in other liabilities in the condensed consolidated interim statements of financial position.

The Company is required to comply with certain financial and non-financial covenants that exist under the agreement, which, if violated, could result in the amounts borrowed being due and payable to the lender on demand. The Company has assessed its debt covenants as at December 31, 2015 and determined it is in compliance with all applicable covenants.

For the three months ended December 31, 2015, interest expense in connection with loans payable of \$961,993 (2014 - \$637,448) has been recognized as finance costs in the condensed consolidated interim statements of comprehensive income (loss).

## 8. Share capital:

(a) Income (loss) per common share:

A reconciliation of the number of common shares used for purposes of calculating basic and diluted income or loss per common share for the three months ended December 31 is as follows:

|                                                              | 2015        | 2014        |
|--------------------------------------------------------------|-------------|-------------|
| Basic weighted average number of common shares outstanding   | 109,136,362 | 108,944,276 |
| Add dilutive stock options outstanding                       | —           | 2,466,361   |
| Diluted weighted average number of common shares outstanding | 109,136,362 | 111,410,637 |

# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in U.S. dollars)

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## 8. Share capital (continued):

Due to the loss for three months ended December 31, 2015, all options were excluded from the calculation of diluted net income (loss) per common share as their inclusion would be anti-dilutive. The total number of options that were excluded from the calculation were 10,833,287.

For three months ended December 31, 2014, the total number of anti-dilutive options that were out of the money and, therefore, excluded from the calculation of diluted net income (loss) per common share were 5,241,770.

### (b) Normal course issuer bid ("NCIB"):

On December 2, 2015, the Company announced an NCIB under which it may purchase up to 9,437,270 of its common shares commencing on December 7, 2015, and expiring on December 6, 2016. As of December 31, 2015, the Company has purchased and cancelled 517,700 common shares for \$1,106,482 under this program.

### (c) Share-based compensation:

The share-based compensation relating to the Company's stock options, deferred share unit plan and restricted shares under the restricted share plan during the three months ended December 31, 2015 was \$249,609 (2014 - \$465,166).

### (i) Stock options:

The table below is a summary of the stock option plans for the three months ended December 31, 2015.

|                                | CAD options                |                                                    |
|--------------------------------|----------------------------|----------------------------------------------------|
|                                | Number of<br>stock options | Weighted<br>average<br>exercise price<br>per share |
| Outstanding September 30, 2015 | 7,780,332                  | \$ 2.91                                            |
| Granted                        | 3,426,875                  | 2.99                                               |
| Exercised                      | (40,050)                   | 1.28                                               |
| Forfeited                      | (333,870)                  | 3.27                                               |
| Outstanding December 31, 2015  | 10,833,287                 | 2.93                                               |



# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in U.S. dollars)

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## 8. Share capital (continued):

### (ii) Share unit plan:

The table below is a summary of the restricted share units ("RSU") and performance share units ("PSU") for the three months ended December 31, 2015.

| RSU and PSU                    |           |
|--------------------------------|-----------|
| Outstanding, beginning of year | 1,110,928 |
| Granted                        | 1,027,570 |
| Exercised                      | (14,821)  |
| Forfeited                      | (246,312) |
| Outstanding, end of year       | 1,877,365 |

### (iii) Deferred share unit plan:

During three months ended December 31, 2015, there were no deferred share units ("DSUs") granted. The number of DSUs outstanding at December 31, 2015 and September 30, 2015 were 536,595.

## 9. Income tax expense:

The Company's current income tax expense for the three months ended December 31, 2015 includes \$2,100,332 (2014 - \$784,287) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and \$280,957 (2014 - \$615,508) of foreign withholding taxes.

The Company's deferred tax expense of \$548,568 (2014 - \$8,865) consists primarily of changes in temporary differences recognized during the current period.

# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in U.S. dollars)

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(Unaudited)

## 10. Change in non-cash operating working capital:

The change in non-cash working capital for the three months ended December 31 are as follows:

|                                           | 2015         | 2014           |
|-------------------------------------------|--------------|----------------|
| Trade accounts and other receivables      | \$ 2,221,255 | \$ (4,609,445) |
| Unbilled revenue                          | (1,622,466)  | (1,208,485)    |
| Prepaid expenses                          | (113,777)    | 1,796,450      |
| Other assets                              | 30,509       | 232,905        |
| Inventories                               | 15,100       | 2,601,444      |
| Trade payables                            | 2,496,146    | 1,782,950      |
| Accrued liabilities and other liabilities | (2,636,088)  | (6,374,402)    |
| Income taxes payable                      | (9,385)      | 57,919         |
| Deferred revenue                          | (1,100,923)  | (3,375,340)    |
|                                           | \$ (719,629) | \$ (9,096,004) |

## 11. Financial instruments and capital management:

Accounting classifications and fair values:

The Company adopts a three-level fair value hierarchy that reflects the significance of the inputs used to measure fair value. The three levels of the fair value hierarchy based on the reliability of inputs are as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the financial asset or financial liability, either directly (i.e., prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the financial asset or financial liability that are not based on observable market data (i.e., unobservable inputs that represent the Company's own judgments about what assumptions market place participants would use in pricing the asset or liability developed, based on the best information available in the circumstances).

# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in U.S. dollars)

Three months ended December 31, 2015 and 2014  
(Unaudited)

## 11. Financial instruments and capital management (continued):

In the table below, the Company has segregated all financial assets and financial liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy, based on the inputs used to determine the fair value at the measurement date.

Financial assets and financial liabilities measured at fair value at December 31, 2015 and September 30, 2015 are summarized below:

|                                                             | December 31, 2015 |               | September 30, 2015 |               |
|-------------------------------------------------------------|-------------------|---------------|--------------------|---------------|
|                                                             | Carrying amount   | Fair value    | Carrying amount    | Fair value    |
| Cash and cash equivalents (Level 1)                         | \$ 43,225,618     | \$ 43,225,618 | \$ 55,047,577      | \$ 55,047,577 |
| Restricted cash (Level 1)                                   | 5,810,179         | 5,810,179     | 5,972,087          | 5,972,087     |
| Settlement accrual and contingent consideration (Level 3)   | 3,604,425         | 3,604,425     | 10,244,224         | 10,244,224    |
| Embedded derivative liability (other liabilities) (Level 2) | 405,807           | 405,807       | 869,806            | 869,806       |

There were no transfers of financial assets between levels during the three months ended December 31, 2015.

Financial instruments are classified into one of the following categories: financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and other financial liabilities. The following table summarizes information regarding the carrying values of the Company's financial instruments:

|                                               | December 31, 2015 | September 30, 2015 |
|-----------------------------------------------|-------------------|--------------------|
| Financial assets at FVTPL <sup>(a)</sup>      | \$ 49,035,797     | \$ 61,019,664      |
| Loans and receivables <sup>(b)</sup>          | 65,212,319        | 67,439,885         |
| Other financial liabilities <sup>(c)</sup>    | 109,648,358       | 113,588,948        |
| Financial liabilities at FVTPL <sup>(d)</sup> | 3,604,425         | 10,244,224         |

<sup>(a)</sup> Includes cash and cash equivalents and restricted cash.

<sup>(b)</sup> Includes trade accounts and other receivables.

<sup>(c)</sup> Includes trade payables, accrued liabilities, other liabilities, current and long-term portions of loans and borrowings and provisions.

<sup>(d)</sup> Includes settlement accrual and contingent consideration.

# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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## 11. Financial instruments and capital management (continued):

The carrying values of trade accounts and other receivables, trade payables, accrued liabilities and provisions approximate fair values because of the short-term nature of these financial instruments.

The carrying values of settlement accrual and contingent consideration liabilities approximate fair values because of its short-term nature.

The carrying value of loans and borrowings with floating interest rates approximates fair value because the interest rates approximate market rates.

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. The estimates are subjective in nature and involve uncertainties and matters of judgment.

## 12. Segment reporting:

The Company has determined that it operates in a single reportable operating segment, the telecommunications software market. The single reportable operating segment derives its revenue from the sale of software products and related services and hardware.

Revenue is attributed to geographic locations, based on the location of the external customer. The Company's revenue by geographic area for the three months ended December 31 is as follows:

|                                            | 2015                 | 2014                 |
|--------------------------------------------|----------------------|----------------------|
| Europe, Middle East and Africa             | \$ 26,667,765        | \$ 30,752,811        |
| North America, Latin America and Caribbean | 9,473,555            | 6,718,891            |
| Asia and Pacific Rim                       | 13,974,491           | 25,105,227           |
|                                            | <u>\$ 50,115,811</u> | <u>\$ 62,576,929</u> |

# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in U.S. dollars)

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## 12. Segment reporting (continued):

