

# REDKNEE

**REDKNEE SOLUTIONS INC.**  
***MANAGEMENT'S DISCUSSION AND ANALYSIS***  
**FOR THE FIRST QUARTER ENDED DECEMBER 31, 2012**

**DATED: February 13, 2013**

**SCOPE OF ANALYSIS**

This Management's Discussion and Analysis (MD&A) covers the results of operations, financial condition and cash flows of Redknee Solutions Inc. (the "Company" or "Redknee") for the three month period ended December 31<sup>st</sup> 2012. This document is intended to assist the reader in better understanding operations and key financial results as they are, in our opinion, at the date of this report.

The MD&A should be read in conjunction with the Unaudited Condensed Consolidated Interim Financial Statements for the three months ended December 31<sup>st</sup> 2012, which we prepared in accordance with International Financial Reporting Standards ("IFRS").

Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Forward-Looking Statements" and "Risks and Uncertainties". The condensed consolidated interim financial statements and the MD&A have been reviewed by Redknee's Audit Committee and approved by its Board of Directors.

Unless otherwise indicated, all dollar amounts are expressed in U.S. dollars. In this document, "we," "us," "our," "Company" and "Redknee" all refer to Redknee Solutions Inc. collectively with its subsidiaries.

**FORWARD-LOOKING STATEMENTS**

Certain statements in this document may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, such statements use such words as "may", "will", "expect", "continue", "believe", "plan", "intend", "would", "could", "should", "anticipate" and other similar terminology. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date of this document. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under the "Risk Factors" section of the Company's the most recently filed AIF. Although the forward-looking statements contained in this document are based upon what we believe are reasonable assumptions, we cannot assure investors that our actual results will be consistent with these forward-looking statements. We assume no obligation to update or revise these forward-looking statements to reflect new events or circumstances, except as required by securities law.

## OVERVIEW

The Company commenced operations in July 1999. Redknee is a leading provider of revenue generating software products, solutions and services to some of the largest network operators throughout the world, including wireless, wireline, broadband and satellite. Redknee delivers solutions in the areas of converged billing, interconnect billing, customer care, real-time rating, charging and policy management for voice, messaging and next generation data services to more than 90 network operators in over 50 countries. The Company's software products allow its wireless, multi-play and alternate service providers to extend and enhance their capabilities and service offerings, enabling them to introduce new revenue and improve customer satisfaction through the introduction of innovative tariffs and loyalty programs, data services, and advanced customer care and subscriber self-care. This is provided by the Company's software products which 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 solutions enable operators to monetize the value of each transaction, while personalizing the subscriber experience to meet mainstream and individual market segmentation requirements. The Company segments its operations in three main geographic areas namely:

1. APAC – Asia and Pacific Rim
2. Americas – North America, South America and Caribbean
3. EMEA – Europe, Middle East and Africa

Redknee's end-to-end real-time converged billing and customer care solution provides wireless, multi-play and alternate service providers with the agility to drive a unique user experience, increase profitability and support any new products or business models. Redknee's converged billing platform supports the following solutions:

**Redknee's Real-time Converged Billing** – Redknee's award-winning cloud-enabled real-time converged billing and customer care platform provides the marketing agility to support service providers achieve their business objectives. Redknee delivers the benefits of a highly scalable converged billing and customer care platform, including real-time unified billing, rating and charging for the operator's data, voice, and messaging services; advanced customer care capabilities with the Microsoft Dynamics CRM framework; real-time subscriber promotions and loyalty programs; and transparent and flexible self-care options for prepaid, postpaid and hybrid subscribers.

**Redknee's Brand Challenger** – Redknee's Brand Challenger solution provides a cloud-based end-to-end converged billing solution for Mobile Network Operators ("MNOs"), Mobile Virtual Network Enablers ("MVNEs") and Mobile Virtual Network Operators ("MVNOs") to launch quickly to the market. Redknee's out-of-the-box solution offers a low risk business model that enables MNOs to launch a second brand, MVNEs to accelerate their growth strategies and MVNOs to improve their differentiation in the market.

**Redknee's Wholesale Settlement** – Redknee's Wholesale Settlement is a cloud-based solution that provides operators with greater visibility into network transactions in order to achieve converged settlement and accurate interconnect billing. Redknee's solution helps service providers maximize the

value of their network with a comprehensive and cost-effective interconnect, wholesale, roaming, MVNO, franchise management and content settlement software solution.

## **FIRST QUARTER HIGHLIGHTS**

### **Bought deal**

October 23, 2012, the Company completed an offering of 13,000,000 common shares (the "Common Shares") of the Company at price of CAD \$1.35 per Common Share (the "Offering Price") for aggregate gross proceeds of CAD \$17.6 million (the "Offering").

