

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

## **REDKNEE SOLUTIONS INC.**

Three and nine months ended June 30, 2014 and 2013  
(Unaudited)

# REDKNEE SOLUTIONS INC.

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

	June 30, 2014	September 30, 2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 4)	\$ 97,826,227	\$ 79,054,757
Trade accounts and other receivables (note 5)	85,748,641	66,393,041
Unbilled revenue	50,372,016	39,421,584
Prepaid expenses	5,615,175	1,943,986
Other assets (note 6)	881,860	832,516
Inventories	9,936,077	6,644,580
<b>Total current assets</b>	<b>250,379,996</b>	<b>194,290,464</b>
Restricted cash (note 14(a))	1,179,357	1,011,361
Property and equipment	9,417,795	10,890,910
Deferred income taxes	1,958,712	1,923,409
Investment tax credits	437,669	378,923
Other assets (note 6)	2,440,524	3,179,724
Intangible assets	34,618,831	38,732,447
Goodwill	7,638,590	7,638,590
<b>Total assets</b>	<b>\$ 308,071,474</b>	<b>\$ 258,045,828</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Trade payables	\$ 15,621,937	\$ 15,707,464
Accrued liabilities	45,500,519	59,532,922
Provisions	—	1,201,050
Income taxes payable	1,080,044	2,445,616
Contingent consideration (note 3(a))	10,413,552	—
Deferred revenue	13,346,958	14,935,451
Loans and borrowings (note 7)	375,000	375,000
<b>Total current liabilities</b>	<b>86,338,010</b>	<b>94,197,503</b>
Deferred revenue	2,484,135	4,149,940
Other liabilities	3,330,348	2,793,146
Pension and non-pension post-employment benefit obligation	2,063,794	814,335
Contingent consideration (note 3(a))	8,505,399	24,833,537
Loans and borrowings (note 7)	46,703,233	32,956,036
Deferred income taxes	658,177	744,652
<b>Total liabilities</b>	<b>150,083,096</b>	<b>160,489,149</b>
Shareholders' equity:		
Share capital	173,751,553	109,017,145
Treasury stock (note 9(c))	(21,226)	(132,050)
Contributed surplus	5,112,674	4,357,175
Deficit	(22,351,654)	(17,182,622)
Accumulated other comprehensive income	1,497,031	1,497,031
<b>Total shareholders' equity</b>	<b>157,988,378</b>	<b>97,556,679</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 308,071,474</b>	<b>\$ 258,045,828</b>

Commitments, guarantees and contingent liabilities (note 14)

The accompanying notes are an integral part of these unaudited 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 June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Revenue:				
Software, services and other	\$ 31,884,208	\$ 28,057,789	\$ 107,009,291	\$ 42,085,340
Support	32,039,126	30,562,514	89,750,603	42,524,703
	63,923,334	58,620,303	196,759,894	84,610,043
Cost of revenue	36,012,726	26,668,407	101,113,001	36,520,665
Gross profit	27,910,608	31,951,896	95,646,893	48,089,378
Operating expenses:				
Sales and marketing	9,129,659	8,963,710	26,725,403	15,610,082
General and administrative	9,008,501	6,024,125	24,850,905	10,842,726
Research and development	16,770,558	12,400,828	47,608,566	19,007,158
Acquisition and related costs (note 3(b))	623,458	3,012,481	3,891,516	11,194,456
	35,532,176	30,401,144	103,076,390	56,654,422
Income (loss) from operations	(7,621,568)	1,550,752	(7,429,497)	(8,565,044)
Foreign exchange gain (loss)	770,947	(587,236)	215,614	(1,239,683)
Other income (note 3(a))	113,351	–	5,914,586	11,796,825
Finance income	19,860	3,312	44,046	22,659
Finance costs	(869,435)	(209,468)	(2,265,591)	(442,495)
Income (loss) before income taxes	(7,586,845)	757,360	(3,520,842)	1,572,262
Income taxes expense (recovery) (note 10):				
Current	(690,743)	707,580	1,749,079	954,711
Deferred	(18,118)	(30,305)	(100,889)	(88,666)
	(708,861)	677,275	1,648,190	866,045
Net comprehensive income (loss)	\$ (6,877,984)	\$ 80,085	\$ (5,169,032)	\$ 706,217
Net income (loss) per common share (note 8):				
Basic	(0.06)	0.00	(0.05)	0.01
Diluted	(0.06)	0.00	(0.05)	0.01
Weighted average number of common shares outstanding (note 8):				
Basic	108,891,887	80,727,695	100,988,698	78,845,355
Diluted	108,891,887	84,548,170	100,988,698	82,173,277

