FORM 51-102F3
MATERIAL CHANGE REPORT

Item 1. Name and Address of Reporting Issuer

Redknee Solutions Inc. ("**Redknee**" or the "**Company**")
2560 Matheson Blvd. East
Mississauga, Ontario, L4W 4Y9

Item 2. Date of Material Change

December 20, 2016

Item 3. News Release

A news release with respect to the material change referred to in this report was issued by the Company on December 20, 2016 through the services of Canada NewsWire and a copy was subsequently filed on SEDAR.

Item 4. Summary of Material Change

On December 20, 2016, the Company announced that it entered into a subscription agreement (the "**ESW Agreement**") with ESW Capital, LLC ("**ESW Capital**") and Wave Systems Corp. (the "**Investor**"), an affiliate of ESW Capital, pursuant to which the Company agreed to complete a private placement of Series A Preferred Shares (the "**Preferred Shares**") and a common share purchase warrant (the "**Warrant**") to the Investor for gross proceeds of US$83.2 million (the "**Transaction**"). The Warrant will entitle the Investor to acquire a number of common shares ("**Common Shares**") of the Company (each a "**Warrant Share**") equal to US$60 million divided by the exercise price per Warrant Share (the "**Warrant Exercise Price**") for a period of ten years from the date of closing of the Transaction (the "**Closing Date**"). The Warrant Exercise Price will be determined on the Closing Date and equal to the lower of: (i) the US dollar equivalent on the Closing Date of the volume weighted average trading price of the Common Shares over the period of 10 trading days on the Toronto Stock Exchange ("**TSX**") ending in the second trading day prior to the Closing Date; and (ii) US$1.43; provided that the Warrant Exercise Price shall not be less than US$1.09. The Warrant will provide for a cashless exercise feature and will contain customary anti-dilution provisions, including anti-dilution provisions for issuances of Common Shares below the Warrant Exercise Price.

The Company had previously entered into an agreement (the "**Constellation Agreement**") on December 9, 2016, with Constellation Software Inc. ("**Constellation**") and a subsidiary thereof (the "**Constellation Investor**") for gross proceeds of US$80 million. The Constellation Agreement provided that, in the event that Redknee received a competing proposal that was considered to be superior by

Redknee to the transaction contemplated by the Constellation Agreement, the Constellation Investor had the right (the "**Matching Right**") to offer to amend the Constellation Agreement such that the competing proposal was no longer a superior proposal within a 5 business day matching period (the "**Response Period**").

The Company provided notice to Constellation and thereafter announced that it had received an offer from ESW Capital and the Investor which the Company's Board of Directors ("**Board**") had, in good faith, after receiving the advice of its financial advisors and outside counsel, unanimously determined constituted a superior proposal within the meaning of the Constellation Agreement.

The Constellation Investor provided notice in writing to the Company that it would not exercise its Matching Right and waived the remainder of the Response Period. Accordingly, the Company terminated the Constellation Agreement in accordance with its terms with the Company obligated to pay the Constellation Investor a termination fee of US$3.2 million (the "**Constellation Termination Fee**"). Under the terms of the ESW Agreement, the Investor assumed and paid the Constellation Termination Payment on behalf of the Company, which payment was non-refundable but will be credited against the Investor's obligation to pay the proceeds of US$83.2 million to the Company on closing of the Transaction.

Completion of the Transaction is subject to approval of holders ("**Shareholders**") of common shares of the Company (the "**Common Shares**") at a special meeting of Shareholders (the "**Company Meeting**") expected to be held on January 25, 2017.

At the Company Meeting, Shareholders will be asked to consider, and if thought advisable, approve:

- the issuance of the Preferred Shares and the Warrant, in accordance with Multilateral Instrument 61-101 *Protection of Minority Security Holders in Special Transactions* ("**MI 61-101**") and the policies of the TSX (the "**Private Placement Resolution**"); and

- the termination of Redknee's Shareholder Rights Plan dated March 9, 2016 (the "**Shareholder Rights Plan Termination Resolution**").

The Private Placement Resolution requires approval by a simple majority of the votes cast at the Company Meeting by the Shareholders (excluding votes cast by ESW Capital, the Investor, and their affiliates as required by MI 61-101 and the policies of the TSX). The Shareholder Rights Plan Termination Resolution requires approval by a simple majority of the votes cast at the Company Meeting by the Independent Shareholders (as defined under Redknee's Shareholder Rights Plan).