The Offering was completed on a bought deal basis and was underwritten by a syndicate of underwriters led by GMP Securities L.P., and including Canaccord Genuity Corp. and TD Securities Inc. (collectively, the "Underwriters").

The Common Shares were offered by way of a short form prospectus filed in all provinces of Canada (except Québec).

On November 14, 2012, the Underwriters also exercised an over-allotment option to purchase an additional 1,950,000 Common Shares at the Offering Price. With this option now exercised in full, an additional CAD \$2.6 million was raised pursuant to the Offering and the aggregate gross proceeds of the Offering is CAD \$20.2 million. Transaction costs directly associated with this issuance of shares of CAD \$0.3 million have been recognized against the proceeds.

The Company plans to use the net proceeds from the Offering for working capital, or to expand its current business through strategic acquisitions, if such opportunities arise.

### **Acquisition agreement**

On December 5, 2012, the Company announced that it reached a definitive agreement to acquire Nokia Siemens Network's Business Systems ("BSS") business. The total consideration to be paid by Redknee for the BSS business will include €15 million in cash at closing, plus a maximum of €25 million for certain performance-based cash earn-outs expected to be paid over 12 to 36 months post-closing. Redknee expects to finance the transaction through a combination of cash and debt facilities. Such debt facilities are subject to conditions and will be entered into and subject to closing of the acquisition. The acquisition is anticipated to close in the first half of calendar year 2013. The acquisition is subject to applicable regulatory, exchange and third-party approvals, along with other customary terms and conditions.

**SELECTED CONSOLIDATED FINANCIAL INFORMATION**

The following table sets out selected consolidated financial information of Redknee for the periods indicated. Each investor should read the following information in conjunction with those financial statements and related notes. The operating results for any past period are not necessarily indicative of results for any future period. The selected financial information set out below has been derived from the consolidated financial statements.

<b>Consolidated Statement of Operations</b> (all amounts in thousands of US\$, except per share amounts) <b>(unaudited)</b>	<b>Three Months Ended</b>	
	<b>December 31</b>	
	<b>2012</b>	<b>2011</b>
<b>Revenue</b>		
Software, services and other	\$ 8,275	\$ 7,624
Support	5,962	5,749
	<b>14,237</b>	<b>13,373</b>
<b>Cost of revenue</b>	5,319	4,585
<b>Gross profit</b>	<b>8,918</b>	<b>8,788</b>
<b>Operating expenses</b>		
Sales and marketing	2,953	3,393
General and administrative	2,397	1,884
Research and development	3,200	2,419
Acquisition costs	2,278	-
	<b>10,828</b>	<b>7,696</b>
<b>Income (loss) from operations</b>	<b>(1,910)</b>	<b>1,092</b>
Foreign exchange gain (loss)	360	(561)
Other income (expense)	-	-
Finance income	12	18
Finance costs	(114)	(117)
<b>Income (loss) before income taxes</b>	<b>(1,652)</b>	<b>431</b>
Income taxes	87	73
<b>Net Income (loss) for the period</b>	<b>\$ (1,739)</b>	<b>\$ 358</b>
<b>Income (loss) per Common Share</b>		
Basic	(0.02)	\$ 0.01
Diluted	(0.02)	\$ 0.01
<b>Weighted average number of common shares</b>		
Basic (thousands)	75,446	64,222
Diluted (thousands)	75,446	65,098

Statement of Financial Position Data \$US Thousands (unaudited)	As at December 31, 2012	As at September 30, 2012
Cash, Cash Equivalents and Restricted Cash	32,345	17,792
Goodwill and Intangible Assets	11,145	11,310
Total Assets	76,703	58,757
Accounts Payable and Accrued Liabilities	9,428	8,913
Long-Term Debt and Other LT liabilities	6,094	5,901
Shareholders' Equity	51,548	34,161

## CURRENT PERIOD OPERATING RESULTS

### Revenue

The following tables set forth the Company's revenues by type and as a percentage of total revenue for the periods indicated:

\$US Thousands (unaudited)	Three Months Ended December 31	
	2012	2011
Software & Services	7,457	7,035
Support	5,962	5,749
Third Party Software & Hardware	818	589
<b>Total</b>	<b>14,237</b>	<b>13,373</b>

Percentage of Total Revenue (unaudited)	Three Months Ended December 31	
	2012	2011
Software & Services	52%	53%
Support	42%	43%
Third Party Software & Hardware	6%	4%
<b>Total</b>	<b>100%</b>	<b>100%</b>

The Company recognizes revenue from the sale of software licenses, including initial licenses, capacity increases and/or upgrades; professional services; third party hardware and software components and customer support contracts. For the three-month period ended December 31, 2012, the Company's revenue increased by 6% to \$14.2 million from \$13.4 million compared to the same period in fiscal 2012. The increase in revenue for the quarter ended December 31, 2012 is mainly due to increase in license expansions, increase in license upgrades and increase in third party software & hardware sales.

