

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

REDKNEE SOLUTIONS INC.

Three and six months ended March 31, 2016 and 2015
(Unaudited)

REDKNEE SOLUTIONS INC.

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

	March 31, 2016	September 30, 2015
Assets		
Current assets:		
Cash and cash equivalents (note 4)	\$ 39,108,848	\$ 55,047,577
Trade accounts and other receivables (note 5)	61,264,075	67,439,885
Unbilled revenue	34,858,603	38,427,866
Prepaid expenses	3,439,656	2,535,936
Income taxes receivable	2,357,155	1,399,564
Other assets (note 6)	401,131	392,195
Inventories	1,929,926	812,987
Total current assets	143,359,394	166,056,010
Restricted cash (note 13(a))	5,194,065	5,972,087
Property and equipment	7,591,286	8,435,008
Deferred income taxes	1,574,869	2,086,025
Investment tax credits	359,392	351,385
Other assets (note 6)	1,819,558	1,816,640
Intangible assets	39,511,041	44,821,478
Goodwill	33,666,159	33,666,159
Total assets	\$ 233,075,764	\$ 263,204,792
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade payables	\$ 10,792,094	\$ 9,128,710
Accrued liabilities	23,740,141	32,305,136
Provisions (note 14)	23,404,229	8,772,519
Income taxes payable	3,224,851	2,364,983
Settlement accrual and contingent consideration (note 3(b))	2,531,829	10,244,224
Deferred revenue	18,450,440	13,363,696
Loans and borrowings (note 7)	2,400,000	1,800,000
Total current liabilities	84,543,584	77,979,268
Deferred revenue	549,775	870,937
Other liabilities	2,760,351	2,615,163
Pension and other long-term employment benefit plans	12,872,382	11,417,481
Loans and borrowings (note 7)	53,658,078	54,961,066
Provisions (note 14)	8,491,256	4,006,354
Total liabilities	162,875,426	151,850,269
Shareholders' equity:		
Share capital	172,424,677	174,082,815
Treasury stock	(141,917)	(141,917)
Contributed surplus	8,410,148	7,899,360
Deficit	(107,015,855)	(67,086,722)
Accumulated other comprehensive loss	(3,476,715)	(3,399,013)
Total shareholders' equity	70,200,338	111,354,523
Total liabilities and shareholders' equity	\$ 233,075,764	\$ 263,204,792

Restricted cash, guarantees and contingent liabilities (note 13)

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

REDKNEE SOLUTIONS INC.

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

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
Revenue:				
Software, services and other	\$ 17,105,453	\$ 31,220,323	\$ 42,223,687	\$ 69,175,923
Support and subscription	22,687,039	22,522,584	47,684,616	47,143,913
	39,792,492	53,742,907	89,908,303	116,319,836
Cost of revenue	18,353,594	21,000,581	38,751,510	46,989,071
Gross profit	21,438,898	32,742,326	51,156,793	69,330,765
Operating expenses:				
Sales and marketing	7,816,722	7,700,464	16,217,996	17,162,703
General and administrative	8,629,408	7,511,581	15,917,679	14,573,965
Research and development	12,553,717	11,397,028	25,308,788	23,726,810
Restructuring costs (note 14(a))	24,541,909	251,635	24,820,455	588,349
Acquisition and related costs (notes 3(a)(iv) and 3(b)(ii))	116,774	279,432	950,478	694,483
	53,658,530	27,140,140	83,215,396	56,746,310
Income (loss) from operations	(32,219,632)	5,602,186	(32,058,603)	12,584,455
Foreign exchange gain (loss)	28,232	(5,178,499)	(464,776)	(7,847,412)
Finance income	17,730	7,192	23,104	11,674
Finance costs	(1,759,403)	(1,116,244)	(2,807,934)	(2,014,461)
Income (loss) before income taxes	(33,933,073)	(685,365)	(35,308,209)	2,734,256
Income taxes (recovery):				
Current	1,618,062	1,370,784	3,999,351	2,770,579
Deferred	73,005	(16,454)	621,573	(7,589)
	1,691,067	1,354,330	4,620,924	2,762,990
Loss for the period	\$ (35,624,140)	\$ (2,039,695)	\$ (39,929,133)	\$ (28,734)
Other comprehensive loss:				
Pension actuarial adjustment	-	-	(77,702)	-
Total comprehensive loss	\$ (35,624,140)	\$ (2,039,695)	\$ (40,006,835)	\$ (28,734)
Loss per common share:				
Basic	(0.33)	(0.02)	(0.37)	(0.00)
Diluted	(0.33)	(0.02)	(0.37)	(0.00)
Weighted average number of common shares (note 8(a)):				
Basic	108,304,632	109,089,428	108,715,589	109,017,472
Diluted	108,304,632	109,089,428	108,715,589	109,017,472