The Company's largest investor, Invesco Canada Ltd., which holds Common Shares representing approximately 19.9% of the outstanding

Common Shares, has agreed to vote its shares in favour of the Private Placement Resolution and Shareholder Rights Plan Resolution.

In addition, all directors of the Company, certain officers and an employee of the Company, holding Common Shares representing in aggregate approximately 16% of the outstanding Common Shares, have also agreed to vote their Common Shares in favour of the Private Placement Resolution and Shareholder Rights Plan Termination Resolution.

Closing of the Transaction is also subject to approval of the TSX and customary closing conditions.

Item 5. **<u>Full Description of Material Change</u>**

On December 20, 2016, the Company announced that it entered into the ESW Agreement with ESW Capital and the Investor, pursuant to which the Company agreed to complete a private placement of 800,000 Preferred Shares and a Warrant to the Investor for gross proceeds of US$83.2 million.

The Transaction pursuant to the ESW Agreement was the most attractive transaction to arise out of the publicly disclosed, robust and competitive process overseen by the special committee of the board of directors of the Company to consider various strategic and financing alternatives potentially available to the Company. As a result of the strategic review process, the Company entered into the Constellation Agreement on December 9, 2016. Under the Constellation Agreement, the Company would have completed a private placement of 800,000 Preferred Shares and a common share purchase warrant to the Constellation Investor for gross proceeds of US$80 million.

The unsolicited offer of ESW Capital (the terms of which comprise the ESW Agreement) was unanimously determined by the Board in good faith, after receiving the advice of its financial advisors and outside counsel, to constitute a superior proposal within the meaning of the Constellation Agreement. After providing notice thereof to the Constellation Investor, the Constellation Agreement was terminated in accordance with its terms and the Company entered into the ESW Agreement.

The terms of the ESW Agreement are materially the same as those in the Constellation Agreement (for which a material change report was filed on December 19, 2016) except for the following:

<u>The number of Warrant Shares issuable under the Warrant</u>

The Warrant will entitle the Investor to acquire a number of Warrant Shares equal to US$60,000,000 divided by the Warrant Exercise Price. The Warrant Shares issuable under the Warrant pursuant to the ESW Agreement will result in fifty percent less dilution to Shareholders as compared to the warrant that would have been issued under the Constellation Agreement.

The redemption price of the Preferred Shares

The Company may, at its option, subject to the terms of any shares ranking prior to the Preferred Shares and to applicable law, on at least 20 days' notice, redeem all or from time to time any part of the then outstanding Preferred Shares by payment of an amount in cash for each such Preferred Share redeemed equal to US$100 per Preferred Share, plus all accrued and unpaid dividends on the Preferred Shares, up to, but excluding, the date of payment (the "**Liquidation Preference**") less any tax required to be deducted and withheld by the Company.

By comparison, under the Constellation Agreement, an early redemption premium of up to 120% of the proceeds of the Preferred Share investment could have been payable.

The change of control payment on the Preferred Shares

On the occurrence of a change of control of the Company, subject to the terms of any shares ranking prior to the Preferred Shares and to applicable law, the Company will have the right, without the consent of the holders of Preferred Shares ("**Preferred Shareholders**"), to require that the Preferred Shares be purchased or otherwise acquired from Preferred Shareholders for the aggregate sum of the Liquidation Preference and a make-whole payment for any taxes incurred by the Preferred Shareholders in connection with such sale that would be incremental to taxes arising in connection with a redemption of the Preferred Shares in connection with a change of control.

By comparison, under the Constellation Agreement, payment of up to 120% of the proceeds of the Preferred Share investment, plus the make-whole payment referred to above, could have been payable on a change of control.

Representations and covenants regarding sufficiency of funds

ESW Capital and the Investor represented and covenanted to hold monies in certain accounts to ensure sufficiency of funds to pay the amount owing under the ESW Agreement.

Covenant regarding payment of the Constellation Termination Fee

Pursuant to the terms of the ESW Agreement, the Investor assumed and paid the Constellation Termination Payment on behalf of the Company. The payment of the Constellation Termination Payment is non-refundable but will be credited against the Investor's obligation to pay the proceeds of US$83.2 million to the Company on the Closing Date.

Item 6. Reliance on subsection 7.1(2) of National Instrument 51-102

Not applicable.

Item 7. <u>Omitted Information</u>

Not applicable.

Item 8. <u>Executive Officer</u>

David Charron, Chief Financial Officer
Phone: (905) 625-2943
Fax: (905) 625-2773

Item 9. <u>Date of Report</u>

December 29, 2016.