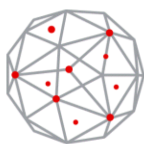


REDKNEE

Looking Beyond

REDKNEE SOLUTIONS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FIRST QUARTER ENDED DECEMBER 31, 2015

DATED: February 10, 2016

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 months ended December 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 months ended December 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 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 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

Redknee was founded in July 1999 and has since become a leading global provider of innovative real-time monetization and subscriber management software products, solutions, and services. Redknee's award-winning solutions enable the monetization of services and content across numerous industries and business models while delivering a superior customer experience. Redknee's revenue and subscriber management platform provides innovative converged billing, charging, policy and customer care solutions to over 250 service providers in over 90 countries. The Company's software products allow service providers across telecommunications and other vertical markets, such as energy and transportation, to extend and enhance their capabilities and service offerings and to monetize the growing ecosystem of the Internet of Things ("IoT"). Redknee's software supports the introduction of new revenue streams and innovative tariffs, loyalty programs, data services, and advanced customer care and subscriber self-care. 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, cloud-based or as a Software-as-a-Service ("SaaS") offering, Redknee's highly scalable and agile, end-to-end platform, supports the following market solutions:

- **Converged Billing and Customer Care** – Redknee's award-winning cloud-enabled real-time converged charging, billing, and customer care platform delivers the benefits of a flexible, end-to-end software platform, including real-time charging, billing, policy management and customer care for service providers' data, voice, and messaging services. These services, charging, billing and policy and customer care, can also be applied to other industries, including energy and transportation, enabling them to charge for new and existing services in real-time. Today, Redknee's scalable solution is supporting more than 100 million subscribers at a single customer and aims to enable operators to launch and monetize their 3G and LTE networks and deliver advanced data services, including Voice over LTE (VoLTE), M2M, IoT, 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 35 operators, Redknee's Policy Management solution is key to supporting operator data monetization strategies for real-time applications such as video streaming, interactive gaming and VoLTE.

- **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 offers the Redknee Cloud in the Americas 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.

- **Product Catalog and Order Management** – Redknee's Product Catalog and Order Management enables customers to maximize their sales strategies while centrally managing the order management process, products and product offerings. The solution offers fast and flexible modeling of any commercial offering and supports omni-channel and any-play sales strategies by offering client products and services across multiple lines of business.

- **E-Vouchers –** Redknee's e-voucher solution strengthens a customer's ability to monetize services, with the provision of voucher and voucher-less payment and top-up solutions. Redknee's solution allows providers to offer end users the most convenient payment solutions in their market.

- **Redknee Connected Suite** - Redknee's Connected Suite enables the monetization of services across a variety of industries in the IoT including automotive, transportation, energy and utilities and the connected home. The Connected Suite provides rating, charging and billing solutions that can manage billions of events or transactions in real-time. Redknee supports real-time customer engagement and interaction to promote a superior customer experience.

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 condensed consolidated interim financial statements.

Consolidated Statements of Comprehensive Income (Loss) (all amounts in thousands of US$, except per share amounts) **(unaudited)**	**Three Months Ended December 31** **2015**	 **2014**
Revenue		
Software, services and other	25,118	37,956
Support and subscription	24,998	24,621
	50,116	**62,577**
Cost of revenue	20,398	25,988
Gross profit	**29,718**	**36,589**
Operating expenses		
Sales and marketing	8,401	9,462
General and administrative	7,288	7,062
Research and development	12,755	12,330
Restructuring costs	279	337
Acquisition and related costs	834	415
	29,557	**29,606**
Income from operations	**161**	**6,983**
Foreign exchange loss	(493)	(2,669)
Finance income	5	4
Finance costs	(1,048)	(898)
Income (loss) before income taxes	**(1,375)**	**3,420**
Income tax expense	2,930	1,409
Net comprehensive income (loss)	**(4,305)**	**2,011**
Net income (loss) per common share		
Basic	$ (0.04)	$ 0.02
Diluted	$ (0.04)	$ 0.02
Weighted average number of common shares (thousands)		
Basic	109,136	108,944
Diluted	109,136	111,411

