

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

REDKNEE SOLUTIONS INC.

Three months ended December 31, 2014 and 2013
(Unaudited)

REDKNEE SOLUTIONS INC.

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

	December 31, 2014	September 30, 2014
Assets		
Current assets:		
Cash and cash equivalents (note 4)	\$ 100,501,039	\$ 108,636,797
Trade accounts and other receivables (note 5)	75,958,406	71,393,983
Unbilled revenue	43,605,473	42,396,988
Prepaid expenses	2,543,200	4,339,650
Other assets (note 6)	824,526	898,871
Inventories	2,597,918	5,199,362
Total current assets	226,030,562	232,865,651
Restricted cash (note 13(a))	1,028,158	881,940
Property and equipment	8,097,747	8,708,115
Deferred income taxes	1,797,684	1,939,416
Investment tax credits	402,772	416,222
Other assets (note 6)	1,931,128	2,089,688
Intangible assets	31,143,227	32,819,313
Goodwill	7,638,590	7,638,590
Total assets	\$ 278,069,868	\$ 287,358,935
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade payables	\$ 11,321,111	\$ 9,538,161
Accrued liabilities	32,026,622	38,566,558
Provisions (note 14)	13,787,684	14,967,576
Income taxes payable	2,063,385	1,595,569
Contingent consideration (note 3(a))	13,878,284	14,454,527
Deferred revenue	18,403,685	20,743,769
Loans and borrowings (note 7)	2,625,000	750,000
Total current liabilities	94,105,771	100,616,160
Deferred revenue	2,566,603	3,601,859
Other liabilities	2,182,295	2,281,341
Pension and non-pension post-employment benefit obligation	10,428,691	10,258,900
Loans and borrowings (note 7)	43,729,396	45,809,713
Provisions (note 14)	4,350,078	6,608,270
Deferred income taxes	8,396	36,016
Total liabilities	157,371,230	169,212,259
Shareholders' equity:		
Share capital	173,865,718	173,757,863
Treasury stock (note 8(c))	(21,226)	(21,226)
Contributed surplus	6,098,281	5,665,135
Deficit	(55,069,186)	(57,080,147)
Accumulated other comprehensive income (loss)	(4,174,949)	(4,174,949)
Total shareholders' equity	120,698,638	118,146,676
Total liabilities and shareholders' equity	\$ 278,069,868	\$ 287,358,935

Commitments, guarantees and contingent liabilities (note 13)

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

REDKNEE SOLUTIONS INC.

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

(Expressed in U.S. dollars)

(Unaudited)

	Three months ended December 31,	
	2014	2013
Revenue:		
Software, services and other	\$ 37,955,600	\$ 27,375,215
Support and subscription	24,621,329	33,028,025
	<u>62,576,929</u>	<u>60,403,240</u>
Cost of revenue	25,988,490	27,379,935
Gross profit	36,588,439	33,023,305
Operating expenses:		
Sales and marketing	9,462,239	8,508,397
General and administrative	7,062,384	8,174,749
Research and development	12,329,782	14,884,339
Acquisition and related costs (note 3(b))	415,051	872,368
Restructuring costs (note 14)	336,714	—
	<u>29,606,170</u>	<u>32,439,853</u>
Income from operations	6,982,269	583,452
Foreign exchange loss	(2,668,913)	(1,137,904)
Other expenses (note 3(a))	—	(1,150,669)
Finance income	4,482	14,759
Finance costs	(898,217)	(584,520)
Income (loss) before income taxes	3,419,621	(2,274,882)
Income tax expense (recovery):		
Current (note 9)	1,399,795	844,805
Deferred	8,865	(59,118)
	<u>1,408,660</u>	<u>785,687</u>
Net income (loss) and comprehensive income (loss)	<u>\$ 2,010,961</u>	<u>\$ (3,060,569)</u>
Net income (loss) per common share:		
Basic	0.02	(0.03)
Diluted	0.02	(0.03)
Weighted average number of common shares outstanding (note 8(a)):		
Basic	108,944,276	95,529,355
Diluted	111,410,637	95,529,355

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

REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2014 and 2013
(Unaudited)

