

**REDKNEE**

Looking Beyond

**REDKNEE SOLUTIONS INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE SECOND QUARTER ENDED MARCH 31, 2015**

**DATED: May 6, 2015**

**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 and six-months ended March 31, 2015. 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 and six-months ended March 31, 2015, 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 unaudited 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 global provider of innovative real-time monetization and subscriber management software products, solutions and services. Redknee's award-winning solutions enable service providers to monetize new services, business models and content and to deliver a comprehensive customer experience. Redknee's revenue and subscriber management platform provides innovative converged billing, charging, policy and customer care solutions for voice, messaging and data services to over 200 service providers in over 90 countries. The Company's software products allow mobile, multi-play and other service providers to extend and enhance their capabilities and service offerings, enabling them to introduce new revenue streams and improve customer satisfaction through the introduction of innovative tariffs and loyalty programs, data services, and advanced customer care and subscriber self-care. Redknee's solutions enable service providers to monetize new services, business models and content and to deliver a connected customer experience - through either Software-as-a-Service ("SaaS") or on-premise software-based solutions. Redknee's real-time monetization and subscriber management platform provides converged charging, billing, policy management, and customer care solutions. In addition to its deep technical expertise and customer footprint in the telecommunications space, Redknee's highly scalable solutions are also being leveraged in additional verticals, including utilities and railways. Established in 1999, Redknee Solutions Inc. (TSX: RKN) is the parent of the wholly-owned operating subsidiary Redknee Inc. and its various subsidiaries. The Company derives its revenue from three main geographic areas namely:

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

Available on-premise, via the cloud or as a SaaS offering, Redknee's highly scalable and agile, end-to-end platform, supports the following market solutions:

**Converged Billing and Customer Care** – Redknee's real-time charging, billing and care solution transcends the traditional BSS and redefines the entire customer lifecycle by introducing new and innovative ways to monetize next generation services in real time—no matter the type of service, customer or business model. With its unique modular design, the solution enables service providers to monetize new revenue streams, launch new service and deliver a comprehensive customer experience. Today, Redknee's highly scalable solution is supporting more than 100 million subscribers at a single customer and is enabling operators to launch and monetize their 3G and LTE networks and deliver advanced data services, including Voice over LTE, M2M, cloud-services and Over the Top (OTT) offerings.

**Policy Management** – Redknee's Policy Management solution provides a single solution that enables service providers to take control of network resource usage, assure quality of experience for key users, and offer personalized services and differentiated, service-specific charging. Serving more than 60 operators with a combined customer base of more than 230 million, Redknee's Policy Management solution is key to supporting operator data monetization strategies for real-time applications such as video streaming, interactive gaming, voice-over-LTE (VoLTE) and voice-over-Wifi (VoWifi).

**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 launched the Redknee Cloud in the US as part of its strategy to offer SaaS and a fully managed service to Tier 1 operators, MVNOs and service providers that want to launch to the market quickly.

**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.

**GSM-R Intelligent Network Solution** – Redknee’s Intelligent Network solution for GSM-Railway (GSM-R) networks enables Railway Network Operators (“RNOs”) to deliver better operational support, increased reliability and higher quality railway communications system for their GSM-R networks. Redknee is the core provider of optimized communication services supporting more than 20 GSM-R networks in over a dozen countries across the world, providing advanced functionality to progress their infrastructure, enhance their operational requirements and improve the customer experience they deliver.

**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 unaudited condensed consolidated interim financial statements.

<b>Consolidated Statements of Comprehensive Income (Loss)</b> (all amounts in thousands of US\$, except per share amounts) (unaudited)	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31</b>		<b>March 31</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Revenue</b>				
Software, services and other	31,220	46,696	69,176	74,071
Support and subscription	22,523	25,737	47,144	58,765
	<b>53,743</b>	<b>72,433</b>	<b>116,320</b>	<b>132,836</b>
<b>Cost of revenue</b>	21,001	37,720	46,989	65,100
<b>Gross profit</b>	<b>32,742</b>	<b>34,713</b>	<b>69,331</b>	<b>67,736</b>
<b>Operating expenses</b>				
Sales and marketing	7,700	9,087	17,163	17,596
General and administrative	7,512	7,668	14,574	15,842
Research and development	11,397	15,953	23,727	30,838
Restructuring costs	252	-	588	-
Acquisition and related costs	279	2,396	694	3,268
	<b>27,140</b>	<b>35,104</b>	<b>56,746</b>	<b>67,544</b>
<b>Income (loss) from operations</b>	<b>5,602</b>	<b>(391)</b>	<b>12,585</b>	<b>192</b>
Foreign exchange gain (loss)	(5,179)	583	(7,848)	(555)
Other income	-	6,952	-	5,801
Finance income	7	9	12	24
Finance costs	(1,116)	(812)	(2,015)	(1,396)
<b>Income (loss) before income taxes</b>	<b>(686)</b>	<b>6,341</b>	<b>2,734</b>	<b>4,066</b>
Income tax expense	1,354	1,571	2,763	2,357
<b>Net income (loss) and comprehensive income (loss)</b>	<b>(2,040)</b>	<b>4,770</b>	<b>(29)</b>	<b>1,709</b>
<b>Net income (loss) per common share</b>				
Basic	\$ (0.02)	\$ 0.05	\$ (0.00)	\$ 0.02
Diluted	\$ (0.02)	\$ 0.05	\$ (0.00)	\$ 0.02
<b>Weighted average number of common shares (thousands)</b>				
Basic	109,089	98,362	109,017	97,015
Diluted	109,089	101,797	109,017	100,465

