REDKNEE
Looking Beyond

REDKNEE SOLUTIONS INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SECOND QUARTER ENDED MARCH 31, 2016

DATED: May 9, 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 and six-months ended March 31, 2016. This document is intended to assist the reader in better understanding operations and key financial results as they are, in our opinion, at the date of this report.

The MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and six-months ended March 31, 2016 and 2015 annual financial statements and MD&A, 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 Annual Information Form ("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 March 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. Charging, billing and policy and customer care services, 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 enables 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 and service chaining.

- **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 multiplay 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 service 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 Loss	**Three Months Ended**		**Six Months Ended**	
(all amounts in thousands of US$, except per share amounts)		**March 31,**		**March 31,**
(unaudited)	**2016**	**2015**	**2016**	**2015**
Revenue				
Software, services and other	17,105	31,220	42,224	69,176
Support and subscription	22,687	22,523	47,684	47,144
	39,792	**53,743**	**89,908**	**116,320**
Cost of revenue	18,353	21,001	38,752	46,989
Gross profit	**21,439**	**32,742**	**51,157**	**69,331**
Operating expenses				
Sales and marketing	7,817	7,700	16,218	17,163
General and administrative	8,629	7,512	15,918	14,574
Research and development	12,554	11,397	25,309	23,727
Restructuring costs	24,542	252	24,820	588
Acquisition and related costs	117	279	950	694
	53,659	**27,140**	**83,215**	**56,746**
Income (loss) from operations	**(32,220)**	**5,602**	**(32,058)**	**12,585**
Foreign exchange gain (loss)	28	(5,179)	(465)	(7,848)
Finance income	18	7	23	12
Finance costs	(1,759)	(1,116)	(2,808)	(2,015)
Income (loss) before income taxes	**(33,933)**	**(686)**	**(35,308)**	**2,734**
Income tax expense	1,691	1,354	4,621	2,763
Loss for the period	**(35,624)**	**(2,040)**	**(39,929)**	**(29)**
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 (thousands)				
Basic	108,305	109,089	108,716	109,017
Diluted	108,305	109,089	108,716	109,017

Statement of Financial Position Data $US Thousands (unaudited)	As at March 31, 2016	As at September 30, 2015	$ Change	% Change
Cash, Cash Equivalents and Restricted Cash	44,303	61,020	(16,717)	-27%
Trade Accounts, Other Receivables and Unbilled Revenue	96,123	105,868	(9,745)	-9%
Goodwill and Intangible Assets	73,177	78,488	(5,311)	-7%
Total Assets	233,076	263,205	(30,129)	-11%
Trade Payable and Accrued Liabilities	34,532	41,434	(6,902)	-17%
Deferred Revenue	19,000	14,235	4,765	33%
Loans and borrowings and Other long-term liabilities	77,782	73,000	4,782	7%
Shareholders' Equity	70,200	111,355	(41,154)	-37%

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 March 31,		Six Months Ended March 31,	
(unaudited)	2016	2015	2016	2015
Software and Services	16,295	28,771	38,945	62,513
Support and Subscription	22,687	22,523	47,684	47,144
Third Party Software and Hardware	810	2,449	3,278	6,663
Total	**39,792**	**53,743**	**89,908**	**116,320**

Percentage of Total Revenue	Three Months Ended March 31,		Six Months Ended March 31,	
(unaudited)	2016	2015	2016	2015
Software and Services	41%	53%	43%	53%
Support and Subscription	57%	42%	53%	41%
Third Party Software and Hardware	2%	5%	4%	6%
Total	**100%**	**100%**	**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 March 31, 2016, the Company's revenues have declined by $14.0 million from the previous year to $39.8 million. The change by revenue type for the quarter ended March 31, 2016 is as follows: $12.5 million decrease in software and services revenue, $0.2 million increase in support and subscription revenue, and $1.6 million decrease in third party software and hardware revenue.