### ***Software and Services Revenue***

Software and services revenue consists of fees earned from the licensing and deployment of software products to our customers, as well as the revenues resulting from consulting and training services contracts related to the software products.

Software and services revenue for Q1 2013 increased by 6% to \$7.5 million, or 52% of total revenue, compared to \$7.0 million, or 53% of total revenue for the same period last year. The increase in revenue is mainly due to increased license expansion and upgrades revenue in the APAC and EMEA regions.

### ***Support Revenue***

Support revenue consists of revenue from our customer support, subscription and maintenance contracts. These recurring revenue agreements allow customers to receive technical support and upgrades in the case of subscription agreements. Support revenue is generated from such agreements relative to current year sales and the renewal of existing agreements for software licenses sold in prior periods. Typically, support contracts commence for a period of one or more years upon completion of acceptance testing and then renew annually thereafter.

Support revenue for Q1 2013 increased by 4% to \$6.0 million, or 42% of total revenue, compared to \$5.7 million, or 43% of total revenue, for the same period last year. The increase is primarily due to increased support in the Americas and the EMEA regions.

### ***Third Party Software and Hardware Revenue***

Third-party software and hardware revenue consists of revenue from the sale of other vendor's hardware and software components as part of Redknee's solutions, including server platforms, database software and other ancillary components.

Third-party software and hardware revenue for Q1 2013 increased by 39% to \$0.8 million, or 6% of total revenue, compared to \$0.6 million, or 4% of total revenue, for the same period last year. This increase in revenue was due to increased initial deployment sales of real-time converged billing solutions that contain third party components as part of the overall turnkey solution, mainly in the APAC region.

### ***Revenue by Geography***

Revenue is attributed to geographic locations based on the location of the customer. The following tables set forth revenues by main geographic area and as a percentage of total revenue for the periods indicated:

\$US Thousands (unaudited)	Three Months Ended December 31	
	2012	2011
Asia and Pacific Rim	3,956	2,638
North America, South America and Caribbean	5,380	6,102
Europe, the Middle East and Africa	4,901	4,633
<b>Total</b>	<b>14,237</b>	<b>13,373</b>

Percentage of Total Revenue (unaudited)	Three Months Ended December 31	
	2012	2011
Asia and Pacific Rim	28%	20%
North America, South America and Caribbean	38%	45%
Europe, the Middle East and Africa	34%	35%
<b>Total</b>	<b>100%</b>	<b>100%</b>

For Q1 2013, revenue from the APAC region increased by 50% to \$4.0 million, or 28% of total revenue, compared to \$2.6 million, or 20% of total revenue for Q1 2012. The change is mainly due to the increase in initial deployments, software upgrades and services and an increase in third party software & hardware sales.

For Q1 2013, revenue from the Americas region decreased by 12% to \$5.4 million or 38% of total revenue, compared to \$6.1 million or 45% of total revenue for Q1 2012. This change was mostly due to a decrease in initial deployment revenue and revenue from license expansions.

For Q1 2013, revenue from the EMEA region increased by 6% to \$4.9 million, or 34% of total revenue, compared to \$4.6 million, or 35% of total revenue for Q1 2012. This increase is primarily due to increase in license expansions partially offset by lower professional services revenue, a decrease in software upgrades and lower third party software & hardware sales.

### Cost of Revenue and Gross Margin

Cost of revenue consists of the expense of personnel providing professional services to implement and provide post sales technical support for our solutions, and the costs of third party hardware and software components sold as part of Redknee's solution. In addition, it includes an allocation of certain direct and indirect costs attributable to these activities.

For the first quarter of fiscal 2013, cost of sales increased 16% to \$5.3 million from \$4.6 million incurred for the same period in 2012. The increase in cost of sales is mainly attributed to increase in the headcount, increased third party hardware purchases and software license royalty fees.

The gross margin for the first quarter of fiscal 2013 was 63% compared to 66% for the first quarter of 2012. The decrease in gross margin for the period relates to increased royalty costs for license sales in



the Americas and the change in mix of the revenue recorded with a higher percentage of sales of third-party components recorded which generally carry the lowest gross margins.