Statement of Financial Position Data $US Thousands (unaudited)	As at December, 31 2015	As at September 30, 2015	$ Change	% Change
Cash, Cash Equivalents and Restricted Cash	49,036	61,020	(11,984)	-20%
Trade Accounts, Other Receivables and Unbilled Revenue	105,447	106,052	(605)	-1%
Goodwill and Intangible Assets	73,460	76,103	(2,643)	-3%
Total Assets	247,086	263,205	(16,119)	-6%
Trade Payable and Accrued Liabilities	41,590	41,434	156	0%
Deferred Revenue	13,134	14,235	(1,101)	-8%
Long-Term Debt and Other LT liabilities	70,665	73,000	(2,335)	-3%
Shareholders' Equity	106,479	111,355	(4,876)	-4%

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	Three Months Ended December 31	
(unaudited)	2015	2014
Software & Services	22,650	33,742
Support and Subscription	24,998	24,621
Third Party Software & Hardware	2,468	4,214
Total	**50,116**	**62,577**

Percentage of Total Revenue	Three Months Ended December 31	
(unaudited)	2015	2014
Software & Services	45%	54%
Support and Subscription	50%	39%
Third Party Software & Hardware	5%	7%
Total	**100%**	**100%**

The Company recognizes revenue from the sale of software licenses, including initial perpetual licenses, term licenses, capacity increases and/or upgrades, professional services, third party hardware and software components and customer support contracts.

For the three-month period ended December 31, 2015, the Company's revenues have declined to $50.1 million, from $62.6 million in the same period in the previous year. The change by revenue type for the

quarter ended December 31, 2015 is as follows: $11.1 million decrease in software and services revenue, $0.4 million increase in support and subscription revenue, and $1.7 million decrease in third party software and hardware revenue. The decrease in revenue is mainly a result of lower software license sales as compared to the same period in fiscal 2015, foreign exchange variation and lower third party software and hardware revenue due to management's initiatives to reduce third party software and hardware components, which have minimal contribution to overall profitability.

On a constant currency basis, revenue in the three months ended December 31, 2015 is $54.8 million, 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 December 31, 2015 decreased to $22.7 million, or 45% of total revenue, compared to $33.7 million, or 54% of total revenue for the same period last year. This decrease is mainly a result of lower software license sales in the APAC and EMEA regions as license sales tend to be volatile quarter-over-quarter as a result of the industry and economic environment our customers operate in.

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 support and 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 December 31, 2015 increased to $25.0 million, or 50% of total revenue, compared to $24.6 million, or 39% of total revenue, for the same period last year. The increase is mainly attributable to higher support and subscription revenue in the Americas region primarily due to the contribution of sales from customers attained through the acquisition of Orga Systems ("Orga"). The increase is partially offset by lower support and subscription revenue in the APAC and EMEA regions due to the expected non-renewal of certain support contracts.

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 December 31, 2015 decreased to $2.5 million, or 5% of total revenue, compared to $4.2 million, or 7% of total revenue, for

the same period last year. The decrease is mainly due to management's initiatives to reduce third party software and hardware components, which have minimal contribution to overall profitability.

Revenue by Geography

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

$US Thousands (unaudited)	Three Months Ended December 31	
	2015	**2014**
Asia and Pacific Rim	13,974	25,105
North America, Latin America and Caribbean	9,474	6,719
Europe, Middle East and Africa	26,668	30,753
Total	**50,116**	**62,577**

Percentage of Total Revenue (unaudited)	Three Months Ended December 31	
	2015	**2014**
Asia and Pacific Rim	28%	40%
North America, Latin America and Caribbean	19%	11%
Europe, Middle East and Africa	53%	49%
Total	**100%**	**100%**

For the three-month period ended December 31, 2015, revenue from the APAC region was $14.0 million, or 28% of total revenue, compared to $25.1 million, or 40% of total revenue, for the same comparable period in fiscal 2015. This quarter-over-quarter change is mainly attributable to lower software revenue in the region.

For the three-month period ended December 31, 2015, revenue from the Americas region increased to $9.5 million, or 19% of revenue, compared to $6.7 million, or 11% of revenue, in the same comparable period in fiscal 2015. The increase is mainly attributable to higher support and subscription revenue in the region due to the contribution of sales from customers attained through the acquisition of Orga.