For the six-month period ended March 31, 2016, the Company's revenues have declined by $26.4 million from the previous year to $89.9 million. The change by revenue type for the six months ending March 31, 2016 is as follows: $23.6 million decrease in software and services revenue, $0.5 million increase in support and subscription revenue, and $3.4 million decrease in third party software and hardware revenue.

Software and Services Revenue

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

Software and services revenue for the three-month period ended March 31, 2016 decreased to $16.3 million, or 41% of total revenue, compared to $28.8 million, or 53% of total revenue for the same period last year. For the six-month period ended March 31, 2016, the Company’s software and services revenue decreased to $39.0 million, or 43% of total revenue, compared to $62.5 million, or 53% of total revenue, for the same period last year.

The decrease in the three and six months ended March 31, 2016 is mainly a result of lower software and services revenue in the APAC and EMEA region due to delayed orders from customers for implementation of software contracts. This decrease is partially offset by higher software and services revenue in the Americas region in the three and six months ended March 31, 2016, which is primarily due to the contribution of revenue from customers attained through the acquisition of Orga Systems (“Orga”).

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 March 31, 2016 increased marginally by $0.2 million to $22.7 million, or 57% of total revenue, compared to $22.5 million, or 42% of total revenue, for the same period last year. For the six-month period ended March 31, 2016, the Company’s support and subscription revenue increased to $47.7 million, or 53% of total revenue, compared to $47.1 million, or 41% of total revenue, in fiscal 2015.

The increase in support and subscription revenue for the three and six months ended March 31, 2016 is mainly due to higher revenue in the Americas region, partially offset by lower revenue in the APAC region 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 March 31, 2016 decreased to $0.8 million, or 2% of total revenue, compared to $2.4 million, or 5% of total revenue, for the same period last year.

For the six-month period ended March 31, 2016, the Company's third party software and hardware revenue decreased to $3.3 million, or 4% of total revenue, compared to $6.7 million, or 6% of total revenue, in fiscal 2015.

The decrease in the three and six months ended March 31, 2016 is mainly due to management's initiatives to reduce sale of 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 March 31,**		**Six Months Ended March 31,**	
	2016	**2015**	**2016**	**2015**
Asia and Pacific Rim	8,419	17,962	22,393	43,067
North America, Latin America and Caribbean	9,439	6,841	18,913	13,560
Europe, Middle East and Africa	21,934	28,940	48,602	59,693
Total	**39,792**	**53,743**	**89,908**	**116,320**

Percentage of Total Revenue (unaudited)	**Three Months Ended March 31,**		**Six Months Ended March 31,**	
	2016	**2015**	**2016**	**2015**
Asia and Pacific Rim	21%	33%	25%	37%
North America, Latin America and Caribbean	24%	13%	21%	12%
Europe, Middle East and Africa	55%	54%	54%	51%
Total	**100%**	**100%**	**100%**	**100%**

For the three-month period ended March 31, 2016, revenue from the APAC region was $8.4 million, or 21% of total revenue, compared to $18.0 million, or 33% of total revenue, for the same comparable period in fiscal 2015. For the six-month period ended March 31, 2016, revenue from the APAC region was $22.4 million, or 25% of total revenue, compared to $43.1 million, or 37% of total revenue, for the same period last year. This decrease is mainly a result of lower software and services revenue in the region due to fewer deployments of software products.

For the three-month period ended March 31, 2016, revenue from the Americas region increased to $9.4 million, or 24% of total revenue, compared to $6.8 million, or 13% of total revenue, for the same comparable period in fiscal 2015. For the six-month period ended March 31, 2016, revenue from the Americas region increased to $18.9 million, or 21% of total revenue, as compared to $13.6 million, or 12% of total revenue, in the same comparable period in fiscal 2015. The increase in revenue for the three and six months ended March 31, 2016 is mainly attributable to higher support and subscription revenue and higher software and services revenue in the region, both due to the contribution of revenue from customers attained through the acquisition of Orga.

