

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

## **REDKNEE SOLUTIONS INC.**

Three and nine months ended June 30, 2015 and 2014  
(Unaudited)

# REDKNEE SOLUTIONS INC.

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

	June 30, 2015	September 30, 2014
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 4)	\$ 87,008,429	\$ 108,636,797
Trade accounts and other receivables (note 6)	61,582,005	71,393,983
Unbilled revenue	35,265,770	42,396,988
Prepaid expenses	2,752,205	4,339,650
Other assets (note 7)	765,320	898,871
Inventories	2,175,299	5,199,362
<b>Total current assets</b>	<b>189,549,028</b>	<b>232,865,651</b>
Restricted cash (note 5)	16,018,998	881,940
Property and equipment	6,573,912	8,708,115
Deferred income taxes	1,736,582	1,939,416
Investment tax credits	373,850	416,222
Other assets (note 7)	1,665,478	2,089,688
Intangible assets	28,104,180	32,819,313
Goodwill	7,638,590	7,638,590
<b>Total assets</b>	<b>\$ 251,660,618</b>	<b>\$ 287,358,935</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Trade payables	\$ 8,082,607	\$ 9,538,161
Accrued liabilities	26,167,779	38,566,558
Provisions (note 15)	6,429,991	14,967,576
Income taxes payable	733,537	1,595,569
Acquisition related liabilities (note 3(a))	14,582,578	14,454,527
Deferred revenue	17,202,927	20,743,769
Loans and borrowings (note 8)	4,125,000	750,000
<b>Total current liabilities</b>	<b>77,324,419</b>	<b>100,616,160</b>
Deferred revenue	2,940,486	3,601,859
Other liabilities	3,129,913	2,281,341
Pension and non-pension post-employment benefit obligation	10,711,932	10,258,900
Loans and borrowings (note 8)	41,817,836	45,809,713
Provisions (note 15)	1,584,277	6,608,270
Deferred income taxes	–	36,016
<b>Total liabilities</b>	<b>137,508,863</b>	<b>169,212,259</b>
Shareholders' equity:		
Share capital	174,082,815	173,757,863
Treasury stock (note 9(c))	(141,917)	(21,226)
Contributed surplus	7,040,194	5,665,135
Deficit	(62,654,388)	(57,080,147)
Accumulated other comprehensive loss	(4,174,949)	(4,174,949)
<b>Total shareholders' equity</b>	<b>114,151,755</b>	<b>118,146,676</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 251,660,618</b>	<b>\$ 287,358,935</b>

Commitments, guarantees and contingent liabilities (note 14)  
Subsequent events (note 5 and note 16)

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

# REDKNEE SOLUTIONS INC.

Condensed Consolidated Interim Statements of Comprehensive Loss  
(Expressed in U.S. dollars)  
(Unaudited)

	Three months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Revenue:				
Software, services and other	\$ 24,939,646	\$ 31,169,747	\$ 94,115,569	\$ 105,241,205
Support and subscription	21,720,499	32,753,587	68,864,412	91,518,689
	46,660,145	63,923,334	162,979,981	196,759,894
Cost of revenue	20,078,956	36,012,726	67,068,027	101,113,001
Gross profit	26,581,189	27,910,608	95,911,954	95,646,893
Operating expenses:				
Sales and marketing	8,025,752	9,129,659	25,188,455	26,725,403
General and administrative	5,807,683	9,008,501	20,381,648	24,850,905
Research and development	11,222,883	16,770,558	34,949,693	47,608,566
Restructuring costs (note 15)	570,203	–	1,158,552	–
Acquisition and related costs	4,517,200	623,458	5,211,683	3,891,516
	30,143,721	35,532,176	86,890,031	103,076,390
Income (loss) from operations	(3,562,532)	(7,621,568)	9,021,923	(7,429,497)
Foreign exchange gain (loss)	962,015	770,947	(6,885,397)	215,614
Other income	–	113,351	–	5,914,586
Finance income	3,812	19,860	15,486	44,046
Finance costs	(944,577)	(869,435)	(2,959,038)	(2,265,591)
Loss before income taxes	(3,541,282)	(7,586,845)	(807,026)	(3,520,842)
Income taxes (recovery):				
Current	2,151,081	(690,743)	4,921,660	1,749,079
Deferred	(146,856)	(18,118)	(154,445)	(100,889)
	2,004,225	(708,861)	4,767,215	1,648,190
Net loss and comprehensive loss	\$ (5,545,507)	\$ (6,877,984)	\$ (5,574,241)	\$ (5,169,032)
Net loss per common share:				
Basic	\$ (0.05)	\$ (0.06)	\$ (0.05)	\$ (0.05)
Diluted	(0.05)	(0.06)	(0.05)	(0.05)
Weighted average number of common shares (note 9(a)):				
Basic	109,179,897	108,891,887	109,072,383	100,988,698
Diluted	109,179,897	108,891,887	109,072,383	100,988,698