For the three-month period ended December 31, 2015, revenue from the EMEA region decreased to $26.7 million, or 53% of total revenue, compared to $30.8 million, or 49% of total revenue, for the same comparable period in fiscal 2015. The decrease is mainly a result of lower third party software and hardware revenue and lower support and subscription revenue for the region.

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 December 31, 2015, cost of revenue decreased to $20.4 million, from $26.0 million incurred for the same comparable period in fiscal 2015. During the same period, gross margin increased marginally from 58% in the three months ended December 31, 2014 to 59% in the three months ended December 31, 2015. The increase is mainly attributable to higher margins on support and subscription revenue, partially offset by slightly lower margins on software and services revenue.

Operating Expenses

Total operating expenses (excluding depreciation and amortization) in the three months ended December 31, 2015 decreased marginally to $26.3 million from $26.9 million for the same comparable period last year. Excluding depreciation, amortization, restructuring and acquisition costs, total operating costs in the first quarter of fiscal 2016 decreased to $25.2 million, or 50% of total revenue, compared to $26.1 million, or 42% of total revenue, for the same period last year. The decrease in overall operating expenses (excluding depreciation, amortization, restructuring and acquisition costs) is primarily due to lower sales and marketing costs, partially offset by the impact of additional headcount and other operational costs associated with the acquisition of Orga.

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

$US Thousands (unaudited)	Three Months Ended December 31 2015	2014
Sales and Marketing	8,401	9,462
General and Administrative	7,288	7,062
Research and Development	12,755	12,330
Restructuring Costs	279	337
Acquisition and Related Costs	834	415
Total Operating Expenses	**29,557**	**29,606**
Excluding Amortization and Depreciation	*26,266*	*26,852*

Percentage of Total Revenue (unaudited)	Three Months Ended December 31 2015	2014
Sales and Marketing	17%	15%
General and Administrative	15%	11%
Research and Development	25%	20%
Restructuring Costs	1%	1%
Acquisition and Related Costs	2%	1%
Total Operating Expenses	**60%**	**48%**
Excluding Amortization and Depreciation	*52%*	*43%*

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 December 31, 2015, S&M expenditures decreased to $8.4 million, or 17% of total revenue, compared to $9.5 million, or 15% of total revenue, for the same comparable period last year. The decrease is mainly due to lower compensation costs and professional fees, partially offset by the impact of the addition of the Orga acquisition.

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 December 31, 2015, G&A expenditures increased marginally to $7.3 million, or 15% of total revenue, from $7.1 million, or 11% of total revenue, in fiscal 2015. The increase in G&A costs is mainly due to higher facility costs associated with the impact of the addition of the Orga acquisition.

Excluding share-based compensation, amortization and depreciation, G&A expenses were $4.9 million, or 10% of revenue, for the three months ended December 31, 2015, compared to $5.0 million, or 8% for the three months ended December 31, 2014.

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 December 31, 2015, R&D expenditures increased to $12.8 million, or 25% of total revenue, from $12.3 million, or 20% of total revenue, in fiscal 2015. The increase in R&D costs is mostly attributable to higher headcount and facility costs associated with the impact of the addition of the Orga acquisition, partially offset by the benefit of moving costs from high cost jurisdictions to lower cost jurisdictions as per the Company's restructuring plan.

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 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, during the three months ended December 31, 2015, additional restructuring charges related to employee terminations of $0.3 million were recorded.

For the three months ended December 31, 2015, an amount of $1.7 million has been paid and an amount of $3.2 million is estimated as payable within one year. The balance of the provision, classified as long-term, is payable over five years, amounts to $1.3 million and has been discounted. The accretion expense of the long-term provision is included in finance costs on the condensed consolidated interim statements of comprehensive loss.