Statement of Financial Position Data \$US Thousands (unaudited)	As at March 31,	As at September 30,	\$ Change	% Change
	2015	2014		
Cash, Cash Equivalents and Restricted Cash	105,792	109,519	(3,727)	-3%
Trade Accounts, Other Receivables and Unbilled Revenue	105,646	113,791	(8,145)	-7%
Goodwill and Intangible Assets	37,560	40,458	(2,898)	-7%
Total Assets	266,413	287,359	(20,946)	-7%
Trade Payable and Accrued Liabilities	41,354	48,105	(6,751)	-14%
Deferred Revenue	20,513	24,346	(3,833)	-16%
Loans and Borrowings and Other LT liabilities	57,940	64,994	(7,054)	-11%
Shareholders' Equity	118,765	118,147	618	1%

## 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 March 31		Six Months Ended March 31	
	2015	2014	2015	2014
Software & Services	28,771	38,243	62,513	60,281
Support and Subscription	22,523	25,737	47,144	58,765
Third Party Software & Hardware	2,449	8,453	6,663	13,790
<b>Total</b>	<b>53,743</b>	<b>72,433</b>	<b>116,320</b>	<b>132,836</b>

Percentage of Total Revenue (unaudited)	Three Months Ended March 31		Six Months Ended March 31	
	2015	2014	2015	2014
Software & Services	53%	53%	53%	46%
Support and Subscription	42%	35%	41%	44%
Third Party Software & Hardware	5%	12%	6%	10%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The Company recognizes revenue from the sale of software licenses, including initial perpetual licenses, capacity increases and/or upgrades; professional services; third party hardware and software components and customer support contracts. For the three-month period ended March 31, 2015, the Company's revenues have declined by \$18.7 million, or 26%, from the previous year to \$53.7 million. The change by revenue type for the quarter ended March 31, 2015 is as follows: \$9.5 million decrease in software

and services revenue, \$3.2 million decrease in support and subscription revenue, and \$6.0 million decrease in third party software and hardware revenue.

For the six-month period ended March 31, 2015, the Company's revenues have declined by \$16.5 million, or 12%, from the previous year to \$116.3 million. The change by revenue type for the six months ending March 31, 2015 is as follows: \$2.2 million increase in software and services revenue, \$11.6 million decrease in support and subscription revenue, and \$7.1 million decrease in third party software and hardware revenue.

The change in revenue in the three and six months ended March 31, 2015, compared to the prior year period, resulted mainly from the impact of foreign exchange variation, lower third-party hardware sales, as well as lower support and subscription revenue due to expected non-renewal of certain support contracts. On a constant currency basis, revenue in the three and six months ended March 31, 2015 is \$61.1 million and \$127.4 million, respectively, as compared to the same period last year.

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

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

Software and services revenue for the three-month period ended March 31, 2015 decreased by \$9.5 million to \$28.8 million, or 53% of total revenue, compared to \$38.2 million, or 53% of total revenue for the same period last year. This decrease is mainly a result of lower software and services revenue in the EMEA region due to impact of foreign exchange variation and higher deployments of software contracts and expansions in the same comparable period last year. On a constant currency basis, software and services revenue in the three months ended March 31, 2015 is \$33.6 million, as compared to the same period last year.

For the six-month period ended March 31, 2015, the Company's software and services revenue increased to \$62.5 million, or 53% of total revenue, compared to \$60.3 million, or 46% of total revenue, for the same period last year. The increase mainly relates to higher revenue earned from professional and consulting services in the Americas and EMEA region, partially offset by lower services revenue in the APAC region.