### Operating Expenses

Total operating expenses (excluding amortization) in the first quarter of fiscal 2013 increased by 41% to \$10.6 million compared to \$7.5 million for the same period last year. As a percentage of total revenue, operating expenses (excluding amortization) was 74% compared to 56% for the same period last year. The increase is mostly due to the legal and professional services costs directly associated with the planned BSS acquisition of \$2.3 million, as well as an overall increase in headcount and an increase in professional fees incurred for research and development activities. Excluding the special charges and amortization, total operating costs in the first quarter of fiscal 2013 were \$8.3 million compared to \$7.5 million for the same period last year.

The following tables set forth total operating expenses by function and as a percentage of total revenue for the periods indicated:

\$US Thousands (unaudited)	Three Months Ended December 31	
	2012	2011
Sales and Marketing	2,953	3,393
General and Administrative	2,397	1,884
Research and Development	3,200	2,419
Special Charges	2,278	-
<b>Total Operating Expenses</b>	<b>10,828</b>	<b>7,696</b>
<i>Excluding Amortization</i>	<i>10,592</i>	<i>7,462</i>

Percentage of Total Revenue (unaudited)	Three Months Ended December 31	
	2012	2011
Sales and Marketing	21%	25%
General and Administrative	17%	14%
Research and Development	22%	18%
Special Charges	16%	0%
<b>Total Operating Expenses</b>	<b>76%</b>	<b>58%</b>
<i>Excluding Amortization</i>	<i>74%</i>	<i>56%</i>

### Sales and Marketing Expenses

Sales and Marketing ("S&M") expenses consist primarily of salaries, variable compensation costs and other personnel costs, travel, advertising, marketing and conference costs plus the allocation of certain overhead costs to support the Company's sales and marketing activities.

For the first quarter of fiscal 2013, S&M expenditures decreased by 13% to \$3.0 million, which represented a \$0.4 million decrease from the \$3.4 million incurred for the same period last year. As a percentage of total revenue, S&M expenses decreased to 21% compared to 25% for the same period last year. The decrease in S&M expenses is mostly due to the reduction in compensation and associated costs with reduced headcount year over year.

### ***General and Administrative Expenses***

General and administrative (“G&A”) expenses consist of the Company’s support activities such as finance, human resources, information technology, and professional costs associated with tax, accounting, and legal expenditures. Certain overhead costs such as facilities, communications and computer costs are allocated to G&A and the other departments on a per headcount basis.

For the first quarter of fiscal 2013, general and administrative expenditures increased 27% to \$2.4 million from \$1.9 million in 2012. As a percentage of total revenue, G&A expenses increased to 17% from 14% compared to same period last year. The increase is mostly due to an increase in stock-based compensation from the long-term incentive plan implemented last quarter and other corporate related expenditures related to the bought deal financing in the quarter.

### ***Research and Development Expenses***

Research and development expenses consist primarily of personnel costs associated with product management and the development and testing of new products plus the allocation of certain overhead costs.

For the first quarter of fiscal 2013, R&D expenditures increased by 32% to \$3.2 million compared to \$2.4 million for the same period last year. As a percentage of total revenue, R&D expenditures increased to 22% for Q1 2013 from 18% in Q1 2012. The increase is mainly due to increase in compensation and associated costs with increased headcount year over year, reduced amount of deferred costs and higher professional fees incurred.

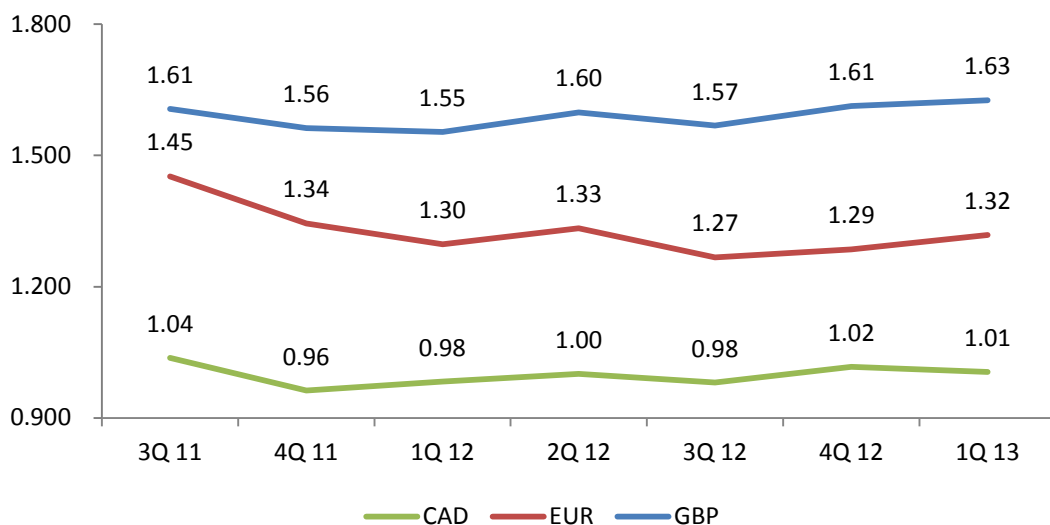
### ***Special Charges***

For the three months ended December 31, 2012, costs directly associated with the planned acquisition of Nokia Siemens Networks BSS business of \$2.3 million has been recognized as Special Charges. The expenses incurred were mostly legal and professional in nature.