	Share capital		Treasury stock	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
	Number outstanding	Amount	(note 8(c))				
Balance, September 30, 2014	108,903,734	\$ 173,757,863	\$ (21,226)	\$ 5,665,135	\$ (57,080,147)	\$ (4,174,949)	\$ 118,146,676
Net income and comprehensive income	–	–	–	–	2,010,961	–	2,010,961
Share-based compensation	–	–	–	476,871	–	–	476,871
Stock options exercised	185,250	107,855	–	(43,725)	–	–	64,130
Balance, December 31, 2014	109,088,984	\$ 173,865,718	\$ (21,226)	\$ 6,098,281	\$ (55,069,186)	\$ (4,174,949)	\$ 120,698,638
Balance, September 30, 2013	95,510,022	\$ 109,017,145	\$ (132,050)	\$ 4,357,175	\$ (17,182,622)	\$ 1,497,031	\$ 97,556,679
Loss for the period and comprehensive loss	–	–	–	–	(3,060,569)	–	(3,060,569)
Share-based compensation	–	–	–	287,946	–	–	287,946
Purchase of treasury stock (note 8(c))	–	–	85,940	(85,940)	–	–	–
Stock options exercised	106,000	67,463	–	(26,690)	–	–	40,773
Balance, December 31, 2013	95,616,022	\$ 109,084,608	\$ (46,110)	\$ 4,532,491	\$ (20,243,191)	\$ 1,497,031	\$ 94,824,829

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

REDKNEE SOLUTIONS INC.

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

	Three months ended December 31,	
	2014	2013
Cash provided by (used in):		
Operating activities:		
Net income (loss)	\$ 2,010,961	\$ (3,060,569)
Adjustments for:		
Depreciation of property and equipment	942,236	1,603,063
Amortization of intangible assets	1,812,382	1,690,134
Finance income	(4,482)	(14,759)
Finance costs	898,217	584,520
Pension	169,791	404,506
Income tax expense	1,408,660	785,687
Unrealized foreign exchange loss	1,865,646	45,701
Share-based compensation	465,166	670,206
Revaluation of contingent consideration	(576,243)	1,150,669
Change in provisions	(3,438,084)	-
Change in non-cash operating working capital (note 10)	(9,096,004)	(20,427,490)
	(3,541,754)	(16,568,332)
Interest paid	(49,754)	(953)
Interest received	49,504	14,759
Income taxes paid	(871,201)	(92,259)
	(4,413,205)	(16,646,785)
Financing activities:		
Proceeds from exercise of stock options	64,130	40,773
Interest paid on loans and borrowings	(931,655)	-
Proceeds from loans and borrowings	-	10,000,000
Repayment of loans and borrowings	(375,000)	-
Transaction costs of loans and borrowings	-	(10,032)
	(1,242,525)	10,030,741
Investing activities:		
Purchase of property and equipment	(331,868)	(1,071,966)
Purchase of intangible assets	(136,296)	(156,428)
Increase in restricted cash	(146,218)	(15,227)
	(614,382)	(1,243,621)
Effect of foreign exchange rate changes on cash and cash equivalents	(1,865,646)	(45,701)
Decrease in cash and cash equivalents	(8,135,758)	(7,905,366)
Cash and cash equivalents, beginning of period	108,636,797	79,054,757
Cash and cash equivalents, end of period	\$ 100,501,039	\$ 71,149,391

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

REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2014 and 2013
(Unaudited)

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 is the parent of the wholly owned operating subsidiary, Redknee Inc., and its various subsidiaries.

1. Basis of preparation:

(a) Statement of compliance:

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

These condensed consolidated interim financial statements for the three months ended December 31, 2014 and 2013 were authorized for issuance by the Board of Directors of the Company on February 4, 2015.

(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, 2014.

REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2014 and 2013
(Unaudited)

2. Significant accounting policies:

(a) Basis of measurement and presentation:

The notes presented in these condensed consolidated interim financial statements include, in general, only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the annual audited consolidated financial statements, including the notes thereto, for the year ended September 30, 2014 (the "2014 annual financial statements"). Except as discussed below, these condensed consolidated interim financial statements follow the same accounting policies and methods of application as the 2014 annual financial statements.