### ***Support and Subscription Revenue***

Support and subscription revenue consists of revenue from our customer support and subscription contracts, term-based software licenses, SaaS licensing, and maintenance contracts. These recurring revenue subscription agreements allow customers to receive technical support and upgrades. Support and subscription 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 and subscription revenue for the three-month period ended March 31, 2015 decreased by \$3.2 million, or 12%, to \$22.5 million, or 42% of total revenue, compared to \$25.7 million, or 35% of total

revenue, for the same period last year. The decrease is mainly attributable to lower support revenue in the EMEA region due to the expected non-renewal of certain support contracts. On a constant currency basis, support and subscription revenue in the three months ended March 31, 2015 is \$24.7 million, as compared to the same period last year.

For the six-month period ended March 31, 2015, the Company's support and subscription revenue decreased to \$47.1 million, or 41% of total revenue, compared to \$58.8 million, or 44% of total revenue, in fiscal 2014. This decrease is mainly a result of lower support and subscription revenue in the EMEA region.

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

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

Third party software and hardware revenue for the three-month period ended March 31, 2015 decreased to \$2.4 million, or 5% of total revenue, compared to \$8.5 million, or 12% of total revenue, for the same period last year. On a constant currency basis, third party software and hardware revenue in the three months ended March 31, 2015 is \$2.8 million, as compared to the same period last year.

For the six-month period ended March 31, 2015, the Company's third party software and hardware revenue decreased to \$6.7 million, or 6% of total revenue, compared to \$13.8 million, or 10% of total revenue, in fiscal 2014.

The decrease in the three and six months ended March 31, 2015 is associated with fewer customer requirements for third party software and hardware components.



*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		Six Months Ended	
	March 31		March 31	
	2015	2014	2015	2014
Asia and Pacific Rim	17,962	20,344	43,067	41,949
North America, Latin America and Caribbean	6,841	6,512	13,560	13,777
Europe, the Middle East and Africa	28,940	45,577	59,693	77,110
<b>Total</b>	<b>53,743</b>	<b>72,433</b>	<b>116,320</b>	<b>132,836</b>

Percentage of Total Revenue (unaudited)	Three Months Ended		Six Months Ended	
	March 31		March 31	
	2015	2014	2015	2014
Asia and Pacific Rim	33%	28%	37%	32%
North America, Latin America and Caribbean	13%	9%	12%	10%
Europe, the Middle East and Africa	54%	63%	51%	58%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

For the three-month period ended March 31, 2015, revenue from the APAC region was \$18.0 million, or 33% of total revenue, compared to \$20.3 million, or 28% of total revenue, for the same comparable period in fiscal 2014. This quarter-over-quarter change is mainly attributable to a decrease in third party revenue. For the six-month period ended March 31, 2015, revenue from the APAC region increased to \$43.1 million, or 37% of total revenue, compared to \$41.9 million, or 32% of total revenue, for the same period last year. The increase is mainly a result of higher software and services revenue, partially offset by lower third party software and hardware revenue and support and subscription revenue.

For the three-month period ended March 31, 2015, revenue from the Americas region increased to \$6.8 million, or 13% of total revenue, compared to \$6.5 million, or 9% of total revenue, for the same comparable period in fiscal 2014. This increase is mainly attributable to higher support and subscription revenue, partially offset by lower software and services revenue. For the six-month period ended March 31, 2015, revenue from the Americas region decreased marginally to \$13.6 million, or 12% of total revenue, as compared to \$13.8 million, or 10% of total revenue, in the same comparable period in fiscal 2014.

For the three-month period ended March 31, 2015, revenue from the EMEA region decreased by \$16.6 million, or 37%, to \$28.9 million, or 54% of total revenue, compared to \$45.6 million, or 63% of total revenue, for the same comparable period in fiscal 2014. For the six-month period ended March 31, 2015, revenue from the EMEA region decreased to \$59.7 million, or 51% of total revenue, compared to \$77.1 million, or 58% of total revenue, for the same period last year. This decrease is mainly a result of lower software and services revenue in the region due to fewer deployments of software products and lower revenue from customer support and subscription contracts. In addition, overall revenue in the EMEA region was impacted by the declining EURO value during the second quarter of FY15.

### Cost of Revenue and Gross Margin

Cost of revenue consists of personnel costs 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 three months ended March 31, 2015, cost of revenue decreased by \$16.7 million to \$21.0 million, from \$37.7 million incurred for the same comparable period in 2014. During the same period, gross margin increased by 13% from 48% in the three months ended March 31, 2014 to 61% in the three months ended March 31, 2015. For the six-month period ended March 31, 2015, gross margin increased by 9% from 51% in the six months ended March 31, 2014 to 60% in the six months ended March 31, 2015. The increase in gross margin for both the three and six months ended March 31, 2015 was primarily attributable to the increase in revenue from high-margin software license deals, and increased margins for services and support. In addition, the revenue mix for third party software and hardware revenue, which has lower margins, decreased in the three and six months ended March 31, 2015, as compared to the same periods in fiscal 2014.