For the three-month period ended March 31, 2016, revenue from the EMEA region decreased to $21.9 million, or 55%, compared to $28.9 million, or 54% of total revenue, for the same comparable period in fiscal 2015. For the six-month period ended March 31, 2016, revenue from the EMEA region decreased to $48.6 million, or 54% of total revenue, compared to $59.7 million, or 51% of total revenue, for the same period last year. The decrease is mainly a result of lower software and services revenue in the region due to delayed orders from customers for implementation of software contracts.

Cost of Revenue and Gross Margin

Cost of revenue consists of personnel costs providing professional services to implement and provide post sales technical support for our solutions, and the costs of third party hardware and software components sold as part of Redknee's solution. In addition, it includes an allocation of certain direct and indirect costs attributable to these activities.

For the three months ended March 31, 2016, cost of revenue decreased to $18.4 million from $21.0 million incurred for the same comparable period in 2015. During the same period, gross margin decreased by 7% from 61% in the three months ended March 31, 2015 to 54% in the three months ended March 31, 2016.

For the six months ended March 31, 2016, cost of revenue decreased to $38.8 million from $47.0 million incurred for the same comparable period in 2015. During the same period, gross margin decreased by 3% from 60% in the six months ended March 31, 2015 to 57% in the six months ended March 31, 2016.

The decrease in gross margin for both the three and six months ended March 31, 2016 was primarily attributable to lower revenue from high-margin software license deals, partially offset by higher margins on support and subscription contracts.

Operating Expenses

Total operating expenses (excluding depreciation and amortization) in the three months ended March 31, 2016 increased to $50.0 million from $24.5 million for the same comparable period last year. This includes restructuring costs of $24.5 million and $0.3 million for the three months ended March 31, 2016 and March 31, 2015, respectively. Excluding depreciation, amortization, restructuring and acquisition costs, total operating costs in the second quarter of fiscal 2016 increased to $25.4 million, or 64% of total revenue, compared to $23.9 million, or 45% of total revenue, for the same period last year. The increase in overall operating expenses (excluding depreciation, amortization, restructuring and acquisition costs) is mainly attributable to higher general and administrative costs and higher research and development costs.

Total operating expenses (excluding depreciation and amortization) for the six months ended March 31, 2016 increased to $76.3 million, as compared to $51.3 million for the same period last year. This includes restructuring costs of $24.8 million and $0.6 million, for the six months ended March 31, 2016 and March 31, 2015, respectively. Excluding depreciation, amortization, restructuring and acquisition costs, total operating costs in the six-month period ended March 31, 2016 were $50.5 million, or 56% of total revenue, compared to $50.0 million, or 43% of total revenue, for the same period last year. The increase in overall operating expenses (excluding depreciation, amortization, restructuring and acquisition costs) is mainly attributable to higher general and administrative costs and higher research and development costs, partially offset by lower sales and marketing costs.

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 March 31, 2016**	**Three Months Ended March 31, 2015**	**Six Months Ended March 31, 2016**	**Six Months Ended March 31, 2015**
Sales and Marketing	7,817	7,700	16,218	17,163
General and Administrative	8,629	7,512	15,918	14,574
Research and Development	12,554	11,397	25,309	23,727
Restructuring Costs	24,542	252	24,820	588
Acquisition and Related Costs	117	279	950	694
Total Operating Expenses	**53,659**	**27,140**	**83,215**	**56,746**
Excluding Amortization and Depreciation	*50,025*	*24,478*	*76,291*	*51,329*