### ***Foreign Exchange Gain/Loss***

We operate internationally and have foreign currency risks related to our revenue, operating expenses, assets and liabilities denominated in currencies other than the U.S. dollar. Consequently, movements in the foreign currencies in which we transact could significantly affect future net earnings. Currently, we do not use hedging techniques to mitigate such currency risks. The graph below displays the change in rates relative to the U.S. dollar.

## Exchange Rates



Source: Bank of Canada

For the quarter ended December 31, 2012, the Company recognized a foreign currency exchange gain of \$0.4 million, compared to a foreign currency exchange loss of \$0.6 million in the same period of fiscal 2012. The first quarter gain in fiscal 2013 was primarily due to the U.S. dollar weakening against the Euro and British Pound.

### Finance Costs

Finance costs of \$0.1 million recorded in Q1 2013 was mainly associated with the Company's use of a credit facility available from Wells Fargo Capital Finance ("Wells Fargo") for up to \$20.0 million.

On September 25, 2012 the Company entered into a senior secured credit facility with Wells Fargo Capital Finance ("Wells Fargo") for a revolving line of credit for up to \$20 million. The Company had used the operating line obtained from Wells Fargo to repay the full outstanding balance with Export Development Canada ("EDC"). Therefore, effective, September 25, 2012, the Company's existing credit facility with EDC was extinguished as the Company repaid the full outstanding amount. As at December 31, 2012, \$5.9 million remains outstanding with interest payable monthly with a maximum term of five years.

### Stock-Based Compensation

Stock options granted during the first quarter ended December 31, 2012 totaled 325,000 (2011 – nil). The stock-based compensation relating to the Company's stock options, deferred share unit plan and restricted shares under the restricted share plan during the first quarter of fiscal 2013 was \$0.4 million compared to \$0.1 million in the same period last year. The increase mostly relates to the increased share price.

## Income Taxes

The current income tax provision is management's estimate of current taxes owing by the Company's foreign subsidiaries.

## SUMMARY OF RESULTS

All financial results are in thousands, unless otherwise stated, with the exception of per share amounts. The table below provides summarized information for our eight most recently completed quarters:

\$ Thousands (unaudited)					(1)	(1)		
	1Q 13	4Q 12	3Q 12	2Q 12	1Q 12	4Q 11	3Q 11	2Q 11
Revenue	\$14,237	\$14,536	\$14,847	\$14,108	\$13,373	\$14,517	\$14,180	\$16,013
Net Income (Loss)	\$(1,739)	\$ 1,873	\$ 1,739	\$ 1,332	\$ 358	\$ 663	\$(1,903)	\$ 431
Basic Income (Loss) per Share	\$(0.02)	\$ 0.03	\$ 0.03	\$ 0.02	\$ 0.01	\$ 0.01	\$(0.03)	\$ 0.01
Diluted Income (Loss) per Share	\$(0.02)	\$ 0.03	\$ 0.03	\$ 0.02	\$ 0.01	\$ 0.01	\$(0.03)	\$ 0.01
Weighted average shares outstanding – Basic	75,446	64,790	64,142	64,410	64,222	64,198	64,195	64,158
Weighted average shares outstanding - Diluted <sup>(2)</sup>	75,446	65,949	65,104	65,304	65,098	65,420	64,195	65,800

- 1) As part of its Fiscal 2012 revenue cut-off procedure, the Company determined that the revenues and income before income tax in the fourth quarter of 2011 were understated by \$0.5 million and overstated in the first quarter of 2012 by an equivalent amount. The results in the above table have been recast to adjust for the correction of this immaterial error.
- 2) In periods where there is a net loss, all options are considered to be anti-dilutive and are excluded from the calculation of Fully Diluted Earnings per Share ("FDEPS").

## LIQUIDITY AND CAPITAL RESOURCES

The Company's objective in managing capital is to ensure sufficient liquidity to drive its organic growth, fund operations and undertake selective acquisitions, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company currently funds its operations, changes in non-cash working capital and capital expenditures from internally generated cash flows and cash on hand.

The table below outlines a summary of cash inflows and outflows by activity.