### Operating Expenses

Total operating expenses (excluding depreciation and amortization) in the three months ended March 31, 2015 decreased to \$24.5 million from \$31.9 million for the same comparable period last year. This includes acquisition costs of \$0.3 million and \$2.4 million for the three months ended March 31, 2015 and March 31, 2014, respectively. Excluding depreciation, amortization, restructuring and acquisition costs, total operating costs in the second quarter of fiscal 2015 decreased by 19% to \$23.9 million, or 45% of total revenue, compared to \$29.5 million, or 41% of total revenue, for the same period last year. The decrease in overall operating expenses is mainly attributable to lower research and development costs due to restructuring, as compared to the same period last year.

Total operating expenses (excluding depreciation and amortization) for the six months ended March 31, 2015 decreased to \$51.3 million, as compared to \$61.1 million for the same period last year. This includes acquisition costs of \$0.7 million and \$3.3 million, for the six months ended March 31, 2015 and March 31, 2014, respectively. Excluding depreciation, amortization, restructuring and acquisition costs, total operating costs in the six-month period ended March 31, 2015 were \$50.0 million, or 43% of total revenue, compared to \$57.8 million, or 44% of total revenue, for the same period last year. This decrease in overall operating expenses (excluding depreciation, amortization, restructuring and acquisition costs), is primarily due to savings from restructuring in research and development and lower general and administrative costs.

On a constant currency basis, total operating costs in the three and six months ended March 31, 2015 are \$30.9 million and \$62.4 million, respectively, as compared to 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		Six Months Ended	
	March 31		March 31	
	2015	2014	2015	2014
Sales and Marketing	7,700	9,087	17,163	17,596
General and Administrative	7,512	7,668	14,574	15,842
Research and Development	11,397	15,953	23,727	30,838
Restructuring Costs	252	-	588	-
Acquisition and Related Costs	279	2,396	694	3,268
<b>Total Operating Expenses</b>	<b>27,140</b>	<b>35,104</b>	<b>56,746</b>	<b>67,544</b>
<i>Excluding Amortization and Depreciation</i>	<i>24,478</i>	<i>31,917</i>	<i>51,329</i>	<i>61,064</i>

Percentage of Total Revenue (unaudited)	Three Months Ended		Six Months Ended	
	March 31		March 31	
	2015	2014	2015	2014
Sales and Marketing	14%	13%	15%	13%
General and Administrative	14%	11%	12%	12%
Research and Development	21%	21%	20%	24%
Restructuring Costs	0%	0%	1%	0%
Acquisition and Related Costs	1%	3%	1%	2%
<b>Total Operating Expenses</b>	<b>50%</b>	<b>48%</b>	<b>49%</b>	<b>51%</b>
<i>Excluding Amortization and Depreciation</i>	<i>46%</i>	<i>44%</i>	<i>44%</i>	<i>46%</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 three-month period ended March 31, 2015, S&M expenditures decreased to \$7.7 million, or 14% of total revenue, compared to \$9.1 million, or 13% of total revenue, for the same comparable period last year. For the six-month period ended March 31, 2015, S&M expenditures decreased to \$17.2 million, or 15% of total revenue, compared to \$17.6 million, or 13% of total revenue, for the same comparable period last year. The decrease is mainly due to lower compensation costs and foreign exchange impacts.

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

General and administrative (“G&A”) expenses consist of the Company’s corporate and 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 three-month period ended March 31, 2015, G&A expenditures decreased to \$7.5 million, or 14% of total revenue, from \$7.7 million, or 11% of total revenue, in fiscal 2014. For the six-month period ended March 31, 2015, G&A expenditures decreased to \$14.6 million, or 12% of total revenue, from \$15.8 million, or 12% of total revenue, in fiscal 2014.

Excluding share-based compensation, amortization and depreciation, G&A expenses were \$4.5 million, or 8% of revenue, and \$9.4 million, or 8% of revenue, for the three and six months ended March 31, 2015, respectively.

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

Research and development (“R&D”) expenses consist primarily of personnel costs associated with product management and the development and testing of new products.

For the three-month period ended March 31, 2015, R&D expenditures decreased to \$11.4 million, or 21% of total revenue, from \$16.0 million, or 21% of total revenue, in fiscal 2014. For the six-month period ended March 31, 2015, R&D expenditures decreased to \$23.7 million, or 20% of total revenue, from \$30.8 million, or 24% of total revenue, in fiscal 2014. The decrease in R&D costs is mostly attributable to lower headcount costs and the impact of moving costs from high cost jurisdictions to lower cost jurisdictions as per the Company’s restructuring plan. On a constant currency basis, total R&D costs in the three and six months ended March 31, 2015 are \$13.4 million and \$26.7 million, respectively, as compared to the same period last year.