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

# REDKNEE SOLUTIONS INC.

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

Nine months ended June 30, 2014 and 2013  
(Unaudited)

	Share capital		Treasury stock	Contributed surplus	Deficit	Accumulated other comprehensive income	Total shareholders' equity
	Number outstanding	Amount	(note 9(c))				
Balance, September 30, 2013	95,510,022	\$ 109,017,145	\$ (132,050)	\$ 4,357,175	\$ (17,182,622)	\$1,497,031	\$ 97,556,679
Net loss and comprehensive loss	–	–	–	–	(5,169,032)	–	(5,169,032)
Share-based compensation	–	–	–	1,195,513	–	–	1,195,513
Treasury stock issued (note 9(c))	–	–	110,824	(110,824)	–	–	–
Stock options exercised	566,067	900,574	–	(329,190)	–	–	571,384
Issue of share capital (note 9(b))	12,820,520	63,833,834	–	–	–	–	63,833,834
<b>Balance, June 30, 2014</b>	<b>108,896,609</b>	<b>\$ 173,751,553</b>	<b>\$ (21,226)</b>	<b>\$ 5,112,674</b>	<b>\$ (22,351,654)</b>	<b>\$ 1,497,031</b>	<b>\$ 157,988,378</b>
Balance, September 30, 2012	64,493,004	\$ 46,543,100	\$ (264,584)	\$ 4,787,549	\$ (16,918,912)	\$ 13,469	\$ 34,160,622
Net income and comprehensive income	–	–	–	–	706,217	–	706,217
Issue of share capital (public offering)	14,950,000	18,731,390	–	–	–	–	18,731,390
Issue of share capital (private placement)	14,538,500	41,060,376	–	–	–	–	41,060,376
Share-based compensation	–	–	–	678,866	–	–	678,866
Purchase of treasury stock (note 9(c))	–	–	98,568	(98,568)	–	–	–
Stock options exercised	668,807	1,080,326	–	(287,353)	–	–	792,973
<b>Balance, June 30, 2013</b>	<b>94,650,311</b>	<b>\$ 107,415,192</b>	<b>\$ (166,016)</b>	<b>\$ 5,080,494</b>	<b>\$ (16,212,695)</b>	<b>\$ 13,469</b>	<b>\$ 96,130,444</b>