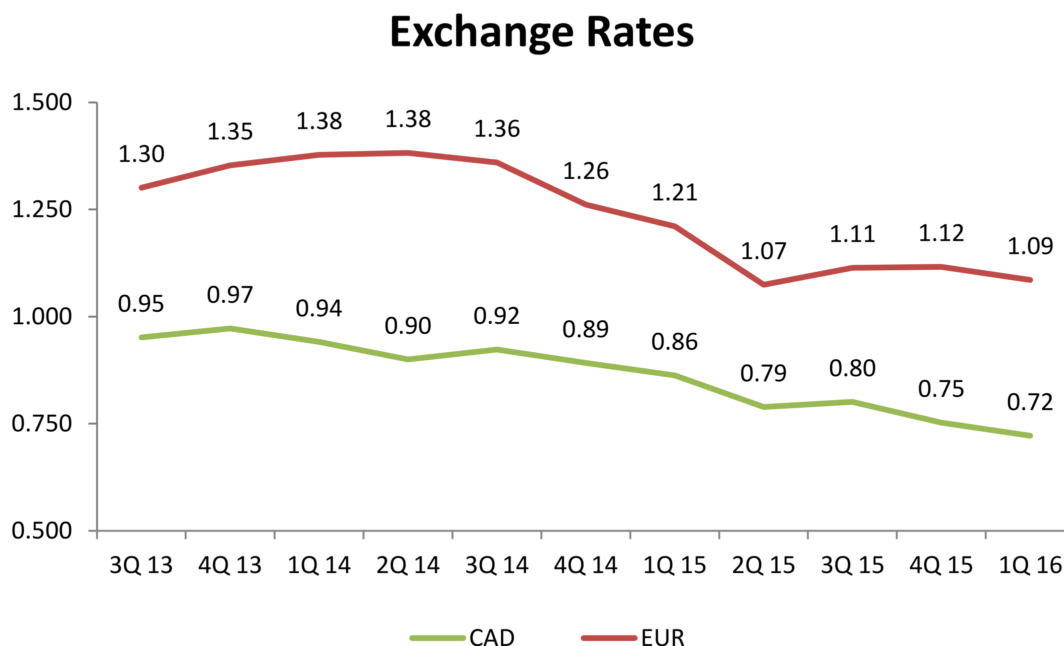
Acquisition and Related Costs

For the three-month period ended December 31, 2015, acquisition and related costs were $0.8 million, as compared to $0.4 million for the same period last year. The increase in acquisition costs is mainly driven by higher legal costs related to the acquisition of Orga.

On June 23, 2015, the Company entered into an agreement with Nokia Networks to settle all outstanding matters related to the acquisition of the Business Support Systems ("BSS") business including finalization of the contingent consideration. During the three months ended December 31, 2015, the Company paid $6.6 million to Nokia Networks related to this settlement. The remaining balance payable at December 31, 2015 is $3.6 million.

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 December 31, 2015, the Company recognized a foreign currency exchange loss of $0.5 million, compared to a foreign currency exchange loss of $2.7 million in the 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 and the Canadian Dollar. The foreign currency exchange loss for the three months ended December 31, 2015 is mainly attributable to the U.S. Dollar strengthening relative to the Euro and the Canadian Dollar.

If a shift in foreign currency exchange rates of 5% were to occur, the foreign currency exchange gain or loss on the Company's net monetary assets could change by approximately $3.1 million due to the fluctuation and this would be recorded in the condensed consolidated interim statements of comprehensive income (loss).

Finance Costs

As described under “Loans and Borrowings”, the Company has a total credit facility in the amount of $100.0 million. As at December 31, 2015, $59.1 million (September 30, 2015 - $59.6 million) is outstanding and principal and interest are payable quarterly over the term of five years, maturing August 4, 2020. In prior periods, the Company incurred $3.4 million of transaction costs and has recorded these costs as deferred financing costs that are being amortized over the expected five-year term of the loans using the effective interest rate method. During the three months ended December 31, 2015, $0.1 million of deferred financing fees was amortized and recorded in finance costs (2014 - $0.1 million).

Interest is at LIBOR plus an applicable margin, which was 4.0% at December 31, 2015 and 2014. LIBOR is defined to have a floor of no less than 1.00%, which has been determined to be an embedded derivative. The fair value of the embedded derivative liability is estimated at $0.4 million at December 31, 2015 (September 30, 2015 - $0.9 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 $0.5 million for the three months ended December 31, 2015 (2014 – less than $0.1 million) was recorded in finance costs in the condensed consolidated interim statements of comprehensive income (loss).