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)

Nine months ended June 30, 2015 and 2014  
(Unaudited)

	Number outstanding	Share capital Amount	Treasury stock (note 9(c))	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
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 loss and comprehensive loss	–	–	–	–	(5,574,241)	–	(5,574,241)
Purchase of treasury stock	–	–	(536,507)	–	–	–	(536,507)
Share-based compensation	–	–	–	1,884,721	–	–	1,884,721
Issue of treasury stock	–	–	415,816	(415,816)	–	–	–
Stock options exercised	326,842	324,952	–	(93,846)	–	–	231,106
<b>Balance, June 30, 2015</b>	<b>109,230,576</b>	<b>\$ 174,082,815</b>	<b>\$ (141,917)</b>	<b>\$ 7,040,194</b>	<b>\$ (62,654,388)</b>	<b>\$ (4,174,949)</b>	<b>\$ 114,151,755</b>
Balance, September 30, 2013	95,510,022	\$ 109,017,145	\$ (132,050)	\$ 4,357,175	\$ (17,182,622)	\$ 1,497,031	\$ 97,556,679
Net loss and comprehensive loss	–	–	–	–	(5,169,032)	–	(5,169,032)
Share-based compensation	–	–	–	1,195,513	–	–	1,195,513
Issue of treasury stock	–	–	110,824	(110,824)	–	–	–
Stock options exercised	566,067	900,574	–	(329,190)	–	–	571,384
Issue of share capital	12,820,520	63,833,834	–	–	–	–	63,833,834
<b>Balance, June 30, 2014</b>	<b>108,896,609</b>	<b>\$ 173,751,553</b>	<b>\$ (21,226)</b>	<b>\$ 5,112,674</b>	<b>\$ (22,351,654)</b>	<b>\$ 1,497,031</b>	<b>\$ 157,988,378</b>

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		Nine months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Cash provided by (used in):				
Operating activities:				
Net loss	\$ (5,545,507)	\$ (6,877,984)	\$ (5,574,241)	\$ (5,169,032)
Adjustments for:				
Depreciation of property and equipment	1,190,536	1,365,161	3,268,188	4,419,329
Amortization of intangible assets	1,628,468	1,792,754	4,968,057	5,219,094
Finance income	(3,812)	(19,860)	(15,486)	(44,046)
Finance costs	944,577	869,435	2,959,038	2,265,591
Pensions	688,179	414,892	453,032	1,249,459
Income tax expense (recovery)	2,004,225	(708,861)	4,767,215	1,648,190
Unrealized foreign exchange loss (gain)	(466,177)	(1,789,445)	5,294,876	(1,585,611)
Share-based compensation	937,943	629,152	3,136,124	1,845,958
Settlement of acquisition related liabilities (note 3(a))	4,105,974	(113,351)	1,962,921	(5,914,586)
Change in provisions	(4,978,333)	–	(13,561,578)	(1,201,050)
Change in non-cash operating working capital (note 11)	1,405,179	(11,212,920)	2,452,437	(54,603,770)
	1,911,252	(15,651,027)	10,110,583	(51,870,474)
Interest paid	(31,497)	(128,570)	(120,333)	(765,042)
Interest received	6,701	19,681	18,375	42,548
Income taxes paid	(2,681,294)	(1,124,093)	(5,590,925)	(3,270,231)
	(794,838)	(16,884,009)	4,417,700	(55,863,199)
Financing activities:				
Issuance of share capital	–	–	–	63,833,834
Proceeds from exercise of stock options	151,881	23,207	231,106	571,384
Purchase of treasury stock	–	–	(536,507)	–
Interest paid on loans and borrowings	(826,787)	(636,472)	(1,758,442)	(636,472)
Proceeds from loans and borrowings	–	–	–	13,500,000
Repayment of loans and borrowings	(375,000)	–	(1,125,000)	–
	(1,049,906)	(613,265)	(3,188,843)	77,268,746
Investing activities:				
Purchase of property and equipment	(699,646)	(1,055,655)	(1,496,618)	(2,946,214)
Purchase of intangible assets	(41,114)	(213,342)	(804,171)	(1,105,478)
Increase in restricted cash (note 5)	(14,578,519)	(867)	(15,137,058)	(167,996)
Payment of acquisition related liabilities (note 3(a))	(1,038,382)	–	(1,038,382)	–
	(16,357,661)	(1,269,864)	(18,476,229)	(4,219,688)
Effect of foreign exchange rate changes on cash and cash equivalents	859,130	1,789,445	(4,380,996)	1,585,611
Increase (decrease) in cash and cash equivalents	(17,343,275)	(16,977,693)	(21,628,368)	18,771,470
Cash and cash equivalents, beginning of period	104,351,704	114,803,920	108,636,797	79,054,757
Cash and cash equivalents, end of period	\$ 87,008,429	\$ 97,826,227	\$ 87,008,429	\$ 97,826,227