Percentage of Total Revenue (unaudited)	**Three Months Ended March 31, 2016**	**Three Months Ended March 31, 2015**	**Six Months Ended March 31, 2016**	**Six Months Ended March 31, 2015**
Sales and Marketing	20%	14%	18%	15%
General and Administrative	22%	14%	18%	12%
Research and Development	32%	21%	28%	20%
Restructuring Costs	61%	0%	28%	1%
Acquisition and Related Costs	0%	1%	1%	1%
Total Operating Expenses	**135%**	**50%**	**93%**	**49%**
Excluding Amortization and Depreciation	*126%*	*46%*	*85%*	*44%*

Sales and Marketing Expenses

Sales and Marketing ("S&M") expenses consist primarily of salaries, variable compensation costs and other personnel costs, travel, advertising, marketing and conference costs plus the allocation of certain overhead costs to support the Company's sales and marketing activities.

For the three-month period ended March 31, 2016, S&M expenditures increased marginally to $7.8 million, or 20% of total revenue, compared to $7.7 million, or 14% of total revenue, for the same comparable period last year.

For the six-month period ended March 31, 2016, S&M expenditures decreased to $16.2 million, or 18% of total revenue, compared to $17.2 million, or 15% of total revenue, for the same comparable period last year. The decrease is mainly due to a lower headcount costs and sales commissions.

General and Administrative Expenses

General and administrative ("G&A") expenses consist of the Company's corporate and support activities such as finance, human resources, information technology, and professional costs associated with tax, accounting, and legal expenditures. Certain overhead costs such as facilities, communications and computer costs are allocated to G&A and the other departments on a per headcount basis.

For the three-month period ended March 31, 2016, G&A expenditures increased to $8.6 million, or 22% of total revenue, from $7.5 million, or 14% of total revenue, in fiscal 2015. For the six-month period ended March 31, 2016, G&A expenditures increased to $15.9 million, or 18% of total revenue, from $14.6 million, or 12% of total revenue, in fiscal 2015. The increase in G&A costs is mainly due to higher amortization costs associated with intangible assets acquired from Orga.

Excluding share-based compensation, amortization and depreciation, G&A expenses were $4.9 million, or 12% of revenue, and $9.8 million, or 11% of revenue, for the three and six months ended March 31, 2016, respectively. Excluding share-based compensation, amortization and depreciation, G&A expenses were $4.5 million, or 8% of revenue, and $9.4 million, or 8% of revenue, for the three and six months ended March 31, 2015, respectively.

Research and Development Expenses

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

For the three-month period ended March 31, 2016, R&D expenditures increased to $12.6 million, or 32% of total revenue, from $11.4 million, or 21% of total revenue, in fiscal 2015. For the six-month period ended March 31, 2016, R&D expenditures increased to $25.3 million, or 28% of total revenue, from $23.7 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 cost structure optimization 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.

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 $24.5 million, and $24.8 million respectively (2015 - $0.3 million and $0.6 million), were recorded. Subsequent to quarter-end, the Company terminated employees in certain locations, which will result in an estimated provision of $2.1 million.