### ***Restructuring Costs***

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 centers. 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 \$22.5 million during the year ended September 30, 2014, primarily for employee termination costs, of which \$21.6 million was recorded as provisions as at September 30, 2014. During the three and six months ended March 31, 2015, additional restructuring charges related to employee terminations of \$0.3 million and \$0.6 million respectively, were recorded.

For the six months ended March 31, 2015, an amount of \$6.3 million has been paid and an amount of \$10.9 million is estimated as payable within one year. The balance of the provision, classified as long-term, payable over five years, amounts to \$2.1 million and has been discounted.

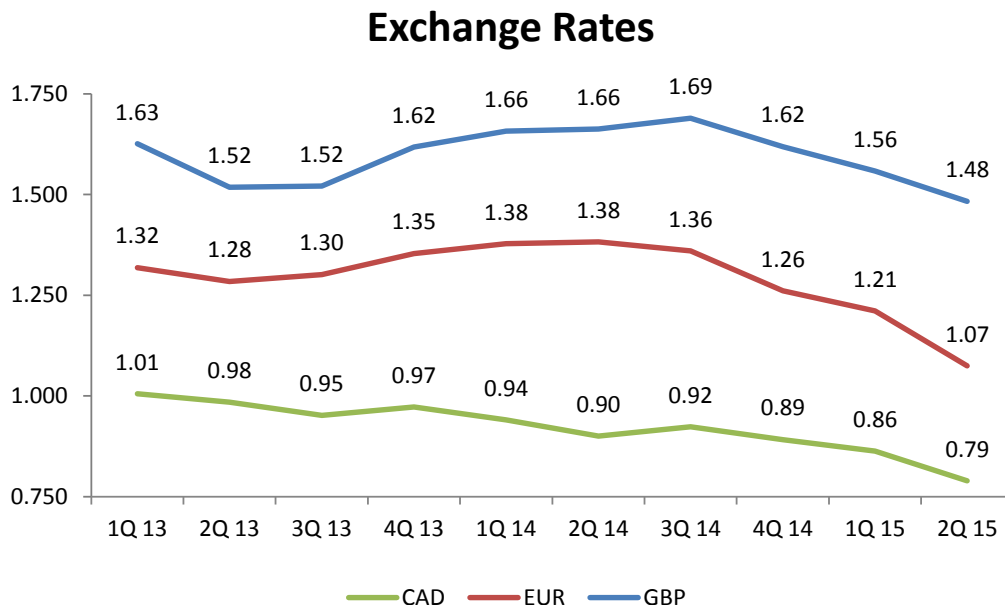
The recognition of restructuring charges requires management to make certain judgments and estimates regarding the nature, timing and amounts associated with the restructuring actions. Management's significant assumptions included the timing and number of employees to be terminated and the measurement 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.

### Acquisition and Related Costs

For the three-month period ended March 31, 2015, acquisition and related costs were \$0.3 million, as compared to \$2.4 million for the same period last year. For the six-month period ended March 31, 2015, acquisition and related costs were \$0.7 million, as compared to \$3.3 million for the same period last year. The decrease in acquisition costs is mainly a result of lower severance costs and legal fees.

### Foreign Exchange Gain/Loss

We operate internationally and have foreign currency risks related to our revenue, operating expenses, monetary assets, monetary liabilities and cash denominated in currencies other than the U.S. Dollar, which is our functional currency. Consequently, movements in the foreign currencies in which we transact have and could significantly affect current and future net earnings. Currently, we do not use derivative instruments to hedge such currency risks. The graph below displays the change in rates relative to the U.S. Dollar.



Source: Bank of Canada

For the three-month period ended March 31, 2015, the Company recognized a foreign currency exchange loss of \$5.2 million, compared to a foreign currency exchange gain of \$0.6 million in the same comparable period last year. The Company has monetary assets and liabilities in a number of currencies, the most significant of which are denominated in Euro, the Canadian Dollar and GBP. The foreign currency exchange loss for the three-month period ended March 31, 2015 is mainly attributable to the U.S. Dollar strengthening relative to the Euro, the Canadian Dollar and GBP.

A change in foreign exchange rates as at March 31, 2015 of 5% will result in a gain or loss of approximately \$3.2 million arising from the translation of the Company's foreign currency denominated monetary assets and liabilities as at March 31, 2015. This translation foreign currency gain or loss will be recorded in the consolidated statements of comprehensive income (loss).

## Income Taxes

The Company's income tax expense for the three-month period ended March 31, 2015 includes \$0.5 million (2014 - \$0.9 million) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and \$0.8 million (2014 - \$0.8 million) of foreign withholding taxes.