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

# REDKNEE SOLUTIONS INC.

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

	Three months ended		Nine months ended	
	2014	June 30, 2013	2014	June 30, 2013
Cash provided by (used in):				
Operating activities:				
Net income (loss)	\$ (6,877,984)	\$ 80,085	\$ (5,169,032)	\$ 706,217
Adjustments for:				
Depreciation of property and equipment	1,365,161	860,207	4,419,329	1,021,316
Amortization of intangible assets	1,792,754	1,603,775	5,219,094	1,950,082
Finance income	(19,860)	(3,312)	(44,046)	(22,659)
Finance costs	869,435	209,468	2,265,591	442,495
Income tax expense	(708,861)	677,275	1,648,190	866,045
Unrealized foreign exchange loss (gain)	(1,789,445)	883,313	(1,585,611)	1,438,611
Share-based compensation	629,152	270,087	1,845,958	1,185,076
Revaluation of contingent consideration	(113,351)	–	(5,914,586)	–
Bargain purchase gain from acquisition	–	–	–	(11,796,825)
Changes in non-cash operating working capital	(10,798,028)	(1,199,481)	(54,555,361)	(1,480,408)
	(15,651,027)	3,381,417	(51,870,474)	(5,690,050)
Interest paid	(765,042)	(107,091)	(1,401,514)	(287,605)
Interest received	19,681	2,609	42,548	32,202
Income taxes paid	(1,124,093)	(312,495)	(3,270,231)	(582,493)
	(17,520,481)	2,964,440	(56,499,671)	(6,527,946)
Financing activities:				
Issuance of share capital	–	–	63,833,834	18,731,390
Proceeds from private placement	–	41,060,376	–	41,060,376
Proceeds from exercise of stock options	23,207	65,706	571,384	792,973
Proceeds of loans and borrowings	–	15,000,000	13,500,000	15,000,000
Transaction costs of loans and borrowings	–	(1,496,230)	–	(1,496,230)
	23,207	54,629,852	77,905,218	74,088,509
Investing activities:				
Purchase of property and equipment	(1,055,655)	(571,222)	(2,946,214)	(1,204,306)
Purchase of intangible assets	(213,342)	(270,377)	(1,105,478)	(426,953)
Increase (decrease) in restricted cash	(867)	54,333	(167,996)	107,671
Acquisition of business	–	–	–	(4,571,451)
	(1,269,864)	(787,266)	(4,219,688)	(6,095,039)
Effect of foreign exchange rate changes on cash and cash equivalents				
	1,789,445	(883,313)	1,585,611	(1,438,611)
Increase (decrease) in cash and cash equivalents				
	(16,977,693)	55,923,713	18,771,470	60,026,913
Cash and cash equivalents, beginning of period				
	114,803,920	20,981,723	79,054,757	16,878,523
Cash and cash equivalents, end of period				
	\$ 97,826,227	\$ 76,905,436	\$ 97,826,227	\$ 76,905,436

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

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2014 and 2013  
(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 200 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 Solutions Inc. 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 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, and do not include all of the information required for full annual consolidated financial statements.

These condensed consolidated interim financial statements for the nine months ended June 30, 2014 were authorized for issuance by the Board of Directors of the Company on August 6, 2014.

### (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, 2013.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2014 and 2013  
(Unaudited)

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## 2. Significant accounting policies:

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

The notes presented in these unaudited 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 unaudited condensed consolidated interim financial statements should be read in conjunction with the annual audited consolidated financial statements, including the notes thereto, for the year ended September 30, 2013 (the "2013 annual financial statements"). Except as discussed below, these unaudited condensed consolidated interim financial statements follow the same accounting policies and methods of application as the 2013 annual financial statements.

### (b) Changes in accounting policies:

New standards and interpretations adopted

IFRS 10 Consolidated Financial Statements ("IFRS 10")

IFRS 10 replaces the guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IAS 27 (2008) survives as IAS 27 (2011) Separate Financial Statements, only to carry forward the existing accounting requirements for separate financial statements.

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008).

The Company adopted IFRS 10 for the annual period beginning on October 1, 2013. IFRS 10 did not have a material impact on the condensed consolidated interim financial statements.

IFRS 11 Joint Arrangements ("IFRS 11")

Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2014 and 2013  
(Unaudited)

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## 2. Significant accounting policies (continued):

assets / operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

The Company adopted IFRS 11 for the annual period beginning on October 1, 2013. IFRS 11 did not have a material impact on the condensed consolidated interim financial statements.

### IFRS 12 Disclosure of Interests in Other Entities (“IFRS 12”)

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity’s interest in other entities, and the effects of those interests on the entity’s financial position, financial performance and cash flows.

The Company adopted IFRS 12 for the annual period beginning on October 1, 2013. The amendments did not have a material impact on the condensed consolidated interim financial statements.

### IFRS 13 Fair Value Measurement (“IFRS 13”)

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income.

The Company adopted IFRS 13 prospectively in its interim and annual financial statements beginning on October 1, 2013. IFRS 13 did not have a material impact on the condensed



# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2014 and 2013  
(Unaudited)

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## 2. Significant accounting policies (continued):

consolidated interim financial statements other than the inclusion of certain fair value disclosures which were previously applicable to annual financial statements only as included in note 12.