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 and nine months ended June 30, 2015 and 2014  
(Unaudited)

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Redknee Solutions Inc. (the "Company" or "Redknee"), through its predecessors, commenced operations on March 29, 1999. The Company was incorporated under the Canada Business Corporations Act on November 1, 2006. The Company's registered head office is located at 2560 Matheson Blvd East, Suite 500, Mississauga, Ontario, Canada. The Company is publicly traded on the Toronto Stock Exchange (TSX: RKN).

Redknee is a leading global provider of innovative communication software products, solutions and services. Redknee's revenue and subscriber management platform provides innovative converged billing, charging, customer care and payments solutions for voice, messaging and data services to over 200 service providers in over 90 countries. The Company's software products manage and analyze, in real-time, complex and critical network operations, such as service provisioning, network management and customer care, and provide real-time rating, charging and billing. Redknee 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 and nine months ended June 30, 2015 were authorized for issuance by the Board of Directors of the Company on August 5, 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 and nine months ended June 30, 2015 and 2014  
(Unaudited)

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## 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, 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 loss.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2015 and 2014  
(Unaudited)

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## 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, 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 and nine months ended June 30, 2015 and 2014  
(Unaudited)

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## 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 June 30, 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, 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, 2018. 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 and nine months ended June 30, 2015 and 2014  
(Unaudited)

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### 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) Acquisition related liabilities:

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.

During the quarter ended June 30, 2015, the Company entered into an agreement with Nokia Networks to settle all outstanding matters related to the acquisition of the BSS business including finalization of the contingent consideration in accordance with the Global Frame Agreement dated December 5, 2012. As a result of this final settlement, an incremental amount of \$3,650,062 was charged to acquisition and related costs in the condensed consolidated interim statements of comprehensive loss. The final settlement amount payable to Nokia Networks is \$15,620,960 (€14,021,371) and is payable within one year. An amount of \$1,038,382 (€932,054) was paid during the quarter ended June 30, 2015, and the balance \$14,582,578 (€13,089,317) is reported as an acquisition related liability on the condensed consolidated interim statements of financial position. The acquisition related liabilities are a financial instrument classified as an Other liability and carried at amortized cost.

#### (b) Other items:

During the three and nine months ended June 30, 2015, the Company incurred direct acquisition and related costs of \$131,855 and \$826,334 (2014 - \$623,458 and \$3,891,516), respectively, which included expenses for legal, professional, restructuring and other costs. These costs have been charged to acquisition and related costs in the condensed consolidated interim statements of comprehensive loss.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2015 and 2014  
(Unaudited)

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#### 4. Cash and cash equivalents:

	June 30, 2015	September 30, 2014
Cash	\$ 86,928,864	\$ 108,356,746
Cash equivalents	79,565	280,051
	<u>\$ 87,008,429</u>	<u>\$ 108,636,797</u>

#### 5. Restricted cash:

Restricted cash primarily includes cash collateral for guarantees and letters of credit issued for acquisition of Orga Systems ("Orga" – note 16(a)) (\$10,026,720), cash put aside for payments to early retirees (\$4,260,090) and lease agreements (\$1,251,925). Subsequent to the closing of the Orga acquisition, the cash collateral of \$10,026,720 was released and transferred to cash. The cash collateral relating to early retirees is expected to be drawn down as payments are made over the next five years.