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)

Six months ended March 31, 2016 and 2015
(Unaudited)

	Share capital		Treasury stock	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total shareholders' equity
	Number outstanding	Amount					
Balance, September 30, 2015	109,230,576	\$ 174,082,815	\$ (141,917)	\$ 7,899,360	\$ (67,086,722)	\$ (3,399,013)	\$ 111,354,523
Loss for the period	–	–	–	–	(39,929,133)	–	(39,929,133)
Share-based compensation	–	–	–	1,171,556	–	–	1,171,556
Pension actuarial adjustment	–	–	–	–	–	(77,702)	(77,702)
Purchase of shares under normal course issuer bid	(1,265,690)	(2,017,061)	–	(539,905)	–	–	(2,556,966)
Stock options exercised	275,050	358,923	–	(120,863)	–	–	238,060
Balance, March 31, 2016	108,239,936	\$ 172,424,677	\$ (141,917)	\$ 8,410,148	\$ (107,015,855)	\$ (3,476,715)	\$ 70,200,338
Balance, September 30, 2014	108,903,734	\$ 173,757,863	\$ (21,226)	\$ 5,665,135	\$ (57,080,147)	\$ (4,174,949)	\$ 118,146,676
Loss for the period	–	–	–	–	(28,734)	–	(28,734)
Purchase of treasury stock	–	–	(536,507)	–	–	–	(536,507)
Share-based compensation	–	–	–	1,104,642	–	–	1,104,642
Issue of treasury stock	–	–	415,816	(415,816)	–	–	–
Stock options exercised	225,250	133,126	–	(53,901)	–	–	79,225
Balance, March 31, 2015	109,128,984	\$ 173,890,989	\$ (141,917)	\$ 6,300,060	\$ (57,108,881)	\$ (4,174,949)	\$ 118,765,302

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 March 31,		Six months ended March 31,	
	2016	2015	2016	2015
Cash provided by (used in):				
Operating activities:				
Loss for the period	\$ (35,624,140)	\$ (2,039,695)	\$ (39,929,133)	\$ (28,734)
Adjustments for:				
Depreciation of property and equipment	1,185,400	1,135,416	2,188,427	2,077,652
Amortization of intangible assets	2,447,730	1,527,207	4,735,596	3,339,589
Finance income	(17,730)	(7,192)	(23,104)	(11,674)
Finance costs	1,759,403	1,116,244	2,807,934	2,014,461
Pensions	1,180,647	(404,938)	1,377,199	(235,147)
Income tax expense	1,691,067	1,354,330	4,620,924	2,762,990
Unrealized foreign exchange loss (gain)	(26,456)	3,895,407	1,076,691	5,761,053
Share-based compensation	1,507,036	1,733,015	1,756,645	2,198,181
Revaluation of contingent consideration	–	(1,566,810)	–	(2,143,053)
Change in provisions	21,948,779	(5,145,161)	19,116,612	(8,583,245)
Change in non-cash operating working capital (note 10)	5,548,409	10,143,262	4,828,780	1,047,258
	1,600,145	11,741,085	2,556,571	8,199,331
Interest paid	(113,449)	(39,082)	(434,217)	(88,836)
Interest received	11,766	(37,830)	23,451	11,674
Income taxes paid	(1,748,954)	(2,038,430)	(4,205,611)	(2,909,631)
	(250,492)	9,625,743	(2,059,806)	5,212,538
Financing activities:				
Proceeds from exercise of stock options	200,560	15,095	238,060	79,225
Purchase of treasury stock	(1,450,484)	(536,507)	(2,556,966)	(536,507)
Interest paid on loans and borrowings	(958,953)	–	(1,788,593)	(931,655)
Repayment of loans and borrowings	(450,000)	(375,000)	(900,000)	(750,000)
Transaction costs of loans and borrowings	–	–	(90,496)	–
	(2,658,877)	(896,412)	(5,097,995)	(2,138,937)
Investing activities:				
Purchase of property and equipment	(1,114,500)	(465,104)	(1,621,920)	(796,972)
Purchase of intangible assets	(13,776)	(626,761)	(25,035)	(763,057)
Decrease (increase) in restricted cash	616,114	–	778,022	(558,539)
Settlement accrual and Contingent consideration paid	(1,072,596)	(412,321)	(7,712,395)	–
	(1,584,758)	(1,504,186)	(8,581,328)	(2,118,568)
Effect of foreign exchange rate changes on cash and cash equivalents				
	377,357	(3,374,480)	(199,600)	(5,240,126)
Increase (decrease) in cash and cash equivalents				
	(4,116,770)	3,850,665	(15,938,729)	(4,285,093)
Cash and cash equivalents, beginning of period				
	43,225,618	100,501,039	55,047,577	108,636,797
Cash and cash equivalents, end of period				
	\$ 39,108,848	\$ 104,351,704	\$ 39,108,848	\$ 104,351,704