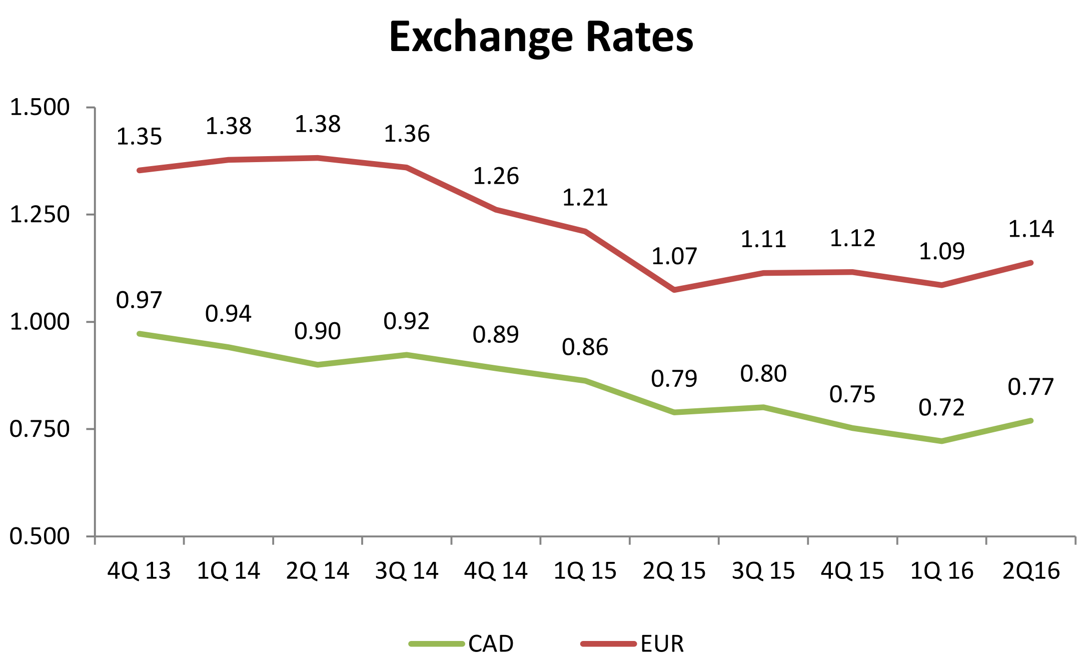
For the six months ended March 31, 2016, an amount of $4.6 million has been paid and an additional amount of $19.5 million is estimated as payable within one year. The balance of the restructuring provision, classified as long-term, payable over four years, amounts to $7.4 million and has been discounted to its present value.

Acquisition and Related Integration Costs

For the three-month period ended March 31, 2016, acquisition and related integration costs were $0.1 million, as compared to $0.3 million for the same period last year. For the six-month period ended March 31, 2016, acquisition and related integration costs were $1.0 million, as compared to $0.7 million for the same period last year. Acquisition costs incurred in the six months ended March 31, 2016 mainly consist of legal and professional fees related to the acquisition of Orga.

Foreign Exchange Gain/Loss

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



Source: Bank of Canada

For the three-month period ended March 31, 2016, the Company recognized a foreign currency exchange gain of less than $0.1 million, compared to a foreign currency exchange loss of $5.2 million in the same comparable period last year. The Company has monetary assets and liabilities in a number of currencies, the most significant of which are denominated in Euro and the Canadian Dollar. Although the U.S. Dollar weakened relative to the Euro and the Canadian Dollar, the foreign exchange gain on lower revenue was mostly offset by the foreign exchange loss on the expenses.

A change in foreign exchange rates as at March 31, 2016 of 5% will result in a gain or loss of approximately $0.3 million arising from the translation of the Company’s foreign currency denominated monetary assets and liabilities as at March 31, 2016. This translation foreign currency gain or loss would be recorded in the consolidated statements of comprehensive 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 March 31, 2016, $58.7 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 and six months ended March 31, 2016, $0.1 million and $0.2 million of deferred financing fees were amortized and recorded in finance costs in the condensed consolidated interim statements of comprehensive loss (2015 - $0.1 million and $0.2 million), 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 $0.8 million at March 31, 2016 (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 in the credit agreement. The change in fair value the embedded derivative liability of $0.4 million and ($0.1 million) for the three months and six months ended March 31, 2016 (2015 – less than $0.1 million and less than $0.1 million), respectively, was recorded in finance costs in the condensed consolidated interim statements of comprehensive loss.

For the three and six months ended March 31, 2016, interest expense in connection with loans payable of $1.1 million and $2.0 million respectively (2015 - $0.8 million and $1.4 million), has been recognized as finance costs in the condensed consolidated interim statements of comprehensive loss.

Income Taxes

The Company's income tax expense for the six-months ended March 31, 2016 mainly includes $2.4 million (2015 - $1.3 million) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and $0.8 million (2015 - $1.5 million) of foreign withholding taxes.