The Company's revenue by type for the three months ended December 31 is as follows:

|                                   | 2015                 | 2014                 |
|-----------------------------------|----------------------|----------------------|
| Revenue by type:                  |                      |                      |
| Software and services             | \$ 22,650,194        | \$ 33,741,226        |
| Support and subscription          | 24,997,577           | 24,621,329           |
| Third party software and hardware | 2,468,040            | 4,214,374            |
|                                   | <u>\$ 50,115,811</u> | <u>\$ 62,576,929</u> |

## 13. Restricted cash, guarantees and contingent liabilities:

### (a) Restricted cash:

As at December 31, 2015, the Company had \$5,810,179 in cash put aside for planned payments to early retirees and lease guarantees, which are secured by restricted cash, shown separately in the condensed consolidated interim statements of financial position.

### (b) Guarantees and contingent liabilities:

The Company has provided routine indemnifications to its customers against liability if the Company's products infringe on a third party's intellectual property rights. The maximum exposure from these indemnifications cannot be reasonably estimated. In some cases, the Company has recourse against other parties to mitigate its risk of loss from these guarantees.

In the normal course of operations, the Company is subject to claims from time to time, relating to labour, customers and other. Although it is not always possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies will not have a material adverse impact on the results of operations, financial position or liquidity of the Company.

# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
(Expressed in U.S. dollars)

Three months ended December 31, 2015 and 2014  
(Unaudited)

## 14. Provisions:

|                             | Restructuring (a) | Other/onerous contracts (b) | Total         |
|-----------------------------|-------------------|-----------------------------|---------------|
| Balance, September 30, 2015 | \$ 6,095,950      | \$ 6,682,923                | \$ 12,778,873 |
| Additions                   | 278,546           | —                           | 278,546       |
| Cash payments               | (1,700,982)       | —                           | (1,700,982)   |
| Utilization                 | —                 | (1,065,853)                 | (1,065,853)   |
| Foreign exchange            | (163,432)         | (180,446)                   | (343,878)     |
| Balance, December 31, 2015  | \$ 4,510,082      | \$ 5,436,624                | \$ 9,946,706  |
| Current                     |                   |                             | \$ 8,772,519  |
| Non-current                 |                   |                             | 4,006,354     |
| Total at September 30, 2015 |                   |                             | \$ 12,778,873 |
| Current                     |                   |                             | \$ 6,984,952  |
| Non-current                 |                   |                             | 2,961,754     |
| Total at December 31, 2015  |                   |                             | \$ 9,946,706  |

(a) In August 2014, the Company announced that it would eliminate certain satellite office locations, concentrate research and development and support staff into existing locations and consolidate activities to lower cost centres. The Company also announced restructuring actions throughout the organization intended to reduce its overall cost structure and improve its margin performance. In connection with these plans, during the three months ended December 31, 2015, additional restructuring charges related to employee terminations of \$278,546 were recorded.

For the three months ended December 31, 2015, an amount of \$1,700,982 has been paid and an amount of \$3,187,896 is estimated as payable within one year. The balance of the provision, classified as long-term, is payable over five years, amounts to \$1,322,186 and has been discounted. The accretion expense of the long-term provision is included in finance costs on the condensed consolidated interim statements of comprehensive income (loss).

# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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(Unaudited)

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## **14. Provisions (continued):**

The recognition of restructuring charges requires management to make certain judgments and estimates regarding the nature, timing and amounts associated with the restructuring actions. Management's significant assumptions included the timing and number of employees to be terminated and the measurement of termination costs. The Company developed a detailed plan and has recorded termination costs for employees informed of their termination. At the end of each reporting period, management will evaluate the appropriateness of the restructuring charges and provision balances. Further adjustments may be required to reflect actual experience or changes in estimates.

- (b) Upon the Acquisition of Orga, a provision for an onerous contract was recognized for one project in the amount of \$7,334,780. For the three months ended December 31, 2015, \$1,065,853 of the provision was utilized against the costs incurred for the project.

## **15. Subsequent event:**

Subsequent to December 31, 2015, consistent with its acquisition and integration strategy, Redknee initiated its planned cost structure optimization as it finalizes the integration of Orga. As a result of these efforts, the Company expects to close certain offices and refocus some of its activities in certain regions, resulting in headcount reductions. While no amount has been provided relating to this cost structure optimization as of the date these financial statements are approved, it is expected that a restructuring provision will be recorded in the financial statements beginning the quarter ending March 31, 2016.