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 six months ended March 31, 2015 and 2014
(Unaudited)

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

Redknee is a leading global provider of innovative communication software products, solutions and services. Redknee's revenue and subscriber management platform provides innovative converged billing, charging, customer care and payments solutions for voice, messaging and data services to over 250 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 six months ended March 31, 2016 were authorized for issuance by the Board of Directors of the Company on May 9, 2016.

(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, revenue 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, 2015 (the "2015 annual financial statements").

REDKNEE SOLUTIONS INC.

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

Three and six months ended March 31, 2016 and 2015
(Unaudited)

2. Significant accounting policies:

(a) Basis of measurement and presentation:

The notes presented in these condensed consolidated interim financial statements include, in general, only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the 2015 annual financial statements, including the notes thereto. Except as discussed below, these condensed consolidated interim financial statements follow the same accounting policies and methods of application as the 2015 annual financial statements.

(b) Basis of consolidation:

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

(c) Functional currency:

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

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

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

Three and six months ended March 31, 2016 and 2015
(Unaudited)

2. Significant accounting policies (continued):

(d) New accounting pronouncements:

The IASB has issued new standards and amendments to existing standards. These changes in accounting are not yet effective at March 31, 2016 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 condensed consolidated interim 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 condensed consolidated interim financial statements.

REDKNEE SOLUTIONS INC.

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

Three and six months ended March 31, 2016 and 2015
(Unaudited)

2. Significant accounting policies (continued):

(iii) IFRS 16, Leases ("IFRS 16"):

On January 13, 2016 the IASB issued IFRS 16. 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 at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17, Leases ("IAS 17"). 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 condensed consolidated interim 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.

3. Business acquisitions:

(a) Acquisition of Orga Systems ("Orga"):

On July 31, 2015, the Company completed the acquisition (the "Acquisition") of Orga. Orga 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, property and equipment and certain liabilities, along with a highly skilled team of employees across Europe, Middle East, and Africa, 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 in these financial statements.

REDKNEE SOLUTIONS INC.

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

Three and six months ended March 31, 2016 and 2015
(Unaudited)

3. Business acquisitions (continued):

(i) Consideration transferred:

The Company financed the acquisition with cash. The consideration for the Acquisition was €38,000,000 in gross proceeds. Also on the closing date, the Company received cash from the vendors of approximately €650,960 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 €630,000 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:

	Purchase price allocation	
	(Euros)	(U.S. dollars)
Net assets acquired:		
Cash and cash equivalents	€ 3,074,577	\$ 3,383,800
Trade accounts and other receivables	7,908,696	8,703,995
Unbilled revenue	4,904,494	5,397,690
Other assets	1,309,668	1,441,379
Property and equipment and intangible assets	1,877,998	2,066,850
Deferred income taxes	479,655	527,890
Trade payables and accrued liabilities	(6,151,083)	(6,769,636)
Other liabilities	(135,004)	(148,580)
Deferred revenue	(6,467,775)	(7,118,175)
Provisions	(6,664,589)	(7,334,780)
Pension and non-pension post-employment benefit obligations	(486,024)	(534,899)
	(349,387)	(384,466)
Acquired intangible assets:		
Customer relationships	9,500,000	10,455,320
Acquired technology	5,200,000	5,722,912
Goodwill	23,649,387	26,027,559
	38,349,387	42,205,791
	€ 38,000,000	\$ 41,821,325

REDKNEE SOLUTIONS INC.

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

Three and six months ended March 31, 2016 and 2015
(Unaudited)

3. Business acquisitions (continued):

The Company applied significant estimates and assumptions in accounting for the Acquisition 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 finalization of the purchase price allocation is pending the determination of the finalization of the fair value for taxation-related balances and unbilled revenue. The Company expects to finalize this determination on or before June 30, 2016.

The Company allocated €14,700,000 (\$16,178,232) to intangible assets, including customer relationships and developed technology based on their estimated fair values at the date of purchase. These intangible assets are being amortized over their estimated useful lives 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's future cash flows.

(iii) Goodwill:

Goodwill of \$26,027,559 was recognized in this business combination, due to the acquisition price being higher than the estimated fair values of the net assets acquired.

For the six months ended March 31, 2016, the Company obtained additional information about the facts and circumstances that existed at the acquisition date, requiring a measurement period adjustment, increasing deferred revenue by \$451,872, decreasing unbilled revenue by \$184,633 and decreasing deferred income taxes by \$2,200,434, and a resulting increase in goodwill of \$2,836,939.

(iv) Other items:

For the three and six months ended March 31, 2016, the Company incurred acquisition and related costs of \$73,866 and \$787,577 (2015 - nil and nil) respectively, which included expenses for legal, professional and other costs. These costs have been presented separately as 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 six months ended March 31, 2016 and 2015
(Unaudited)

3. Business acquisitions (continued):

(b) Acquisition of Business Support Systems ("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 €25,000,000 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 \$15,620,960 to be paid within one year. The amount payable at September 30, 2015 was \$10,244,224, of which \$7,712,395 was paid during the six months ended March 31, 2016. The remaining balance of \$2,531,829 is presented as a settlement accrual and contingent consideration liability on the condensed consolidated interim statements of financial position as at March 31, 2016.

(ii) Other items:

For the three and six months ended March 31, 2016, the Company incurred acquisition and related costs of \$42,908 and \$162,901 (2015 - \$279,432 and \$694,483) respectively, which included expenses for legal, professional and other costs. These costs have been presented separately as 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 six months ended March 31, 2016 and 2015
(Unaudited)

4. Cash and cash equivalents:

	March 31, 2016	September 30, 2015
Cash	\$ 39,057,183	\$ 55,003,802
Cash equivalents	51,665	43,775
	<u>\$ 39,108,848</u>	<u>\$ 55,047,577</u>

5. Trade accounts and other receivables:

	March 31, 2016	September 30, 2015
Trade receivables, net of allowance for doubtful accounts	\$ 51,144,343	\$ 58,749,604
Other receivables (a)	10,103,025	8,017,424
Employee receivables (b)	16,707	672,857
	<u>\$ 61,264,075</u>	<u>\$ 67,439,885</u>

(a) The other receivables balance mainly includes amounts relating to initial net working capital acquired through the Acquisition of Orga and service taxes.

(b) Employee receivables represent advances for business travel.

6. Other assets:

	March 31, 2016	September 30, 2015
Deferred contract costs - current	\$ 401,131	\$ 392,195
Deferred contract costs - non-current	70,992	265,507
Lease deposits - non-current	1,748,566	1,551,133
	<u>1,819,558</u>	<u>1,816,640</u>
	<u>\$ 2,220,689</u>	<u>\$ 2,208,835</u>

REDKNEE SOLUTIONS INC.