Amendments to IAS 19 Employee Benefits (“IAS 19”)

The amendments require the following:

- Recognition of actuarial gains and losses immediately in other comprehensive income.
- Full recognition of past service costs immediately in profit or loss.
- Recognition of expected return on plan assets in profit or loss to be calculated based on the rate used to discount the defined benefit obligation.
- Additional disclosures that explain the characteristics of the entity’s defined benefit plans and risks associated with the plans, as well as disclosures that describe how defined benefit plans may affect the amount, timing and uncertainty of future cash flows, and details of any asset-liability match strategies used to manage risks.

The amendments also impact termination benefits, which would now be recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37 Provisions, and when the entity can no longer withdraw the offer of the termination benefits.

The Company adopted the amendments in its financial statements for the annual period beginning on October 1, 2013. The amendments to IAS 19 did not have a material impact on the condensed consolidated interim financial statements.

Amendments to IFRS 7, Offsetting Financial Assets and Liabilities (“IFRS 7”)

IFRS 7 has been amended to include additional disclosure requirements for financial assets and liabilities that can be offset in the statement of financial position.

The Company adopted the amendments to IFRS 7 in its interim and annual financial statements beginning on October 1, 2013. The adoption did not have a material impact on the condensed consolidated interim financial statements.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2014 and 2013  
(Unaudited)

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## 2. Significant accounting policies (continued):

### (c) Principles 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.

### (d) 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).

## 3. Business acquisition:

On March 29, 2013, the Company acquired Nokia Networks' Business Support Systems ("BSS") business. Nokia Networks' BSS business provided real-time charging, rating, policy and customer care solutions to more than 130 communication service providers. The completion of this acquisition marks a significant milestone in Redknee's long-term growth strategy by adding strong long-standing relationships with multiple Tier-1 operators from across the globe.

The acquisition involved the purchase of certain assets and obligations, which include Nokia Networks' BSS customer and supplier contracts, intellectual property rights, tangible assets and associated liabilities, along with the transfer of BSS employees. The acquisition has been accounted for as a business combination under the purchase method. The results of operations of the BSS business since the date of acquisition have been consolidated.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2014 and 2013  
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### 3. Business acquisition (continued):

The Company completed the purchase price allocation as at September 30, 2013. The details of the acquisition are disclosed in note 5 of the 2013 annual consolidated financial statements.

#### (a) Contingent consideration:

Redknee financed the transaction through a combination of cash and debt facilities. The consideration for the BSS business was €15,000,000 base amount; plus the net working capital balance, as defined; less an adjustment for non-German pension liabilities.

In addition to the purchase price, 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.

The fair value of the contingent consideration has been calculated by using probabilities-based outcomes. Subsequent changes in the estimated fair value are recorded in the statements of comprehensive income (loss). The fair value of the contingent consideration liability was \$18,918,951 as at June 30, 2014 (\$24,833,537 as at September 30, 2013). For the three and nine months ended June 30, 2014, a credit of \$113,351 and \$5,914,586, respectively, (three and nine months ended June 30, 2013 – nil and nil, respectively) was recorded as Other income to reflect changes in the estimate of fair value.

#### (b) Other items:

During the three and nine months ended June 30, 2014, the Company incurred acquisition and related costs of \$623,458 and \$3,891,516, respectively, (three and nine months ended June 30, 2013 – \$3,012,481 and \$11,194,456, respectively), which included expenses for legal, professional, restructuring 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 and nine months ended June 30, 2014 and 2013  
(Unaudited)

## 4. Cash and cash equivalents:

	June 30, 2014	September 30, 2013
Cash	\$ 97,538,411	\$ 78,758,567
Cash equivalents	287,816	296,190
	<u>\$ 97,826,227</u>	<u>\$ 79,054,757</u>

## 5. Trade accounts and other receivables:

	June 30, 2014	September 30, 2013
Trade receivables, net of allowance for doubtful accounts	\$ 77,357,046	\$ 50,916,711
Other receivables (a)	8,391,595	15,476,330
	<u>\$ 85,748,641</u>	<u>\$ 66,393,041</u>

(a) The other receivable balance mainly includes trade receivables that were a part of the initial net working capital acquired through the BSS acquisition.