<b>Statement of Cash Flows Summary</b>	<b>Three Months ended</b>	
<b>(\$ US Thousands)</b>	<b>December 31,</b>	
(Unaudited)	<b>2012</b>	<b>2011</b>
<b>Cash inflows and (outflows) by activity:</b>		
Operating activities	(3,890)	1,292
Investing activities	(412)	(69)
Financing activities	18,913	(260)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(66)	(43)
Net cash inflows (outflows)	14,545	920
Cash and cash equivalents, beginning of period	16,879	14,880
Cash and cash equivalents, end of period	31,424	15,800
<b>Key Ratios</b>		
(Unaudited)	<b>December, 31</b>	<b>September, 30</b>
	<b>2012</b>	<b>2012</b>
Working Capital	\$40,888	\$23,219
Day Sales Outstanding	75	78

\*The Company uses Working Capital and Days Sales Outstanding in Accounts Receivable as measures to enhance comparisons between periods. These terms do not have a standardized meaning under GAAP and are not necessarily comparable to similar measures presented by other companies. The calculation of each of these items is more fully described below.

### Cash from Operating Activities

Cash used by operating activities was \$3.9 million in the three months ended December 31, 2012, compared to the cash provided by operating activities of \$1.3 million for the same period last year. This is mostly attributed to net loss of \$1.7 million, as well as increase in accounts receivable.

The Company's Days Sales Outstanding in Accounts Receivable ("DSO") was at 75 days as at December 31, 2012 compared to 78 days as of September 30, 2012. Redknee calculates its DSO based on the annualized revenue and the trailing four quarterly average accounts receivable balance.

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance increased to \$40.9 million as at December 31, 2012 from \$23.2 million as at September 30, 2012. This increase is mainly attributed to increase in cash and cash equivalents of \$14.5 million mainly from the bought deal financing, an increase in accounts receivable of \$3.0 million, decrease in accrued liabilities of \$1.9 million and decrease in deferred revenue of \$1.2 million partially offset by increase in accounts payable of \$2.4 million.

The Company's net cash position at December 31, 2012 increased by \$14.5 million to \$26.4 million from \$11.9 million at September 30, 2012.

**Cash from Financing Activities**

In the first quarter of fiscal 2013, cash provided by financing activities was \$18.9 million compared to a use of cash of \$0.3 million in 2012. The source of cash relates to the offering of 14,950,000 shares by the way of the bought deal financing.

**Cash from Investing Activities**

Cash used for investing activities during the quarter ended December 31, 2012 was \$0.4 million compared to \$0.1 million in 2011. The use of cash mainly relates to purchase of property and equipment.

## COMMITMENTS AND CONTRACTUAL OBLIGATIONS

### Long Term Debt and Credit Facilities

The Company has a senior secured credit facility with Wells Fargo Capital Finance, part of Wells Fargo & Company, for a revolving line of credit for up to \$20 million.

The Company uses the credit facility for working capital, general corporate purposes and potential acquisitions. A portion of the credit facility with Wells Fargo & Company was used in the year ended September 30, 2012 to repay the full outstanding credit facility the Company had with Export Development Canada. The credit facility is secured by Redknee Inc. and Redknee Solutions (UK) Limited's assets ("Redknee UK"). The Company and Redknee UK 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, 2012, \$5.9 million is outstanding and interest is payable monthly over the term of five years. The Company had incurred \$0.4 million of transaction costs related to the facility that are being amortized over the expected term of the loan, which management has estimated to be two years, using the effective interest rate method. During the three months ended December 31, 2012, \$0.03 million (three months ended December 31, 2011 - \$nil) was amortized.

Interest is at LIBOR plus an applicable margin which was 3.50% at December 31, 2012 and at September 30, 2012. LIBOR is defined to have a floor of no less than 1.25.

Certain financial and non-financial covenants exist under the agreement, which, if interpreted to be violated by the lender, could result in the amounts borrowed being due and payable to the lender on demand. The Company has assessed their debt covenants as at December 31, 2012 and determined they are in compliance.

Effective September 25, 2012, the Company's credit facility with EDC was discharged and extinguished by the repayment of the outstanding credit amount of \$5.6 million. The Company had borrowed against this credit facility for the Nimbus acquisition. The interest on this credit facility was LIBOR plus 4% and was payable semi-annually.

For the three months ended December 31, 2012, interest expense of \$0.1 million (three months ended December 31, 2011 - \$0.1 million) in connection with loans payable has been recognized in the condensed consolidated interim statements of comprehensive income (loss).