For the three months ended December 31, 2015, interest expense in connection with loans payable of $1.0 million (2014 - $0.6 million) has been recognized as finance costs in the condensed consolidated interim statements of comprehensive income (loss).

Income Taxes

The Company's current income tax expense for the three months ended December 31, 2015 includes $2.1 million (2014 - $0.8 million) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and $0.3 million (2014 – $0.6 million) of foreign withholding taxes.

The Company’s deferred tax expense of $0.5 million (2014 – less than $0.1 million) consists primarily of changes in the temporary differences recognized during the current period.

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:

Thousands (Unaudited)	1Q 16	4Q 15 [1]	3Q 15	2Q 15	1Q 15	4Q 14	3Q 14	2Q 14
Revenue	$50,116	$59,760	$46,660	$53,743	$62,577	$60,938	$63,923	$72,433
Net Income (Loss)	$(4,305)	$(4,435)	$(5,546)	$(2,040)	$ 2,011	$(34,730)	$(6,878)	$ 4,770
Basic Income (Loss) per Share	$(0.04)	$(0.04)	$(0.05)	$(0.02)	$ 0.02	$(0.32)	$(0.06)	$ 0.05
Diluted Income (Loss) per Share	$(0.04)	$(0.04)	$(0.05)	$(0.02)	$ 0.02	$(0.32)	$(0.06)	$ 0.05
Weighted average shares outstanding – Basic	109,136	109,231	109,180	109,089	108,944	108,897	108,892	98,362
Weighted average shares outstanding - Diluted	109,136	109,231	109,180	109,089	111,411	108,897	108,892	101,797

[1] Includes two months of results from Orga Systems, post acquisition

TRADE ACCOUNTS AND OTHER RECEIVABLES

The Company's Days Sales Outstanding in Trade Receivable ("DSO") is normalized at 99 days as of December 31, 2015 compared to 96 days as of September 30, 2015. The Company calculates 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 also maintains credit insurance in certain jurisdictions. 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 180 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 determined not to be fully collectible. The Company's trade and other receivables had a carrying value of $65.2 million as at December 31, 2015.

The allowance for doubtful accounts as at December 31, 2015 was $1.6 million, compared to $1.7 million as at September 30, 2015. Incremental allowance for doubtful accounts or bad debts not allowed for 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 statement 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 increased by $1.6 million, or 4%, to $40.2 million at December 31, 2015, as compared to $38.6 million as at September 30, 2015. This increase is mainly attributable to tier-one customer contracts with back-ended billings milestones, and delayed customer acceptances within the quarter.

OTHER ASSETS

Other assets decreased marginally to $2.1 million as at December 31, 2015, compared to $2.2 million as at September 30, 2015. The Company recognized upfront direct costs related to one customer contract as an asset. It is probable that these assets will be recovered through future minimum contractual payment terms. The costs are being amortized over the pattern of recognition of the related contract revenue. During the three months ended December 31, 2015, $0.1 million was amortized and recorded in cost of revenue (2014 - $0.3 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 increased to $13.1 million at December 31, 2015, as compared to $14.2 million at September 30, 2015.

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 facilities, and cash on hand.

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

Statement of Cash Flows Summary		**Three months ended**
($ US Thousands)		**December 31,**
(Unaudited)	**2015**	**2014**
Cash inflows and (outflows) by activity:		
Operating activities	(1,809)	(4,413)
Investing activities	(6,997)	(614)
Financing activities	(2,439)	(1,243)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(577)	(1,866)
Net cash inflows (outflows)	(11,822)	(8,136)
Cash and cash equivalents, beginning of period	55,048	108,637
Cash and cash equivalents, end of period	43,226	100,501

The Company uses Working Capital and Days Sales Outstanding ("DSO") in Trade Receivable as measures to enhance comparisons between periods. These terms do not have a standardized meaning under IFRS and are not necessarily comparable to similar measures presented by other companies.

Cash from Operating Activities

Cash used by operating activities was $1.8 million in the three months ended December 31, 2015, compared to cash used by operating activities of $4.4 million in the same period last year. Cash used by operating activities, net of restructuring payments, was $0.1 million in the three months ended December 31, 2015.