## 6. Other assets:

	June 30, 2014	September 30, 2013
Deferred contract costs - current (a)	\$ 881,860	\$ 832,516
Deferred contract costs - non-current (a)	1,831,420	2,599,304
Lease deposits - non-current	609,104	580,420
	<u>2,440,524</u>	<u>3,179,724</u>
	<u>\$ 3,322,384</u>	<u>\$ 4,012,240</u>

(a) The Company recognized upfront direct costs related to future activity on certain customer contracts as an asset as it is probable that these assets will be recovered through future minimum contractual payment terms. The costs are being amortized over the pattern of

# REDKNEE SOLUTIONS INC.

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

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## 6. Other assets (continued):

recognition of the related contract revenues. During the three and nine months ended June 30, 2014, \$97,272 and \$718,540 was amortized, respectively (three and nine months ended June 30, 2013 - \$80,680 and \$175,483, respectively).

## 7. Loans and borrowings:

	June 30, 2014	September 30, 2013
Line of credit, bearing interest at LIBOR floor of 1.25% plus applicable margin, due April 1, 2018	\$ 19,411,493	\$ 5,911,493
Term Loan A (effective May 1, 2013), bearing interest at LIBOR floor of 1.25% plus applicable margin, due April 1, 2018	15,000,000	15,000,000
Term Loan B (effective August 1, 2013), bearing interest at LIBOR floor of 1.25% plus applicable margin, due April 1, 2018	15,000,000	15,000,000
	<u>49,411,493</u>	<u>35,911,493</u>
Less embedded derivative at inception	(1,343,152)	(1,040,597)
	<u>48,068,341</u>	<u>34,870,896</u>
Less unamortized deferred financing costs	(1,323,763)	(1,679,887)
Add loan accretion	333,655	140,027
	<u>47,078,233</u>	<u>33,331,036</u>
Less current portion of loans and borrowings	(375,000)	(375,000)
<u>Long-term portion of loans and borrowings</u>	<u>\$ 46,703,233</u>	<u>\$ 32,956,036</u>

On September 25, 2012, the Company entered into a senior secured credit facility with Wells Fargo Capital Finance, part of Wells Fargo & Company ("Wells Fargo"), which provided for a revolving line of credit for up to \$20,000,000.

On April 1, 2013, the Company entered into an amended and restated credit agreement with Wells Fargo to add to its existing senior secured credit facility with two new term loan facilities in the amount of \$15,000,000 each, for a total credit facility of \$50,000,000.

The Company uses the credit facilities for working capital, general corporate purposes and capital expenditures. The credit facilities are secured by the assets of Redknee Inc., Redknee Solutions

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

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## 7. Loans and borrowings (continued):

(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 June 30, 2014, \$49,411,493 (September 30, 2013 – \$35,911,493) is outstanding and interest is payable monthly over the term of five years. In 2013, the Company incurred \$2,002,980 of transaction costs and has recorded these costs as deferred costs that are being amortized over the expected five-year term of the loans using the effective interest rate method. During the three and nine months ended June 30, 2014, \$49,835 and \$356,124 respectively was amortized (three and nine months ended June 30, 2013 - \$97,222 and \$155,756, respectively).

Interest is at LIBOR plus an applicable margin which was 4.5% at June 30, 2014 and September 30, 2013. LIBOR is defined to have a floor of no less than 1.25% which has been determined to be an embedded derivative. The fair value of the embedded derivative liability is estimated at \$929,087 at June 30, 2014 (September 30, 2013 - \$900,570), 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 \$71,845 and \$274,028 for the three months and nine months ended June 30, 2014 (three and nine months ended June 30, 2013 - \$nil and \$nil, respectively) was recorded in finance costs in the condensed consolidated interim statements of comprehensive income (loss). The embedded derivative liability was included in other liabilities in the condensed consolidated interim statement 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 June 30, 2014 and determined it is in compliance.