The Company's income tax expense for the six-month period ended March 31, 2015 includes \$1.3 million (2014 - \$1.8 million) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and \$1.5 million (2014 - \$0.8 million) of foreign withholding taxes.

## SUMMARY OF RESULTS

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

<b>\$ Thousands (Unaudited)</b>	<b>2Q 15</b>	<b>1Q 15</b>	<b>4Q 14</b>	<b>3Q 14</b>	<b>2Q 14</b>	<b>1Q 14</b>	<b>4Q 13</b>	<b>3Q 13</b>
Revenue	\$53,743	\$62,577	\$60,938	\$63,923	\$72,433	\$60,403	\$57,437	\$58,620
Net Income (Loss)	\$(2,040)	\$ 2,011	\$(34,730)	\$(6,878)	\$ 4,770	\$(3,061)	\$(970)	\$ 80
Basic Income (Loss) per Share	\$(0.02)	\$ 0.02	\$(0.32)	\$(0.06)	\$ 0.05	\$(0.03)	\$(0.01)	\$ -
Diluted Income (Loss) per Share	\$(0.02)	\$ 0.02	\$(0.32)	\$(0.06)	\$ 0.05	\$(0.03)	\$(0.01)	\$ -
Weighted average shares outstanding – Basic	109,089	108,944	108,897	108,892	98,362	95,529	95,030	80,728
Weighted average shares outstanding - Diluted	109,089	111,411	108,897	108,892	101,797	95,529	95,030	84,548

## TRADE ACCOUNTS AND OTHER RECEIVABLES

The Company's Days Sales Outstanding in Trade Receivable ("DSO") is 113 days as at March 31, 2015 compared to 101 days as of September 30, 2014. Redknee calculates its DSO based on the annualized revenue and the accounts receivable balance at period end. In order to minimize the risk of loss for trade receivables, the Company's extension of credit to customers involves review and approval by senior management, as well as progress payments as contracts are performed. Credit reviews take into account the counterparty's financial position, past experience and other factors. Management regularly monitors customer credit limits. The Company believes that the concentration of credit risk from trade receivables is limited, as they are widely distributed among customers in various countries.

While the Company's credit controls and processes have been effective in mitigating credit risk, these controls cannot eliminate credit risk and there can be no assurance that these controls will continue to be effective or that the Company's low credit loss experience will continue. Most sales are invoiced with payment terms in the range of 30 to 120 days. The Company reviews its trade receivable accounts



regularly and reduces amounts to their expected realizable values by making an allowance for doubtful accounts as soon as the account is perceived not to be fully collectible.

The Company's trade and other receivables had a carrying value of \$74.9 million as at March 31, 2015 comprised of \$65.7 million for Trade receivables, net of allowance for doubtful accounts, and \$9.2 million for other receivables mainly relating to receivables that were a part of the initial net working capital acquired through the BSS acquisition.

The allowance for doubtful accounts as at March 31, 2015 was \$3.1 million, compared to \$4.3 million as at September 30, 2014. The decrease mainly relates to cash collections during the period. Bad debt is charged to general and administrative expense. Estimates for allowance for doubtful accounts are determined based on a customer-by-customer evaluation of collectability at each consolidated statements of financial position reporting date, taking into account the amounts that are past due and any available relevant information on the customers' liquidity and ability to pay.

### **UNBILLED REVENUE**

Unbilled revenue represents revenue that has been earned but not billed. Redknee operates in an industry where contract prices are fixed and payments are often based on billing milestones. All services provided from inception are due and payable under the contract terms. Differences between the timing of billings, based upon billing milestones or other contractual terms, collection of cash and the recognition of revenue result in either unbilled revenue or deferred revenue.

Revenue in a typical implementation project is earned as progress is made in project delivery. This earned revenue results in unbilled revenue until the customer is invoiced upon reaching a contractual milestone and/or receipt of customer acceptance. Delays in the completion of a billing milestone does not indicate that the contract is on hold or that the customer is unwilling to pay its contracted fee. Historically, Redknee has not written-off any unbilled revenue balances.

Unbilled revenue decreased to \$30.7 million at March 31, 2015, as compared to \$42.4 million as at September 30, 2014. This decrease is mainly attributable to the completion and customer acceptance of significant project milestones within the three-month period ended March 31, 2015.

### **PENSION AND NON-PENSION POST-EMPLOYMENT BENEFIT PLANS**

As a result of the acquisition of the BSS business in 2013, the Company acquired a number of employees and assumed the corresponding liabilities relating to pension and non-pension post-employment benefit plans in Germany, as well as other countries.