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance decreased to $85.1 million as at December 31, 2015, as compared to $88.3 million at September 30, 2015.

Cash from Investing Activities

Cash used for investing activities during the three months ended December 31, 2015 was $7.0 million, compared to $0.6 million during the same period in fiscal 2015. The use of cash in the three months ended December 31, 2015 mainly relates to settlement payments made to Nokia Networks in the amount of $6.6 million.

Cash from Financing Activities

In the three months ended December 31, 2015, cash used by financing activities was $2.4 million, compared to $1.2 million during the same period in fiscal 2015. The use of cash in the three months ended December 31, 2015 mainly relates to interest and principal loan repayments and the purchase of shares under Normal course issuer bid ("NCIB").

BUSINESS ACQUISITION

(a) Acquisition of Orga Systems

On July 31, 2015, the Company completed the acquisition (the "Acquisition") of Orga. Orga Systems provides monetization solutions to approximately 45 customers in the communications, automotive, energy, and railway industries. As part of the acquisition, the Company acquired Orga's customer and supplier contracts, intellectual property rights, fixed assets and certain liabilities, along with highly skilled team of approximately 500 employees across EMEA the Americas and Asia Pacific, further broadening its global reach.

The Acquisition has been accounted for as a business combination under the purchase method. The results of the operations of the Orga business since the date of the Acquisition have been consolidated.

(i) Consideration transferred:

The Company financed the acquisition with cash. The consideration for the Acquisition was €38.0 million in gross proceeds. Also on the closing date, the Company received cash from the vendors of approximately €0.7 million relating to the vendor's tax liability on the sale of the subsidiary's shares that will be remitted by the Company to the appropriate tax authorities and €0.6 million for restructuring costs relating to certain employees that will be terminated by the Company post acquisition.

(ii) Identifiable assets acquired and liabilities assumed:

The preliminary allocation of the purchase price to the fair values of the assets acquired and liabilities assumed upon acquisition are as follows:

Thousands	Purchase price allocation	
	(Euros)	(U.S. dollars)
Net assets acquired	1,818	2,001
Acquired intangible assets		
Customer relationships	9,500	10,455
Acquired technology	5,200	5,723
Goodwill	21,482	23,642
	36,182	39,820
	€ 38,000	$ 41,821

The Company applied significant estimates and assumptions in accounting for the acquisition of Orga relating to the preliminary allocation of the purchase price, valuation of intangible assets, valuation of accounts receivable and other valuations used in the business acquisition, such as deferred revenue and contract loss provisions.

The Company allocated €14.7 million ($16.2 million) to intangible assets, including customer relationships and developed technology based on their estimated fair values at the date of purchase. These intangible assets will be amortized over their estimated useful lives, expected to be in the range of 5 to 10 years. The useful lives of the intangible assets are to be determined as the period of time over which the assets are anticipated to contribute to the Company future cash flows. It is expected that the intangible assets will be deductible for tax purposes.

(iii) Goodwill:

A goodwill of $23.6 million was recognized in this business combination, due to the acquisition price being higher than the estimated fair market value of the net assets acquired.

In the three months ending December 31, 2015, Redknee obtained additional information about the facts and circumstances that existed at the acquisition date, requiring a measurement period adjustment, increasing the Goodwill and Deferred revenue by amount of $0.5 million.

(iv) Other items:

For the three months ended December 31, 2015, the Company incurred acquisition and related costs of $0.7 million (2014 - nil), which included expenses for legal, professional and other costs. These costs have been presented separately as acquisition and related costs in the consolidated statements of comprehensive loss.

(b) Acquisition of BSS:

On March 29, 2013, the Company acquired Nokia Networks' BSS business. Nokia Networks' BSS business provided real-time charging, rating, policy and customer care solutions to more than 130 communication service providers.

(i) Settlement accrual and 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.

On June 23, 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. As a result of this final settlement, the amount payable to Nokia Networks was $15.6 million to be paid within one year. The balance amount payable at September 30, 2015 was at $10.2 million, of which an amount of $6.6 million was paid as at December 31, 2015. The balance of $3.6 million is presented as a settlement accrual on the condensed consolidated interim statements of financial position as at December 31, 2015.