For the three and nine months ended June 30, 2014, interest expense in connection with loans payable of \$761,707 and \$2,013,249, respectively, (three and nine months ended June 30, 2013 - \$108,116 and \$258,761, respectively) has been recognized as finance 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 and nine months ended June 30, 2014 and 2013  
(Unaudited)

## 8. Net income (loss) per common share:

A reconciliation of the number of common shares used for purposes of calculating basic and diluted net income (loss) per common share for the three and nine months ended June 30, 2014 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Basic weighted average number of common shares outstanding	108,891,887	80,727,695	100,988,698	78,845,355
Add dilutive stock options outstanding	–	3,820,475	–	3,327,922
Diluted weighted average number of common shares outstanding	108,891,887	84,548,170	100,988,698	82,173,277

Due to the losses for three and nine months ended June 30, 2014, all options were excluded from the calculation of diluted loss per common share as their inclusion would be anti-dilutive. The total number of options that were excluded from the calculation for the three and nine months ended June 30, 2014 are 5,209,401. The total number of anti-dilutive options that were out of the money and, therefore, excluded from the calculation of diluted net income per common share for the three and nine months ended June 30, 2013 were 2,097,870 and 2,590,423 respectively.

## 9. Share capital:

(a) Normal course issuer bid:

On May 30, 2014, the Company announced a Normal Course Issuer Bid ("NCIB") under which it may purchase up to 9,358,502 of its common shares, commencing on June 3, 2014 and terminating on June 2, 2015 or on such earlier date as the Company may complete its purchases pursuant to the notice of intention to make an 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 June 30, 2014, the Company has not purchased any common shares under this NCIB.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2014 and 2013  
(Unaudited)

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## 9. Share capital (continued):

### (b) Bought deal financing:

On March 13, 2014, the Company completed an offering of 12,820,520 common shares (the "Common Shares") of the Company at a price of Cdn. \$5.85 per Common Share for aggregate gross proceeds of \$67,490,288 (Cdn. \$75,000,042) (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 Canaccord Genuity Corp.

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

Transaction costs directly associated with this issuance of shares of \$3,656,454 (Cdn. \$3,750,002) have been recognized as a reduction of the proceeds.

### (c) Treasury stock:

During the year ended September 30, 2013, the Company paid \$714,608 to a trustee to purchase 568,906 of the Company's common shares in the open market to satisfy the delivery of common shares under its equity-based compensation plans. No additional purchases were made in the nine months ended June 30, 2014. The Company classifies these shares as treasury stock until they are delivered pursuant to the terms of the awards.

During the nine months ended June 30 2014, 88,228 shares with a cost of \$110,824 have been issued (2013 – 78,471 shares with a cost of \$98,568). As at June 30, 2014, the remaining number of treasury shares held by the Company are 16,898, with a cost of \$21,226 (September 30, 2013 – 105,126 with a cost of \$132,050).

### (d) Share-based compensation:

Stock options granted during the three and nine months ended June 30, 2014 were 322,366 and 1,296,017 respectively (three and nine months ended June 30, 2013 – nil and 325,000 respectively). Deferred share units granted during the three and nine months ended June 30, 2014 were 21,980 and 108,485 respectively (three and nine months ended June 30, 2013 – 26,315 and 26,315 respectively). Restricted shares under the restricted share plan granted during the three and nine months ended June 30, 2014 were 4,945 and 388,554 respectively (three and nine months ended June 30, 2013 – 17,730 and 91,415 respectively).



# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2014 and 2013  
(Unaudited)

## 9. Share capital (continued):

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 and nine months ended June 30, 2014 was \$629,152 and \$1,845,958 respectively (three and nine months ended June 30, 2013 - \$270,087 and \$1,185,076, respectively).

## 10. Income tax expense:

The Company's income tax expense for the nine-months ended June 30, 2014 includes \$2,477,711 (2013 - \$939,085) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and \$1,295,989 (2013 - \$89,211) of foreign withholding taxes offset by a recovery of \$1,891,197 (2013 - nil), a previously recorded income tax reserve in one of the Company's foreign subsidiary.