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

Three and six months ended March 31, 2016 and 2015
(Unaudited)

6. Other assets (continued):

The Company recognized upfront direct costs related to one customer contract as an asset. These assets are being recovered through future minimum contractual payment terms. The costs are being amortized over the pattern of recognition of the related contract revenue. During the three and six months ended March 31, 2016, \$65,584 and \$185,579 were amortized (2015 - \$368,399 and \$651,552), respectively.

7. Loans and borrowings:

	March 31, 2016	September 30, 2015
Term loan (effective August 4, 2015)	\$ 58,650,000	\$ 59,550,000
Less embedded derivative at inception	1,206,496	1,206,496
	57,443,504	58,343,504
Less unamortized deferred financing costs	1,927,876	2,053,227
Add loan accretion	542,450	470,789
	56,058,078	56,761,066
Less current portion of loans and borrowings	2,400,000	1,800,000
Long-term portion of loans and borrowings	\$ 53,658,078	\$ 54,961,066

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 and Capital One. The amended credit agreement added to the Company's existing credit facility, increasing the revolving line of credit to \$40,000,000 and the term loan to \$60,000,000 for a total credit facility in the amount of \$100,000,000.

During the quarter ended March 31, 2016, the Company amended its credit facility to (i) temporarily adjust its financial covenants for the quarter ended March 31, 2016; (ii) agree to certain temporary restrictions in use of funds, such as making business acquisitions or share capital transactions until reporting obligations are complete for the quarter ending June 30, 2016, and (iii) temporarily limiting advances against the Company's revolver to \$20,000,000 out of the available \$40,000,000.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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7. Loans and borrowings (continued):

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 March 31, 2016, \$58,650,000 (September 30, 2015 - \$59,550,000) is outstanding and principal and interest are payable quarterly over the term of five years, maturing August 4, 2020. The Company incurred \$3,373,730 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 and six months ended March 31, 2016, \$105,485 and \$215,911 of deferred financing fees were amortized and recorded in finance costs in the condensed consolidated interim statements of comprehensive loss (2015 - \$96,925 and \$194,524), respectively.

Interest at March 31, 2016 and September 30, 2016 was at 6.25%. The Company has an option of LIBOR plus an applicable margin or base rate plus an applicable margin. 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 \$783,275 at March 31, 2016 (September 30, 2015 - \$869,806), 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 in the credit agreement. The change in fair value the embedded derivative liability of \$377,468 and (\$86,534) for the three months and six months ended March 31, 2016 (2015 - \$26,020 and \$10,189), 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 has assessed its amended debt covenants as at March 31, 2016 and determined it is in compliance with all applicable covenants.

For the three and six months ended March 31, 2016, interest expense in connection with loans payable of \$1,076,178 and \$2,038,171 (2015 - \$806,402 and \$1,443,850), respectively, has been recognized as finance 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 six months ended March 31, 2016 and 2015
(Unaudited)

8. 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 six months ended March 31 is as follows:

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
Basic weighted average number of common shares outstanding	108,304,632	109,089,428	108,715,589	109,017,472
Add dilutive stock options outstanding	—	—	—	—
Diluted weighted average number of common shares outstanding	108,304,632	109,089,428	108,715,589	109,017,472

Due to the net loss for the three and six months ended March 31, 2016 and 2015, all options were excluded from the calculation of diluted loss per common share as their inclusion would be anti-dilutive. The total number of options that were excluded from the calculation for the three and six months ended March 31, 2016 was 10,329,737 (2015 - 7,817,255).

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

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. During the three months ended March 31, 2016, the Company has purchased and cancelled 1,265,690 common shares for \$2,556,966 under this program.

REDKNEE SOLUTIONS INC.

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

Three and six months ended March 31, 2016 and 2015
(Unaudited)

8. Share capital (continued):

(c) Share-based compensation:

The share-based compensation relating to the Company's stock options, deferred share unit plan and under the share unit plan during the three and six months ended March 31, 2016 was \$1,507,036 and \$1,756,645 (2015 - \$1,733,015 and \$2,198,181), respectively.