In Germany, there are a number of pensions and post-employment benefit plans, including a cash balance plan that provides benefits on retirement, disability and death, a salary sacrifice plan, as well as other post-employment benefit schemes. The liabilities relating to the German pension and post-employment benefit plans were fully funded by Nokia Networks as at the acquisition date of March 29, 2013. The plan assets are held in a separate Contractual Trust Arrangement with Deutsche Pensions Treuhand GmbH. The German pension plans operate under the legal framework of the German Company Pension Law and under the German Labour Law.

The other post-employment employee benefit plans relate to a number of other countries, including Austria, Bulgaria, France, Indonesia, Kuwait, Philippines, Saudi Arabia and Tanzania. These plans are generally unfunded.

The Company's pensions and post-employment benefit plans are subject to risks from changes in the market discount rate, the rate of salary and pension increases and longevity. A lower discount rate results in a higher defined benefit obligation and/or higher benefit costs.

As at September 30, 2014, the Company has assessed the valuation for pension and non-pension post-employment benefits. Pension fund assets are invested primarily in fixed income and equity securities. The Company's pension funds do not invest directly in the Company's shares, but may invest indirectly as a result of the inclusion of the Company's shares in certain market investment funds. These plan assets are maintained in segregated accounts by a custodian that is independent from the fund managers. The Company believes that the counterparty credit risk is low.

### **OTHER ASSETS**

Other assets decreased to \$2.5 million at March 31, 2015 from \$3.0 million at September 30, 2014. 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 and six months ended March 31, 2015, \$0.4 million and \$0.7 million was amortized respectively (three and six months ended March 31, 2014 - \$0.3 million and \$0.6 million).

### **DEFERRED REVENUE**

Deferred revenue represents amounts that have been billed and collected in accordance with the terms of the contract but where the criteria for revenue recognition has not been met. Redknee operates in an industry where contract prices are fixed and payments are based on billing milestones. All services provided from inception are due and payable under the contract terms. Differences between the timing of billings, based upon billing milestones or other contractual terms, and the recognition of revenue are recognized as either unbilled revenue or deferred revenue. Deferred revenue decreased to \$20.5 million at March 31, 2015, as compared to \$24.3 million at September 30, 2014.

### **LIQUIDITY AND CAPITAL RESOURCES**

The Company's objective in managing capital resources 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, senior secured credit facility, and cash on hand.



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

Statement of Cash Flows Summary (\$ US Thousands) (Unaudited)	Three months ended		Six months ended	
	Mar 31,		Mar 31,	
	2015	2014	2015	2014
Cash inflows and (outflows) by activity:				
Operating activities	9,625	(21,696)	5,213	(38,343)
Investing activities	(1,504)	(1,706)	(2,119)	(2,950)
Financing activities	(896)	67,215	(2,139)	77,246
Effect of foreign currency exchange rate changes on cash and cash equivalents	(3,374)	(158)	(5,240)	(204)
Net cash inflows (outflows)	3,851	43,655	(4,285)	35,749
Cash and cash equivalents, beginning of period	100,501	71,149	108,637	79,055
Cash and cash equivalents, end of period	104,352	114,804	104,352	114,804

The Company uses Working Capital and Days Sales Outstanding in Trade 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.

### Cash from Operating Activities

Cash provided by operating activities was \$9.6 million in the three months ended March 31, 2015, compared to cash used for operating activities of \$21.7 million in the same period last year. In the six months ended March 31, 2015, cash provided by operating activities was \$5.2 million, compared to cash used for operating activities of \$38.3 million in the same period last year. The source of cash in the three and six months ended March 31, 2015 is mostly attributable to a higher conversion rate of accounts receivable and unbilled revenue to cash, partially offset by a decrease in accrued liabilities. Cash provided by operating activities, net of restructuring costs, was \$13.0 million in the three months ended March 31, 2015.

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance decreased to \$129.4 million as at March 31, 2015, as compared to \$132.3 million at September 30, 2014.

The Company's net cash position, which is total cash after deducting long term debt, at March 31, 2015 is \$57.9 million (\$60.9 million at September 30, 2014).

### Cash from Investing Activities

Cash used for investing activities during the three months ended March 31, 2015 was \$1.5 million, compared to \$1.7 million during the same period in fiscal 2014. For the three months ended March 31, 2015, cash used for investing activities was \$2.1 million, compared to \$2.9 million during the same period in fiscal 2014. The use of cash in the three and six months ended March 31, 2015 mainly relates to the purchase of software, and property and equipment.

### Cash from Financing Activities

In the three months ended March 31, 2015, cash used for financing activities was \$0.9 million, compared to cash provided by financing activities of \$67.2 million during the same period in fiscal 2014. In the six months ended March 31, 2015, cash used for financing activities was \$2.1 million, compared to cash provided by financing activities of \$77.2 million during the same period in fiscal 2014. The source of cash in the three and six months ended March 31, 2014 mainly relates to proceeds from the issuance of share capital and proceeds from loans and borrowings.