## MANAGEMENT OF CAPITAL

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its growth strategy, fund research and development and undertake selective acquisitions, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company's capital is composed of share capital and credit used plus credit available under certain credit facilities, which assist in financing (i) acquisitions and/or (ii) working capital requirements. The Company's primary uses of capital are financing its operations, increases in non-cash working capital, capital expenditures, debt repayments and acquisitions. The Company currently funds these requirements from cash flows from operations, cash raised through past share issuances, and lines available under certain credit facilities. The Company's objectives when managing capital are to

ensure that the Company will continue to have enough liquidity so it can provide services to its customers and increase shareholder value. Management monitors its compliance with financial and non-financial covenants imposed by loan agreements on a quarterly basis. The Company has complied with all externally imposed capital requirements.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

Disclosure controls and procedures within the Company have been designed to provide reasonable assurance that all relevant information is identified and passed to its Disclosure Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal controls over financial reporting have been designed by management, with the participation of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with IFRS.

### **Changes in Internal Controls over Financial Reporting**

There have been no changes to the Company's internal controls over financial reporting during the three-month ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

## **ACCOUNTING CHANGES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

### **Recent Accounting Pronouncements**

The following accounting pronouncements have been released but have not yet been adopted by the Company.

(a) IFRS 9, Financial Instruments ("IFRS 9"):

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is currently proposed to be effective for annual periods beginning on or after January 1, 2015, with earlier adoption permitted.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules 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 new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities. Management has not yet determined the potential impact the adoption of IFRS 9 will have on the Company's consolidated financial statements.



- (b) IFRS 10, Consolidated Financial Statements ("IFRS 10"), and Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12) (the "Amendments"):

In May 2011 the IASB issued IFRS 10, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. In June 2012, the IASB issued the Amendments which are effective with the adoption of the applicable standard to which the Amendments relate to, i.e., IFRS 10, IFRS 11 and IFRS 12.

The Company intends to adopt IFRS 10, including the Amendments issued in June 2012, in its financial statements for the annual period beginning on October 1, 2014. Management has not yet determined the potential impact the adoption of IFRS 10 will have on the Company's consolidated financial statements.

- (c) IFRS 11, Joint Arrangements ("IFRS 11"), and the Amendments:

In May 2011, the IASB issued IFRS 11 which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. In June 2012, the IASB issued Amendments which are effective with the adoption of the applicable standard to which the Amendments relate to, i.e., IFRS 10, IFRS 11 and IFRS 12.

The Company intends to adopt IFRS 11, including the Amendments issued in June 2012, in its financial statements for the annual period beginning on October 1, 2013. The Company does not expect IFRS 11 to have a material impact on the consolidated financial statements.

- (d) IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"), and the Amendments:

In May 2011, the IASB issued IFRS 12 which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. In June 2012, the IASB issued the Amendments which are effective with the adoption of the applicable standard to which the Amendments relate to, i.e., IFRS 10, IFRS 11 and IFRS 12.

The Company intends to adopt IFRS 12, including the Amendments issued in June 2012, in its financial statements for the annual period beginning on October 1, 2013. Management has not yet determined the potential impact the adoption of IFRS 12 will have on the Company's consolidated financial statements.

- (e) IFRS 13, Fair Value Measurement ("IFRS 13"):

In May 2011, the IASB issued IFRS 13. IFRS 13, which is to be applied prospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted.

IFRS 13 defines fair value, provides a framework for measuring fair value and includes disclosure requirements for fair value measurements. IFRS 13 will be applied in most cases when another IFRS requires (or permits) fair value measurement. Management has not yet determined the

potential impact that the adoption of IFRS 13 will have on the Company's consolidated financial statements.

(f) Amendments to IAS 28, Investments in Associates and Joint Ventures ("IAS 28"):

In May 2011, the IASB issued amendments to IAS 28 which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company intends to adopt the amendments in its consolidated financial statements for the annual period beginning on October 1, 2013. The Company does not expect the amendments to IAS 28 to have a material impact on the consolidated financial statements.

(g) Amendments to International Accounting Standard 1, Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income ("IAS 1"):

In June 2011, the IASB published amendments to IAS 1 which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. Early adoption is permitted.

The Company intends to adopt the amendments in its consolidated financial statements for the annual period beginning on October 1, 2013. The Company does not believe the changes resulting from these amendments will have a significant impact on its consolidated financial statements.

(h) Amendments to IAS 19, Employee Benefits ("IAS 19"):

In June 2011, the IASB published an amended version of IAS 19. Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted.

The Company intends to adopt the amendments in its consolidated financial statements for the annual period beginning on October 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

(i) Amendments to IAS 32, Financial Instruments: Disclosures ("IAS 32"), and IFRS 7, Offsetting Financial Assets and Liabilities ("IFRS 7"):

In December 2011, the IASB published IFRS 7 and issued new disclosure requirements in IAS 32. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively.