(ii) Other items:

During the three months ended December 31, 2015, the Company incurred direct acquisition and related costs of $0.1 million (2014 - $0.4 million), 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.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

Long Term Debt and Credit Facilities

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 added to the Company's existing credit facility, increasing the revolving line of credit to $40.0 million and the term loan to $60.0 million for a total credit facility in the amount of $100.0 million.

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

As at December 31, 2015, $59.1 million (September 30, 2015 - $59.6 million) is outstanding and principal and interest are payable quarterly over the term of five years, maturing August 4, 2020. The Company incurred $3.4 million of transaction costs and has recorded these costs as deferred financing costs that are being amortized over the expected five-year term of the loans using the effective interest rate method. During the three months ended December 31, 2015, $0.1 million of deferred financing fees was amortized and recorded in finance costs (2014 - $0.1 million).

Interest is at LIBOR plus an applicable margin, which was 4.0% at December 31, 2015 and 2014. LIBOR is defined to have a floor of no less than 1.00%, which has been determined to be an embedded derivative. The fair value of the embedded derivative liability is estimated at $0.4 million at December 31, 2015 (September 30, 2015 - $0.9 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 $0.5 million for the three months ended December 31, 2015 (2014 – less than $0.1 million) was recorded in finance costs in the condensed consolidated interim statements of comprehensive income (loss). The embedded derivative liability is included in other liabilities in the condensed consolidated interim statements of financial position.

The Company is required to comply with certain financial and non-financial covenants that exist under the agreement, which, if violated, could result in the amounts borrowed being due and payable to the lender on demand. The Company has assessed its debt covenants as at December 31, 2015 and determined it is in compliance with all applicable covenants.

For the three months ended December 31, 2015, interest expense in connection with loans payable of $1.0 million (2014 - $0.6 million) has been recognized as finance costs in the condensed consolidated interim statements of comprehensive income (loss).

SUBSEQUENT EVENT

Subsequent to December 31, 2015, consistent with its acquisition and integration strategy, Redknee initiated its planned cost structure optimization as it finalizes the integration of Orga. As a result of these efforts, the Company expects to close certain offices and refocus some of its activities in certain regions, resulting in headcount reductions. While no amount has been provided relating to this cost structure optimization as of the date of this MD&A, it is expected that a restructuring provision will be recorded in the financial statements beginning the quarter ending March 31, 2016.

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 three months ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Limitation on Scope of Design

Management has limited the scope of design of internal controls over financial reporting and disclosure controls and procedures to exclude the controls, policies and procedures of Orga Systems, the balance sheet of which is included in the December 31, 2015 consolidated statement of financial position of the Company, and the results of operations for the quarter ended December 31, 2015 in the consolidated statement of comprehensive income (loss) of the Company. The scope limitation is in accordance with Section 3.3 of National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings, which allows an issuer to limit its design of internal controls over financial reporting and disclosure controls and procedures to exclude the internal controls, policies and procedures of a company acquired not more than 365 days before the end of the financial period to which the certificate relates.

ACCOUNTING CHANGES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements

The IASB has issued new standards and amendments to existing standards. These changes in accounting are not yet effective at December 31, 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, 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.

(iii) IFRS 16, Leases:

On January 13, 2016 the IASB issued IFRS 16 Leases.

The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on October 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

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 31 filed and 152 granted patents. To date Redknee has 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 December 31, 2015 is 108,752,926 (September 30, 2015 – 109,230,576). In addition, there were 10,833,287 (2013 – 7,708,124) 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 December 2, 2015, the Company announced an NCIB under which it may purchase up to 9,437,270 of its common shares commencing on December 7, 2015, and expiring on December 6, 2016. As of December 31, 2015, the Company has purchased and cancelled 517,700 common shares for $1.1 million under this program.

(b) Share-based Compensation

The share-based compensation relating to the Company's stock options, deferred share unit plan and restricted shares under the restricted share plan during the three months ended December 31, 2015 was $0.3 million (2014 - $0.5 million).

RISK FACTORS

In addition to risks discussed herein, please refer to our FY15 AIF and FY15 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 FY16 Q1 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.