### 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 €25.0 million 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 \$12.3 million as at March 31, 2015 (September 30, 2014 - \$14.5 million). For the three and six months ended March 31, 2015, the change in the estimated fair value of \$1.6 million and \$ 2.1 million respectively, was attributed to foreign exchange gains recognized, and is included in the condensed consolidation interim statements of comprehensive income (loss) as part of the foreign exchange gain (loss). For the three and six months ended March 31, 2015, there were no changes in the underlying assumptions to estimate the liability (three and six months ended March 31, 2014 – a credit of \$7.0 million and \$5.8 million, respectively) recorded as Other income in the condensed consolidated interim statements of comprehensive income (loss).

(b) Other items:

During the three and six months ended March 31, 2015, the Company incurred acquisition and related costs of \$0.3 million and \$0.7 million, respectively, (three and six months ended March 31, 2014 - \$2.4 million and \$3.3 million, 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).

## COMMITMENTS AND CONTRACTUAL OBLIGATIONS

### Long Term Debt and Credit Facilities

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 in the amount of \$20.0 million with two new term loan facilities in the amount of \$15.0 million each, for a total credit facility of \$50.0 million.

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 March 31, 2015, \$47.9 million (September 30, 2014 - \$48.7 million) is outstanding and interest is payable monthly over the term of five years. In fiscal 2013, the Company incurred \$2.0 million of financing 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 six months ended March 31, 2015, \$0.1 million and \$0.2 million was amortized, respectively, (three and six months ended March 31, 2014 - \$0.2 million and \$0.3 million, respectively).

Interest is at LIBOR plus an applicable margin which was 4.5% at March 31, 2015 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 \$0.7 million at March 31, 2015 (September 30, 2014 - \$0.7 million), 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 less than \$0.1 million for both the three months and six months ended March 31, 2015 (three and six months ended March 31, 2014 - \$0.1 million and \$0.2 million, respectively) 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 is in compliance with all applicable covenants as of March 31, 2015.

For the three and six months ended March 31, 2015, interest expense in connection with loans payable of \$0.8 million and \$1.4 million, respectively, (three and six months ended March 31, 2014 - \$0.7 million and \$1.3 million, respectively) has been recognized as finance costs 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 senior secured credit facility, 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 does not have any 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. The control framework used by the CEO and the CFO to design the Company's internal control over financial reporting is the "Internal Control – Integrated Framework (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

There have been no changes to the Company's internal controls over financial reporting during the period ended March 31, 2015 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 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 ("IFRIC 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.

**New accounting pronouncements**

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

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

The IASB issued IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"), and which establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of

an entity's future cash flows. This new standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduces more judgment to assess the effectiveness of a hedging relationship. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with certain exemptions. The Company is in the process of assessing the impact of this standard on its consolidated financial statements.

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

The IASB issued IFRS 15, which is effective for annual periods beginning on or after January 1, 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.

## **PATENT PORTFOLIO**

As part of Redknee's commitment to 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 40 filed and 149 granted patents. 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 as at March 31, 2015 is 109,128,984 (September 30, 2014 – 108,903,734). In addition, there were 7,817,255 (2013 – 5,135,143) stock options outstanding with exercise prices ranging from \$0.23 CDN to \$6.30 CDN per share.

## **SHARE CAPITAL**

(a) Normal Course Issuer Bid

On May 30, 2014, the Company announced a 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 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 March 31, 2015, the Company has not purchased any common shares under this NCIB.

**(b) Treasury Stock**

During the six months ended March 31, 2015, the Company paid \$0.5 million to a trustee to purchase 179,246 of the Company's common shares in the open market, to satisfy the delivery of common shares under its equity-based compensation plans. The Company classifies these shares as treasury stock until they are delivered pursuant to the terms of the awards.

During the six months ended March 31, 2015, 149,280 shares have been issued with cost of \$0.4 million (2014 – 81,602 shares with a cost of \$0.1 million). As at March 31, 2015, the remaining number of treasury shares held by the Company are 46,864 with a cost of \$0.1 million (September 30, 2014 - 16,898 with a cost of less than \$0.1 million).

**(c) Share-based Compensation**

The share-based compensation relating to the Company's stock options, deferred share unit plan and restricted shares during the three and six months ended March 31, 2015 was \$1.7 million and \$2.2 million respectively (2014 - \$0.5 million and \$1.2 million).

**RISK FACTORS**

In addition to risks discussed herein, please refer to our FY14 AIF and FY14 Annual MD&A for a discussion of the principal risks and uncertainties that could affect our business. There were no material changes in the Company's principal risks and uncertainties during FY15 Q2 or year-to-date from the risks disclosed in these documents.

**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).