The Company intends to adopt the amendments to IFRS 7 in its consolidated financial statements for the annual period beginning on October 1, 2013, and the amendments to IAS 32 in its financial statements for the annual period beginning October 1, 2014. The Company does not expect the amendments to have a material impact on the financial statements.

**PATENT PORTFOLIO**

As part of Redknee's commitment to Research and Development ("R&D") to maintain its position as a key industry innovator in the real-time BSS software space, the Company currently has a portfolio of patents comprising over 100 filed and over 35 granted. To date we have not initiated any action with respect to assertions and/or claims of patent infringement.

**OUTSTANDING SHARE DATA**

The current number of common shares outstanding, including treasury stock of 138,793 as at December 31, 2012 is 79,608,359. In addition, there were 6,464,423 stock options outstanding with exercise prices ranging from \$0.23 CAD to \$2.16 CAD per share.

**CAPITAL STOCK**

On March 8, 2012, the Company announced a normal course issuer bid ("NCIB") under which it may purchase up to 4,701,696 of its common shares, commencing on March 12, 2012 and terminating on March 11, 2013 or on such earlier date as the Company may complete its purchases pursuant to the notice of intention to make a NCIB filed with the Toronto Stock Exchange ("TSX"). Purchases will be made on the open market by the Company through the facilities of the TSX in accordance with TSX requirements. The prices that the Company will pay for any purchased common shares will be the market price of such shares on the TSX at the time of acquisition. As of December 31, 2012, the Company has not purchased any common shares under this NCIB

During the year ended September 30, 2012, the Company paid \$0.7 million to the trustee to purchase 568,906 of the Company's common shares in the open market to satisfy the delivery of common shares under the equity-based compensation plans. The Company classifies these shares as treasury stock until they are delivered pursuant to the awards. During the three months ended December 31, 2012, 71,845 shares with a cost of \$0.1 million have been released. As of December 31, 2012, a total 430,113 shares with a cost of \$0.5 million have been issued. The remaining number of treasury shares held by the Company is 138,793, with a cost of \$0.2 million.

October 23, 2012, the Company completed an offering of 13,000,000 common shares (the "Common Shares") of the Company at price of CAD \$1.35 per Common Share (the "Offering Price") for aggregate gross proceeds of CAD \$17.6 million (the "Offering").

The Offering was completed on a bought deal basis and was underwritten by a syndicate of underwriters led by GMP Securities L.P., and including Canaccord Genuity Corp. and TD Securities Inc. (collectively, the "Underwriters").

The Common Shares were offered by way of a short form prospectus filed in all provinces of Canada (except Québec).

On November 14, 2012, the Underwriters also exercised an over-allotment option to purchase an additional 1,950,000 Common Shares at the Offering Price. With this option now exercised in full, an additional CAD \$2.6 million was raised pursuant to the Offering and the aggregate gross proceeds of

the Offering is CAD \$20.2 million. Transaction costs directly associated with this issuance of shares of CAD \$0.3 million have been recognized against the proceeds.

The Company plans to use the net proceeds from the Offering for working capital, or to expand its current business through strategic acquisitions, if such opportunities arise.

### **RELATED PARTY TRANSACTIONS**

In August 2011, the Company entered into a consulting agreement with a member of the board of directors. For the quarter ended December 31, 2012, the Company has incurred \$0.02 million (2011 - \$0.02 million) in consulting expenditure.

### **RISK FACTORS**

As previously discussed, many factors could cause the actual results of Redknee to differ materially from the results, performance, achievements or developments expressed or implied by such forward-looking statements, including, without limitation, each of the following factors, which are further discussed in the section of the Company's AIF entitled Risk Factors.

Factors such as:

- Currency fluctuations may adversely affect the Company
- Software Defects
- Customer Credit Risk
- Defects in components or design of the Company's solutions could result in significant costs to the Company and could impair its ability to sell its solutions
- The Company's lengthy and variable sales cycle makes it difficult for it to predict its operating results
- The Company relies on a small number of customers for a large percentage of its revenue
- Technological Change
- Economic and geopolitical uncertainty may negatively affect the Company
- Maintaining Business Relationships
- Product Liability
- System Failures and Breaches of Security
- Integration Risk

We caution that period-to-period comparison of results of operations is not necessarily meaningful and should not be relied upon as any indication of future performance.

**ADDITIONAL INFORMATION**

Additional information, including the quarterly and annual consolidated financial statements, annual information form, management proxy circular and other disclosure documents may be examined by accessing the SEDAR website at [www.sedar.com](http://www.sedar.com).