(b) Basis of consolidation:

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

(c) Functional currency:

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

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

REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2014 and 2013
(Unaudited)

2. Significant accounting policies (continued):

(d) Recent accounting pronouncements:

The following new standards and interpretations have been adopted by the Company, effective October 1, 2014:

(i) IAS 32, Financial Instruments - Presentation ("IAS 32"):

In December 2011, the IASB amended IAS 32 to clarify the meaning of when an entity has a current legally enforceable right of set-off. The amendments are effective for annual periods beginning on or after October 1, 2014 and are required to be applied retrospectively.

The Company adopted the amendments to IAS 32 in its interim and annual financial statements beginning on October 1, 2014. The adoption did not have a material impact on the condensed consolidated interim financial statements.

(ii) International Financial Reporting Interpretations Committee 21, Levies ("IFRIC 21"):

In May 2013, the IASB issued IFRIC 21, which provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37, Provisions, Contingent Liabilities and Contingent Assets ("IAS 37") and those where the timing and amount of the levy is certain. The interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with relevant legislation. It provides the following guidance on recognition of a liability to pay levies: (a) the liability is recognized progressively if the obligating event occurs over a period of time; and (b) if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. The standard is effective for annual periods beginning on or after January 1, 2014, with early adoption permitted.

The Company adopted the amendments to IFRIC 21 in its interim and annual financial statements beginning on October 1, 2014. 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 months ended December 31, 2014 and 2013
(Unaudited)

2. Significant accounting policies (continued):

(e) New accounting pronouncements:

The IASB has issued new standards and amendments to existing standards. These changes in accounting are not yet effective at December 31, 2014 and could have an impact on future periods.

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

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

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

The IASB issued IFRS 15, which is effective for annual periods beginning on or after January 1, 2017. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time and over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company is in the process of assessing the impact of this standard on its consolidated financial statements.

REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2014 and 2013
(Unaudited)

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 marked 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.

(a) Contingent consideration:

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

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 condensed consolidated interim statements of comprehensive income (loss). The fair value of the contingent consideration liability was \$13,878,284 as at December 31, 2014 (September 30, 2014 - \$14,454,527). For the three months ended December 31, 2014, the change in the estimated fair value of \$576,243 was related to foreign exchange gains recognized, and is recorded in foreign exchange loss. For the three months ended December 31, 2013 the change in estimated fair value was \$1,150,669 and was recorded as other expenses.

(b) Other items:

During the three months ended December 31, 2014, the Company incurred acquisition and related costs of \$415,051 (2013 - \$872,368), 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 months ended December 31, 2014 and 2013
(Unaudited)

4. Cash and cash equivalents:

	December 31, 2014	September 30, 2014
Cash	\$ 100,403,292	\$ 108,356,746
Cash equivalents	97,747	280,051
	<u>\$ 100,501,039</u>	<u>\$ 108,636,797</u>

5. Trade accounts and other receivables:

	December 31, 2014	September 30, 2014
Trade receivables, net of allowance for doubtful accounts	\$ 67,292,725	\$ 63,318,637
Other receivables (a)	7,620,499	7,344,753
Employee receivables (b)	1,045,182	730,593
	<u>\$ 75,958,406</u>	<u>\$ 71,393,983</u>

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

(b) Employee receivables represent advances for business travel.

6. Other assets:

	December 31, 2014	September 30, 2014
Deferred contract costs - current	\$ 824,526	\$ 898,871
Deferred contract costs - non-current	1,275,753	1,484,559
Lease deposits - non-current	655,375	605,129
	<u>1,931,128</u>	<u>2,089,688</u>
	<u>\$ 2,755,654</u>	<u>\$ 2,988,559</u>

REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2014 and 2013
(Unaudited)

6. Other assets (continued):

The Company recognized upfront direct costs related to 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 recognition of the related contract revenue. During the three months ended December 31, 2014, \$283,151 was amortized (2013 - \$311,338).

7. Loans and borrowings:

	December 31, 2014	September 30, 2014
Line of credit, bearing interest at LIBOR floor of 1.25% plus applicable margin, due April 1, 2018	\$ 19,411,493	\$ 19,411,493
Term Loan A, bearing interest at LIBOR floor of 1.25% plus applicable margin, due April 1, 2018	14,437,500	14,625,000
Term Loan B, bearing interest at LIBOR floor of 1.25% plus applicable margin, due April 1, 2018	14,437,500	14,625,000
	48,286,493	48,661,493
Less embedded derivative at inception	1,343,152	1,343,152
	46,943,341	47,318,341
Less unamortized deferred financing costs	1,066,768	1,164,367
Add loan accretion	477,823	405,739
	46,354,396	46,559,713
Less current portion of loans and borrowings	2,625,000	750,000
Long-term portion of loans and borrowings	\$ 43,729,396	\$ 45,809,713

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.

REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2014 and 2013
(Unaudited)

7. Loans and borrowings (continued):

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 (UK) Limited ("Redknee UK") and Redknee Germany GmbH ("Redknee Germany"). The Company, Redknee UK and Redknee Germany have guaranteed the obligations of Redknee Inc. The Company's guarantee is secured by a pledge of all of its shares in Redknee Inc.

As at December 31, 2014, \$48,286,493 (September 30, 2014 - \$48,661,493) 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 months ended December 31, 2014, \$97,599 was amortized (2013 - \$151,128).

Interest is at LIBOR plus an applicable margin which was 4.5% at December 31, 2014 and September 30, 2014.

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 \$652,230 at December 31, 2014 (September 30, 2014 - \$688,437), 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 \$36,209 (2013 - \$117,759) was recorded in finance costs in the condensed consolidated interim statements of comprehensive income (loss). The embedded derivative liability is included in other liabilities in the condensed consolidated interim statements of financial position.

The Company is required to comply with certain financial and non-financial covenants that exist under the agreement, which, if violated, could result in the amounts borrowed being due and payable to the lender on demand. The Company has assessed its debt covenants as at December 31, 2014 and determined it is in compliance with all applicable covenants.

For the three months ended December 31, 2014, interest expense in connection with loans payable of \$637,448 (2013 - \$550,000) 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 months ended December 31, 2014 and 2013
(Unaudited)

8. Share capital:

(a) Income (loss) per common share:

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

	2014	2013
Basic weighted average number of common shares outstanding	108,944,276	95,529,355
Add dilutive stock options outstanding	2,466,361	–
Diluted weighted average number of common shares outstanding	111,410,637	95,529,355

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

Due to the loss for three months ended December 31, 2013, 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 months ended December 31, 2013 were 5,137,625.

(b) 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 December 31, 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 months ended December 31, 2014 and 2013
(Unaudited)

8. Share capital (continued):

(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 three months ended December 31, 2014. The Company classifies these shares as treasury stock until they are delivered pursuant to the terms of the awards.

During the three months ended December 31 2014, no shares have been issued (2013 - 68,418 shares with a cost of \$85,940). As at December 31, 2014, the remaining number of treasury shares held by the Company are 16,898 with a cost of \$21,226 (September 30, 2014 - 16,898 with a cost of \$21,226).

(d) Share-based compensation:

The share-based compensation relating to the Company's stock options, deferred share unit plan and restricted shares under the restricted share plan during the three months ended December 31, 2014 was \$465,166 (2013 - \$670,206).

(i) Stock options:

The table below is a summary of the stock option plans for the three months ended December 31, 2014.

	CAD stock options		GBP stock options	
	Number of stock options	Weighted average exercise price per share	Number of stock options	Weighted average exercise price per share
Outstanding, September 30, 2014	4,584,246	\$ 2.39	71,750	\$ 0.45
Granted	3,278,700	3.50	—	—
Exercised	(181,250)	0.39	(4,000)	0.44
Forfeited	(37,572)	5.46	(3,750)	0.93
Outstanding, December 31, 2014	7,644,124	2.90	64,000	0.42

REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2014 and 2013
(Unaudited)

8. Share capital (continued):

(ii) Share unit plan:

The table below is a summary of the restricted share units ("RSU") and performance share units ("PSU") for the three months ended December 31, 2014.

RSU & PSU	
Outstanding, beginning of year	805,421
Granted	795,646
Exercised	(51,872)
Forfeited	(34,581)
Outstanding, end of year	1,514,614

(iii) Deferred share unit plan:

During three months ended December 31, 2014, there were no deferred share units ("DSUs") granted. The number of DSUs outstanding at December 31, 2014 and September 30, 2014 were 450,270.

9. Income tax expense:

The Company's income tax expense for the three months ended December 31, 2014 includes \$784,287 (2013 - \$844,805) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and \$615,508 (2013 - nil) of foreign withholding taxes.

REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2014 and 2013
(Unaudited)

10. Change in non-cash operating working capital:

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

	2014	2013
Trade accounts and other receivables	\$ (4,609,445)	\$ (12,474,160)
Unbilled revenue	(1,208,485)	(1,532,464)
Prepaid expenses	1,796,450	(1,088,283)
Other assets	232,905	252,019
Inventories	2,601,444	(27,920)
Trade payables	1,782,950	125,598
Accrued liabilities and other liabilities	(6,374,402)	(82,838)
Income taxes payable	57,919	(265,637)
Deferred revenue	(3,375,340)	(5,333,805)
	<u>\$ (9,096,004)</u>	<u>\$ (20,427,490)</u>

11. Financial instruments and capital management:

Accounting classifications and fair values:

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

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

REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2014 and 2013
(Unaudited)

11. Financial instruments and capital management (continued):

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

Financial assets and financial liabilities measured at fair value at December 31, 2014 and September 30, 2014 are summarized below:

	December 31, 2014		September 30, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (Level 1)	\$ 100,501,039	\$ 100,501,039	\$ 108,636,797	\$ 108,636,797
Restricted cash (Level 1)	1,028,158	1,028,158	881,940	881,940
Contingent consideration liability (Level 3)	13,878,284	13,878,284	14,454,527	14,454,527
Embedded derivative liability (other liabilities) (Level 2)	652,230	652,230	688,437	688,437

There were no transfers of financial assets between levels during the three months ended December 31, 2014.

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

	December 31, 2014	September 30, 2014
Financial assets at FVTPL ^(a)	\$ 101,529,197	\$ 109,518,737
Loans and receivables ^(b)	75,958,406	71,393,983
Other financial liabilities ^(c)	110,022,186	118,521,619
Financial liabilities at FVTPL ^(d)	13,878,284	14,454,527

^(a)Includes cash and cash equivalents and restricted cash.

^(b)Includes trade accounts and other receivables.

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

^(d)Includes contingent consideration.

REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2014 and 2013
(Unaudited)

11. Financial instruments and capital management (continued):

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

The carrying values of contingent consideration and other long-term liabilities approximate fair values.

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

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

12. Segment reporting:

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

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

	2014	2013
Europe, Middle East and Africa	\$ 30,752,811	\$ 31,502,457
North America, Latin America and Caribbean	6,718,891	7,375,218
Asia and Pacific Rim	25,105,227	21,525,565
	<u>\$ 62,576,929</u>	<u>\$ 60,403,240</u>

REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2014 and 2013
(Unaudited)

12. Segment reporting (continued):

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

	2014	2013
Revenue by type:		
Software and services	\$ 33,741,226	\$ 22,038,314
Support and subscription	24,621,329	33,028,025
Third party software and hardware	4,214,374	5,336,901
	<u>\$ 62,576,929</u>	<u>\$ 60,403,240</u>

13. Commitments, guarantees and contingent liabilities:

(a) Letters of credit:

As at December 31, 2014, the Company had \$1,028,158 (September 30, 2014 - \$881,940) 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.

REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2014 and 2013
(Unaudited)

14. Provisions:

	Total
Opening balance, September 30, 2014	\$ 21,575,846
Additions during the period	336,714
Cash payments	(2,959,720)
Foreign exchange	(815,078)
Closing balance, December 31, 2014	18,137,762
Less current portion of provisions	13,787,684
Long-term portion of provisions	\$ 4,350,078

In August 2014, the Company announced that it would eliminate certain satellite office locations, concentrate research and development and support staff into existing locations and consolidate activities to lower cost centres. The Company also announced restructuring actions throughout the organization intended to reduce its overall cost structure and improve its margin performance. In connection with these plans, the Company recorded restructuring charges of \$22,524,612 during the year ended September 30, 2014, primarily for employee termination costs, of which \$21,575,846 was recorded as provisions as at September 30, 2014. During the three months ended December 31, 2014, additional restructuring charges related to employee terminations of \$336,714 were recorded.

For the three months ended December 31, 2014, an amount of \$2,959,720 has been paid and an amount of \$13,787,684 is estimated as payable within one year. The balance of the provision, classified as long-term, is payable over five years, amounts to \$4,350,078 and has been discounted.

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