#### 6. Trade accounts and other receivables:

	June 30, 2015	September 30, 2014
Trade receivables, net of allowance for doubtful accounts	\$ 56,240,199	\$ 63,318,637
Other receivables	4,581,237	7,344,753
Employee receivables	760,569	730,593
	<u>\$ 61,582,005</u>	<u>\$ 71,393,983</u>

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2015 and 2014  
(Unaudited)

## 7. Other assets:

	June 30, 2015	September 30, 2014
Deferred contract costs - current	\$ 765,320	\$ 898,871
Deferred contract costs - non-current	801,486	1,484,559
Lease deposits - non-current	863,992	605,129
	<u>1,665,478</u>	<u>2,089,688</u>
	<u>\$ 2,430,798</u>	<u>\$ 2,988,559</u>

The Company recognized up-front 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 nine months ended June 30, 2015, \$165,072 and \$816,624 was amortized (2014 - \$97,272 and \$718,540), respectively.

## 8. Loans and borrowings:

	June 30, 2015	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	14,062,500	14,625,000
Term loan B, bearing interest at LIBOR floor of 1.25% plus applicable margin, due April 1, 2018	14,062,500	14,625,000
	<u>47,536,493</u>	<u>48,661,493</u>
Less embedded derivative at inception	1,343,152	1,343,152
	<u>46,193,341</u>	<u>47,318,341</u>
Less unamortized deferred financing costs	872,496	1,164,367
Add loan accretion	621,991	405,739
	<u>45,942,836</u>	<u>46,559,713</u>
Less current portion of loans and borrowings	4,125,000	750,000
<u>Long-term portion of loans and borrowings</u>	<u>\$ 41,817,836</u>	<u>\$ 45,809,713</u>

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2015 and 2014  
(Unaudited)

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## 8. Loans and borrowings (continued):

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

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

The Company uses the credit facilities for working capital, general corporate purposes and capital expenditures. The credit facilities are secured by the assets of Redknee Inc., Redknee Solutions (UK) Limited ("Redknee UK") and Redknee Germany GmbH ("Redknee Germany"). The Company, Redknee UK and Redknee Germany have guaranteed the obligations of Redknee Inc. The Company's guarantee is secured by a pledge of all of its shares in Redknee Inc.

As at June 30, 2015, \$47,536,493 (September 30, 2014 - \$48,661,493) is outstanding and interest is payable monthly over the term of five years. In fiscal 2013, the Company incurred \$2,002,980 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 nine months ended June 30, 2015, \$97,222 and \$291,667 was amortized (2014 - \$49,835 and \$356,124), respectively.

Interest is at LIBOR plus an applicable margin which was 4.5% at June 30, 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 \$548,005 at June 30, 2015 (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 \$130,244 and \$140,433 for the three months and nine months ended June 30, 2015 (2014 - \$71,845 and \$274,028), respectively, was recorded in finance costs in the condensed consolidated interim statements of comprehensive 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 June 30, 2015.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2015 and 2014  
(Unaudited)

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## 8. Loans and borrowings (continued):

For the three and nine months ended June 30, 2015, interest expense in connection with loans payable of \$801,965 and \$2,245,815 (2014 - \$761,707 and \$2,013,249), respectively, has been recognized as finance costs in the condensed consolidated interim statements of comprehensive loss.

## 9. Share capital:

(a) 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 three and nine months ended June 30 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Basic weighted average number of common shares outstanding	109,179,897	108,891,887	109,072,383	100,988,698
Add dilutive stock options outstanding	-	-	-	-
Diluted weighted average number of common shares outstanding	109,179,897	108,891,887	109,072,383	100,988,698

Due to the net loss for three and nine months ended June 30, 2015 and 2014, all options were excluded from the calculation of diluted loss per common share as their inclusion would be anti-dilutive.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2015 and 2014  
(Unaudited)

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## 9. Share capital (continued):

### (b) Normal course issuer bid ("NCIB"):

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 which terminated on June 2, 2015. The Company has not purchased any common shares under the NCIB.