(i) Stock options:

The table below is a summary of the stock option plans for the six months ended March 31, 2016:

	CAD options	
	Number of stock options	Weighted average exercise price per share
Outstanding, September 30, 2015	7,780,332	\$ 2.91
Granted	3,426,875	2.99
Exercised	(275,050)	1.17
Forfeited	(602,420)	3.90
Outstanding, March 31, 2016	10,329,737	2.93

(ii) Share unit plan:

The table below is a summary of the restricted share units ("RSU") and performance share units ("PSU") for the six months ended March 31, 2016:

RSU & PSU	
Outstanding, September 30, 2015	1,110,928
Granted	1,027,570
Exercised	(159,922)
Forfeited	(319,013)
Outstanding, March 31, 2016	1,659,563

There were no shares issued from the treasury stock.

REDKNEE SOLUTIONS INC.

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

Three and six months ended March 31, 2016 and 2015
(Unaudited)

8. Share capital (continued):

(iii) Deferred share unit plan:

During the six months ended March 31, 2016, there were 380,435 deferred share units ("DSUs") granted (March 31, 2015 - 210,925) and no DSUs were exercised (March 31, 2015 - nil). The number of DSUs outstanding at March 31, 2016 was 917,030 (September 30, 2015 were 536,595).

9. Income tax expense:

The Company's income tax expense for the six months ended March 31, 2016 mainly includes \$3,193,471 (2015 - \$1,315,593) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and \$805,880 (2015 - \$1,454,986) of foreign withholding taxes.

The Company's deferred tax expense of \$621,573 (2015 - recovery of \$7,589) consists primarily of changes in temporary differences recognized during the current period.

10. Change in non-cash operating working capital:

The change in non-cash working capital for the three and six months ended March 31 is as follows:

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
Trade accounts and other receivables	\$ 3,954,208	\$ 1,064,913	\$ 6,175,463	\$ (3,544,532)
Unbilled revenue	5,191,729	12,897,709	3,569,263	11,689,224
Prepaid expenses	(789,943)	(187,794)	(903,720)	1,608,656
Other assets	(42,363)	209,053	(11,854)	441,958
Inventories	(1,132,039)	(261,941)	(1,116,939)	2,339,503
Trade payables	(832,762)	(355,995)	1,663,384	1,426,955
Accrued liabilities and other liabilities	(6,666,424)	(2,764,379)	(9,302,512)	(9,138,781)
Income taxes receivable/payable	(502)	(996)	(9,887)	56,923
Deferred revenue	5,866,505	(457,308)	4,765,582	(3,832,648)
	\$ 5,548,409	\$ 10,143,262	\$ 4,828,780	\$ 1,047,258

REDKNEE SOLUTIONS INC.

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

Three and six months ended March 31, 2016 and 2015
(Unaudited)

11. Financial instruments and capital management:

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

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

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 March 31, 2016 and September 30, 2015 are summarized below:

	March 31, 2016		September 30, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (Level 1)	\$ 39,108,848	\$ 39,108,848	\$ 55,047,577	\$ 55,047,577
Restricted cash (Level 1)	5,194,065	5,194,065	5,972,087	5,972,087
Settlement accrual and contingent consideration (Level 3)	2,531,829	2,531,829	10,244,224	10,244,224
Embedded derivative liability/other liabilities (Level 2)	783,275	783,275	869,806	869,806

REDKNEE SOLUTIONS INC.

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

Three and six months ended March 31, 2016 and 2015
(Unaudited)

11. Financial instruments and capital management (continued):

There were no transfers of financial assets between levels during the six months ended March 31, 2016.

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

	March 31, 2016	September 30, 2015
Financial assets at FVTPL ^(a)	\$ 44,302,913	\$ 61,019,664
Loans and receivables ^(b)	61,264,075	67,439,885
Other financial liabilities ^(c)	125,246,149	113,588,948
Financial liabilities at FVTPL ^(d)	2,531,829	10,244,224

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

^(b)Includes trade accounts and other receivables.

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

^(d)Includes settlement accrual and 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 settlement accrual and contingent consideration approximates fair value because of its short-term nature.