The Company's deferred tax expense of $0.6 million (2015 – recovery of less than $0.1 million) consists primarily of changes in 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. The table below provides summarized information for our eight most recently completed quarters:

$US Thousands (Unaudited)	2Q 16	1Q 16	4Q 15 (1)	3Q 15	2Q 15	1Q 15	4Q 14	3Q 14
Revenue	$39,792	$50,116	$59,760	$46,660	$53,743	$62,577	$60,938	$63,923
Net Income (Loss)	$(35,624)	$(4,305)	$(4,435)	$(5,546)	$(2,040)	$ 2,011	$(34,730)	$(6,878)
Basic Income (Loss) per Share	$(0.33)	$(0.04)	$(0.04)	$(0.05)	$(0.02)	$ 0.02	$(0.32)	$(0.06)
Diluted Income (Loss) per Share	$(0.33)	$(0.04)	$(0.04)	$(0.05)	$(0.02)	$ 0.02	$(0.32)	$(0.06)
Weighted average shares outstanding – Basic	108,305	109,136	109,231	109,180	109,089	108,944	108,897	108,892
Weighted average shares outstanding - Diluted	108,305	109,136	109,231	109,180	109,089	111,411	108,897	108,892

(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 106 days as of March 31, 2016 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 $61.3 million as at March 31, 2016.

The allowance for doubtful accounts as at March 31, 2016 was $0.2 million, compared to $1.7 million as at September 30, 2015. The decrease mainly relates to the removal of uncollectable amounts previously included in the allowance for doubtful accounts. Incremental allowance for doubtful accounts or bad debts 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 of the contracted arrangement are recoverable under the contract terms. Differences between the timing of billings, based upon billing milestones or other contractual terms, collection of cash and the recognition of revenue result in either unbilled revenue or deferred revenue.

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

Unbilled revenue decreased by $3.7 million to $34.9 million at March 31, 2016, as compared to $38.6 million as at September 30, 2015. This decrease is mainly attributable to the completion and customer acceptance of significant project milestones during the period and the impact of lower software and services revenue in the six months ended March 31, 2016.

OTHER ASSETS

Other assets remained constant at $2.2 million as at March 31, 2016, compared to $2.2 million as at September 30, 2015. 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, $0.1 million and $0.2 million was amortized (2015 - $0.4 million and $0.7 million), respectively.

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 recoverable 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 $19.0 million at March 31, 2016, as compared to $14.2 million at September 30, 2015, mainly due to an increase in advance payments for support and subscription contracts.

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		Six months ended	
($ US Thousands)	March 31,		March 31,	
(Unaudited)	2016	2015	2016	2015
Cash inflows and (outflows) by activity:				
Operating activities	(250)	9,625	(2,060)	5,213
Investing activities	(1,585)	(1,504)	(8,581)	(2,119)
Financing activities	(2,659)	(896)	(5,098)	(2,139)
Effect of foreign currency exchange rate changes on cash and cash equivalents	377	(3,374)	(200)	(5,240)
Net cash inflows (outflows)	(4,117)	3,851	(15,939)	(4,285)
Cash and cash equivalents, beginning of period	43,226	100,501	55,048	108,637
Cash and cash equivalents, end of period	39,109	104,352	39,109	104,352

Cash from Operating Activities

Cash used for operating activities was $0.3 million in the three months ended March 31, 2016, compared to cash provided by operating activities of $9.6 million in the same period last year. In the six months ended March 31, 2016, cash used for operating activities was $2.1 million, compared to cash provided by operating activities of $5.2 million in the same period last year. Cash provided by operating activities, net of restructuring payments, was $2.7 million in the three months ended March 31, 2016.

The source of operating cash in the three months ended March 31, 2016 is mostly attributable to a higher conversion rate of accounts receivable and unbilled revenue to cash, partially offset by a decrease in accounts payable and accrued liabilities.