### (c) Treasury stock:

During the nine months ended June 30, 2015, the Company paid \$536,507 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 nine months ended June 30, 2015, 149,280 shares have been issued with a cost of \$415,816 (2014 – 88,228 shares with a cost of \$110,824). As at June 30, 2015, the remaining number of treasury shares held by the Company is 46,864 with a cost of \$141,917 (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 during the three and nine months ended June 30, 2015 was \$937,943 and \$3,136,124 (2014 - \$629,152 and \$1,845,958), respectively.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2015 and 2014  
(Unaudited)

## 9. Share capital (continued):

### (i) Stock options:

The table below is a summary of the stock option plans for the nine months ended June 30, 2015:

	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	3,552,472	3.49	–	–
Exercised	(312,842)	0.86	(14,000)	0.44
Forfeited	(196,524)	4.28	(3,750)	0.93
Outstanding, June 30, 2015	7,627,352	2.92	54,000	0.42

### (ii) Share unit plan:

The table below is a summary of the restricted share units and performance share units for the nine months ended June 30, 2015:

Outstanding, September 30, 2014	805,421
Granted	795,646
Exercised	(57,122)
Forfeited	(94,939)
Outstanding, June 30, 2015	1,449,006

### (iii) Deferred share unit plan:

During the nine months ended June 30, 2015, there were 210,925 deferred share units ("DSUs") granted. The number of DSUs outstanding at June 30, 2015 was 661,195 (September 30, 2014 - 450,270). There were no exercises during the nine months ended June 30, 2015.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2015 and 2014  
(Unaudited)

## 10. Income tax expense:

The Company's current income tax expense for the nine months ended June 30, 2015 mainly includes \$1,816,312 (2014 - \$2,477,711) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and \$3,105,348 (2014 - \$1,295,989) of foreign withholding taxes.

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

The change in non-cash working capital for the three and nine months ended June 30 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Trade accounts and other receivables	\$ 7,990,587	\$ 11,324,606	\$ 4,446,055	\$ (19,354,102)
Unbilled revenue	(4,558,006)	(3,586,347)	7,131,218	(10,950,432)
Prepaid expenses	(21,211)	(1,232,767)	1,587,445	(3,671,189)
Other assets	115,803	85,982	557,761	689,856
Inventories	684,560	(1,843,894)	3,024,063	(3,291,497)
Trade payables	(1,556,754)	(5,437,208)	(129,799)	(85,527)
Accrued liabilities and other liabilities	(994,178)	(10,857,144)	(10,132,959)	(14,762,526)
Income taxes payable	113,945	(45,416)	170,868	75,945
Deferred revenue	(369,567)	379,268	(4,202,215)	(3,254,298)
	<u>\$ 1,405,179</u>	<u>\$ (11,212,920)</u>	<u>\$ 2,452,437</u>	<u>\$ (54,603,770)</u>

## 12. 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

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2015 and 2014  
(Unaudited)

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

- Level 3 - inputs for the financial asset or financial liability that are not based on observable market data (i.e., unobservable inputs that represent the Company's own judgments about what assumptions market place participants would use in pricing the asset or liability developed, based on the best information available in the circumstances).

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

Financial assets and financial liabilities measured at fair value at June 30, 2015 and September 30, 2014 are summarized below:

	June 30, 2015		September 30, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (Level 1)	\$ 87,008,429	\$ 87,008,429	\$ 108,636,797	\$ 108,636,797
Restricted cash (Level 1)	16,018,998	16,018,998	881,940	881,940
Contingent consideration liability (Acquisition related liabilities) (Level 3)	–	–	14,454,527	14,454,527
Embedded derivative liability (other liabilities) (Level 2)	548,005	548,005	688,437	688,437

There were no transfers of financial assets between levels during the nine months ended June 30, 2015.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2015 and 2014  
(Unaudited)

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

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:

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	June 30, 2015	September 30, 2014
Financial assets at FVTPL <sup>(a)</sup>	\$ 103,027,427	\$ 109,518,737
Loans and receivables <sup>(b)</sup>	61,582,005	71,393,983
Other financial liabilities <sup>(c)</sup>	105,919,981	118,521,619
Financial liabilities at FVTPL <sup>(d)</sup>	–	14,454,527

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<sup>(a)</sup>Includes cash and cash equivalents and restricted cash.

<sup>(b)</sup>Includes trade accounts and other receivables.

<sup>(c)</sup>Includes trade payables, accrued liabilities, other liabilities, acquisition related liabilities, current and long-term portions of loans and borrowings and provisions.