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

The changes in non-cash working capital for the nine months ended June 30 are as follows:

	Three months ended		Nine months ended	
	2014	June 30, 2013	2014	June 30, 2013
Trade accounts and other receivables	\$ 11,324,606	\$(13,040,091)	\$(19,354,102)	\$(14,442,910)
Unbilled revenue	(3,586,347)	(11,632,363)	(10,950,432)	(12,760,905)
Prepaid expenses	(1,232,767)	(519,573)	(3,671,189)	(1,172,979)
Inventories	(1,843,894)	(3,093,761)	(3,291,497)	(2,873,762)
Other assets	85,982	912,234	689,856	(513,694)
Trade payable	(5,437,208)	9,245,308	(85,527)	9,482,930
Accrued liabilities and other liabilities	(10,857,144)	13,446,513	(14,762,526)	15,761,020
Provisions	-	-	(1,201,050)	1,201,050
Deferred revenue	379,268	3,491,759	(3,254,298)	3,729,640
Income taxes payable	(45,416)	(9,507)	75,945	109,202
Other	414,892	-	1,249,459	-
	<u>\$ (10,798,028)</u>	<u>\$ (1,199,481)</u>	<u>\$(54,555,361)</u>	<u>\$(1,480,408)</u>

## 12. Financial instruments and capital management:

(a) 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:

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2014 and 2013  
(Unaudited)

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

- 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).

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 liabilities measured at fair value at June 30, 2014 and September 30, 2013 are summarized below:

	June 30, 2014		September 30, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (Level 1)	\$ 97,826,227	\$ 97,826,227	\$ 79,054,757	\$ 79,054,757
Restricted cash (Level 1)	1,179,357	1,179,357	1,011,361	1,011,361
Contingent consideration liability (Level 3)	18,918,951	18,918,951	24,833,537	24,833,537
Embedded derivative liability (other liabilities) (Level 2)	929,087	929,087	900,570	900,570

There were no transfers of financial assets between levels during the nine months ended June 30, 2014.

Financial instruments are classified into one of the following categories: financial assets, loans and receivables, and other financial liabilities. The following table summarizes information regarding the carrying values of the Company's financial instruments:

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2014 and 2013  
(Unaudited)

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

	June 30, 2014	September 30, 2013
Financial assets at FVTPL <sup>(a)</sup>	\$ 99,005,584	\$ 80,066,118
Loans and receivables <sup>(b)</sup>	85,748,641	66,393,041
Other financial liabilities <sup>(c)</sup>	130,449,988	137,399,155

(a) Fair Value through Profit or Loss ("FVTPL") includes cash and cash equivalents and restricted cash;

(b) Includes trade accounts and other receivables; and

(c) Includes trade payables, accrued liabilities, contingent consideration, other long-term liabilities and current and long-term portions of loans and borrowings and provisions.

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 value of contingent consideration and other long-term liabilities approximates the fair value.

The carrying value of loans and borrowings with floating interest rates approximate 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 judgement.

## 13. 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.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2014 and 2013  
(Unaudited)

## 13. Segment reporting (continued):

Revenue is attributed to geographic locations, based on the location of the external customer. The Company's revenue by geographic area for the three and nine months ended June 30 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Europe, Middle East and Africa	\$ 43,308,376	\$ 34,363,697	\$ 120,418,071	\$ 42,683,091
North America, Latin America and Caribbean	6,622,562	6,227,186	20,399,821	16,813,721
Asia and Pacific Rim	13,992,396	18,029,420	55,942,002	25,113,231
	<u>\$ 63,923,334</u>	<u>\$ 58,620,303</u>	<u>\$ 196,759,894</u>	<u>\$ 84,610,043</u>

The Company's revenue by type for the three and nine months ended June 30 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2014	2013	2014	2013
Revenue by type:				
Software and services	\$ 28,685,286	\$ 26,018,148	\$ 90,020,237	\$ 39,121,421
Support	32,039,126	30,562,514	89,750,603	42,524,703
Third party software and hardware	3,198,922	2,039,641	16,989,054	2,963,919
	<u>\$ 63,923,334</u>	<u>\$ 58,620,303</u>	<u>\$ 196,759,894</u>	<u>\$ 84,610,043</u>

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2014 and 2013  
(Unaudited)

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## 14. Commitments, guarantees and contingent liabilities:

(a) Letters of credit:

As at June 30, 2014, the Company had \$1,179,357 (September 30, 2013 - \$1,011,361) in lease guarantees which are secured by restricted cash, shown separately in the condensed consolidated interim statements of financial position.

(b) Guarantees:

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. The Company has never been called to perform its obligations under these indemnifications and the Company is not subject to any pending litigation in these matters.