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 six months ended March 31, 2016 and 2015
(Unaudited)

12. Segment reporting:

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

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

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
Europe, Middle East and Africa	\$ 21,933,785	\$ 28,940,053	\$ 48,601,548	\$ 59,692,864
North America, Latin America and Caribbean	9,439,729	6,841,295	18,913,285	13,560,223
Asia and Pacific Rim	8,418,978	17,961,559	22,393,470	43,066,749
	<u>\$ 39,792,492</u>	<u>\$ 53,742,907</u>	<u>\$ 89,908,303</u>	<u>\$ 116,319,836</u>

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

	Three months ended March 31,		Six months ended March 31,	
	2016	2015	2016	2015
Revenue by type:				
Software and services	\$ 16,295,182	\$ 28,771,574	\$ 38,945,377	\$ 62,512,800
Support and subscription	22,687,039	22,522,584	47,684,616	47,143,913
Third-party software and hardware	810,271	2,448,749	3,278,310	6,663,123
	<u>\$ 39,792,492</u>	<u>\$ 53,742,907</u>	<u>\$ 89,908,303</u>	<u>\$ 116,319,836</u>

REDKNEE SOLUTIONS INC.

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

Three and six months ended March 31, 2016 and 2015
(Unaudited)

13. Restricted cash, guarantees and contingent liabilities:

(a) Restricted cash:

As at March 31, 2016, the Company had \$5,194,065 (September 30, 2015 - \$5,972,087) in cash put aside mainly for planned payments to early retirees and lease guarantees, which are secured by restricted cash, shown separately in the condensed consolidated interim statements of financial position.

(b) Guarantees and contingent liabilities:

The Company has provided routine indemnifications to its customers against liability if the Company's products infringe on a third party's intellectual property rights. The maximum exposure from these indemnifications cannot be reasonably estimated. In some cases, the Company has recourse against other parties to mitigate its risk of loss from these guarantees.

In the normal course of operations, the Company is subject to claims from time to time, relating to labour, customers and other. Although it is not always possible to estimate the extent of potential costs, if any, management believes that the ultimate resolution of such contingencies will not have a material adverse impact on the results of operations, financial position or liquidity of the Company.

REDKNEE SOLUTIONS INC.

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

Three and six months ended March 31, 2016 and 2015
(Unaudited)

14. Provisions:

	Restructuring (a)	Other/onerous contracts (b)	Total
Balance, September 30, 2015	\$ 6,095,950	\$ 6,682,923	\$ 12,778,873
Additions	24,820,455	–	24,820,455
Cash payments	(4,634,687)	–	(4,634,687)
Utilization	–	(1,733,713)	(1,733,713)
Foreign exchange	600,198	64,359	664,557
Balance, March 31, 2016	\$ 26,881,916	\$ 5,013,569	\$ 31,895,485
Current			\$ 8,772,519
Non-current			4,006,354
Balance, September 30, 2015			\$ 12,778,873
Current			\$ 23,404,229
Non-current			8,491,256
Balance, March 31, 2016			\$ 31,895,485

(a) 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.

As announced in February 2016, the Company initiated a cost structure optimization plan to close certain offices and refocus on its activities in certain regions, resulting in headcount reductions globally. In connection with these plans, during the three and six months ended March 31, 2016, restructuring charges related to employee terminations of \$24,541,909, and \$24,820,455 respectively (2015 - \$251,635 and \$588,349), were recorded. Subsequent to quarter end, the Company terminated employees in certain locations, which will result in an estimated provision of \$2,100,000.

REDKNEE SOLUTIONS INC.

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

Three and six months ended March 31, 2016 and 2015
(Unaudited)

14. Provisions (continued):

For the six months ended March 31, 2016, an amount of \$4,634,687 has been paid and an additional amount of \$19,461,899 is estimated as payable within one year. The balance of the restructuring provision, classified as long-term, payable over four years, amounts to \$7,420,017 and has been discounted to its present value.

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 evaluates the appropriateness of the restructuring charges and provision balances. Further adjustments may be required to reflect actual experience or changes in estimates.

- (b) Upon the acquisition of Orga, a provision for an onerous contract was recognized for one project in the amount of \$7,334,780. For the three and six months ended March 31, 2016, \$667,860 and \$1,733,713 (2015 - nil and nil) of the provision was utilized against the costs incurred for the project.