<sup>(d)</sup>Includes contingent consideration.

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 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 judgment.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2015 and 2014  
(Unaudited)

## 13. Segment reporting:

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

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

	Three months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Europe, Middle East and Africa	\$ 21,973,052	\$ 43,308,376	\$ 81,665,917	\$ 120,418,071
North America, Latin America and Caribbean	6,573,188	6,622,562	20,133,375	20,399,821
Asia and Pacific Rim	18,113,905	13,992,396	61,180,689	55,942,002
	<u>\$ 46,660,145</u>	<u>\$ 63,923,334</u>	<u>\$ 162,979,981</u>	<u>\$ 196,759,894</u>

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

	Three months ended June 30,		Nine months ended June 30,	
	2015	2014	2015	2014
Revenue by type:				
Software and services	\$ 21,531,408	\$ 27,970,825	\$ 84,044,208	\$ 88,252,151
Support and subscription	21,720,499	32,753,587	68,864,412	91,518,689
Third-party software and hardware	3,408,238	3,198,922	10,071,361	16,989,054
	<u>\$ 46,660,145</u>	<u>\$ 63,923,334</u>	<u>\$ 162,979,981</u>	<u>\$ 196,759,894</u>

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2015 and 2014  
(Unaudited)

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## 14. Commitments, guarantees and contingent liabilities:

(a) Letters of credit and guarantees:

As at June 30, 2015, the Company had \$16,018,998 (September 30, 2014 - \$881,940) in guarantees for the acquisition of Orga Systems (note 16), cash put aside for payments to early retirees and lease agreements which are secured by restricted cash, shown separately in the condensed consolidated interim statements of financial position.

(b) Indemnifications:

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 indemnifications. 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.

## 15. Provisions:

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Opening balance, September 30, 2014	\$ 21,575,846
Additions	1,158,552
Cash payments	(12,401,898)
Foreign exchange	(2,318,232)
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Closing balance, June 30, 2015	8,014,268
Less current portion of provisions	6,429,991
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Long-term portion of provisions	\$ 1,584,277

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# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2015 and 2014  
(Unaudited)

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## 15. Provisions (continued):

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 and nine months ended June 30, 2015, additional restructuring charges related to employee terminations of \$570,203 and \$1,158,552, respectively, were recorded.

For the nine months ended June 30, 2015, an amount of \$12,401,898 has been paid and an amount of \$6,429,991 is estimated as payable within one year. The balance of the provision, classified as long-term, payable over five years, amounts to \$1,584,277 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.

## 16. Subsequent events:

### (a) Acquisition of Orga:

On July 31, 2015, the Company acquired privately held Orga for a total cash consideration of €38 million. Orga's technology and expertise will enhance Redknee's real-time monetization and subscriber management platform for communication service providers and the Internet of Things (IoT). Orga provides monetization solutions to more than 45 customers in the communications, automotive, energy, and railway industries. The acquisition was funded through available cash on hand.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2015 and 2014  
(Unaudited)

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## 16. Subsequent events (continued):

Orga's highly skilled team of more than 500 employees across Europe, Middle East, and Africa (EMEA), the Americas, and Asia Pacific will join the Company, further broadening its global reach. The Company is in the process of assessing the fair value of assets acquired and liabilities assumed. Similarly, the Company is in the process of assessing the impact the acquisition would have had on its results had the transaction occurred at the beginning of the fiscal year; however the information required to make this assessment is incomplete at the time these third quarter 2015 condensed consolidated interim financial statements were authorized for issue.

During the three months ended June 30, 2015, the Company incurred direct acquisition and related costs of \$735,283, which included expenses for legal and professional fees. These costs have been charged to acquisition and related costs in the condensed consolidated interim statements of comprehensive loss.

### (b) Amended credit agreement:

On August 4, 2015, the Company entered into an amended and restated credit agreement with Wells Fargo Capital Finance, part of Wells Fargo & Company, and its two partners the Royal Bank of Canada (RBC) and Capital One. The amended credit agreement will add to its existing credit facility, increasing the revolving line of credit to \$40,000,000 and the two term loans to \$30,000,000 each, for a total credit facility in the amount of \$100,000,000. Redknee will use the facility to strengthen its working capital position following the acquisition of Orga Systems and to position Redknee for future growth opportunities. The availability of the debt facility is subject to customary conditions precedent.

The credit facilities will be 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.