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance decreased to $58.8 million as at March 31, 2016, as compared to $88.3 million at September 31, 2015, as the Company continued to improve the utilization of its current assets.

Cash used for Investing Activities

Cash used for investing activities during the three months ended March 31, 2016 was $1.6 million, compared to $1.5 million during the same period in fiscal 2015. For the six months ended March 31, 2016, cash used for investing activities was $8.6 million, compared to $2.1 million during the same period in fiscal 2015. The use of cash in the three months ended March 31, 2016 mainly relates to the purchase of property and equipment, settlement and contingent consideration payments made to Nokia Networks.

Cash used for Financing Activities

In the three months ended March 31, 2016, cash used for financing activities was $2.7 million, compared to cash provided by financing activities of $0.9 million during the same period in fiscal 2015. In the six months ended March 31, 2016, cash used for financing activities was $5.1 million, compared to cash used by financing activities of $2.1 million during the same period in fiscal 2015. The use of cash in the three months ended March 31, 2016 mainly relates to interest and principal loan repayments and the purchase of common shares for cancellation 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 Systems. 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 approximately 500 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.

(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 €0.7 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	(349)	(385)
Acquired intangible assets		
Customer relationships	9,500	10,455
Acquired technology	5,200	5,723
Goodwill	23,649	26,028
	38,349	42,206
	€ 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 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 €14.7 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 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 future cash flows.

(iii) Goodwill:

Goodwill of $26.0 million 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 $0.5 million, decreasing unbilled revenue by $0.2 million and decreasing deferred income taxes by $2.2 million, and a resulting increase in goodwill of $2.8 million.

(iv) Other items:

For the three and six months ended March 31, 2016, the Company incurred acquisition and related costs of $0.1 million and $0.8 million (2015 – nil and nil) respectively, which included expenses for legal, professional and other costs. These costs have been presented separately as acquisition and related integration costs in the condensed consolidated interim statements of comprehensive loss.

(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 €25.0 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 $15.65 million to be paid within one year. The amount payable at September 30, 2015 was $10.2 million of which $7.7 million was paid during the six months ended March 31, 2016. The balance of $2.5 million 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 less than $0.1 million and $0.2 million (2015 – $0.3 million and $0.7 million) 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.

COMMITMENTS AND CONTRACTUAL OBLIGATIONS

Loans and borrowings

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 $40.0 million and the term loan to $60.0 million for a total credit facility in the amount of $100.0 million.

During the quarter ended March 31, 2016, the Company amended its credit facility to (i) 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 $20.0 million out of the available $40.0 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 March 31, 2016, $58.7 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 and six months ended March 31, 2016, $0.1 million and $0.2 million of deferred financing fees were amortized and recorded in finance costs in the condensed consolidated interim statements of comprehensive loss (2015 - $0.1 million and $0.2 million), respectively.

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.

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 and six months ended March 31, 2016 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 March 31, 2016 condensed consolidated interim statement of financial position of the Company, and the results of operations for the three and six months ended March 31, 2016 in the condensed consolidated interim statement of comprehensive 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 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.

(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.

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 27 filed and 153 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 March 31, 2016 is 108,239,936 (September 30, 2015 – 109,230,576). In addition, there were 10,329,737 (2015 – 7,817,255) 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. During the three months ended March 31, 2016, the Company has purchased and cancelled 1,265,690 common shares for $2.6 million under this program.

(b) Share-based Compensation

The share-based compensation relating to the Company's stock options, deferred share unit plan and under the restricted share plan during the three and six months ended March 31, 2016 was $1.5 million and $1.8 million (2015 - $1.7 million and $2.2 million), respectively.

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 Q2 or year-to-date from the risks disclosed in these documents.

ADDITIONAL INFORMATION

Additional information, including the quarterly and annual consolidated financial statements, annual information form, management proxy circular and other disclosure documents may be examined by accessing the SEDAR website at www.sedar.com.