

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

REDKNEE SOLUTIONS INC.

Three and nine months ended June 30, 2016 and 2015
(Unaudited)

REDKNEE SOLUTIONS INC.

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

	June 30, 2016	September 30, 2015
Assets		
Current assets:		
Cash and cash equivalents (note 4)	\$ 37,612,153	\$ 55,047,577
Trade accounts and other receivables (note 5)	52,611,316	67,439,885
Unbilled revenue	32,671,702	38,282,163
Prepaid expenses	3,358,415	2,535,936
Income taxes receivable	3,601,834	1,399,564
Other assets (note 6)	373,584	392,195
Inventories	724,582	812,987
Total current assets	130,953,586	165,910,307
Restricted cash (note 13(a))	5,397,158	5,972,087
Property and equipment	7,070,294	8,435,008
Deferred income taxes	1,576,901	2,086,025
Investment tax credits	361,077	351,385
Other assets (note 6)	1,648,806	1,816,640
Intangible assets	38,334,990	46,362,262
Goodwill	32,271,078	32,271,078
Total assets	\$ 217,613,890	\$ 263,204,792
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade payables	\$ 12,543,898	\$ 9,128,710
Accrued liabilities	23,765,806	32,305,136
Provisions (note 14)	25,716,638	8,772,519
Income taxes payable	1,589,618	2,364,983
Settlement accrual (note 3(b))	–	10,244,224
Deferred revenue	19,259,627	13,363,696
Loans and borrowings (note 7)	7,700,000	1,800,000
Total current liabilities	90,575,587	77,979,268
Deferred revenue	401,270	870,937
Other liabilities	2,242,464	2,615,163
Pension and other long-term employment benefit plans	11,769,414	11,417,481
Loans and borrowings (note 7)	48,052,172	54,961,066
Provisions (note 14)	5,890,363	4,006,354
Total liabilities	158,931,270	151,850,269
Shareholders' equity:		
Share capital	172,427,017	174,082,815
Treasury stock	(141,917)	(141,917)
Contributed surplus	9,145,023	7,899,360
Deficit	(119,270,788)	(67,086,722)
Accumulated other comprehensive loss	(3,476,715)	(3,399,013)
Total shareholders' equity	58,682,620	111,354,523
Total liabilities and shareholders' equity	\$ 217,613,890	\$ 263,204,792

Commitments, 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 June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
Revenue:				
Software, services and other	\$ 17,165,876	\$ 24,939,646	\$ 59,389,563	\$ 94,115,569
Support and subscription	23,354,180	21,720,499	71,038,796	68,864,412
	40,520,056	46,660,145	130,428,359	162,979,981
Cost of revenue	22,181,399	20,078,956	60,932,909	67,068,027
Gross profit	18,338,657	26,581,189	69,495,450	95,911,954
Operating expenses:				
Sales and marketing	6,685,766	8,025,752	22,903,762	25,188,455
General and administrative	7,362,852	5,807,683	23,280,531	20,381,648
Research and development	9,904,602	11,222,883	35,213,390	34,949,693
Restructuring costs (note 14)	4,115,721	570,203	28,936,176	1,158,552
Acquisition and related costs	172,893	4,517,200	1,123,371	5,211,683
	28,241,834	30,143,721	111,457,230	86,890,031
Income (loss) from operations	(9,903,177)	(3,562,532)	(41,961,780)	9,021,923
Foreign exchange gain (loss)	(155,023)	962,015	(619,799)	(6,885,397)
Finance income	41,050	3,812	64,154	15,486
Finance costs	(1,889,017)	(944,577)	(4,696,951)	(2,959,038)
Loss before income taxes	(11,906,167)	(3,541,282)	(47,214,376)	(807,026)
Income tax expense (recovery):				
Current	367,839	2,151,081	4,367,190	4,921,660
Deferred	(19,073)	(146,856)	602,500	(154,445)
	348,766	2,004,225	4,969,690	4,767,215
Net loss	(12,254,933)	(5,545,507)	(52,184,066)	(5,574,241)
Other comprehensive income (loss):				
Pension actuarial adjustment	–	–	(77,702)	–
Comprehensive loss	\$ (12,254,933)	\$ (5,545,507)	\$ (52,261,768)	\$ (5,574,241)
Net loss per common share:				
Basic	\$ (0.11)	\$ (0.05)	\$ (0.48)	\$ (0.05)
Diluted	(0.11)	(0.05)	(0.48)	(0.05)
Weighted average number of common shares (note 8(a)):				
Basic	108,238,408	109,179,897	108,556,804	109,072,383
Diluted	108,238,408	109,179,897	108,556,804	109,072,383

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

REDKNEE SOLUTIONS INC.

Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Expressed in U.S. dollars)

Nine months ended June 30, 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
Net loss	-	-	-	-	(52,184,066)	-	(52,184,066)
Share-based compensation	-	-	-	1,906,431	-	-	1,906,431
Pension actuarial adjustment	-	-	-	-	-	(77,702)	(77,702)
Purchase of shares under NCIB	(1,265,690)	(2,017,061)	-	(539,905)	-	-	(2,556,966)
Stock options exercised	277,550	361,263	-	(120,863)	-	-	240,400
Balance, June 30, 2016	108,242,436	\$ 172,427,017	\$ (141,917)	\$ 9,145,023	\$ (119,270,788)	\$ (3,476,715)	\$ 58,682,620
Balance, September 30, 2014	108,903,734	\$ 173,757,863	\$ (21,226)	\$ 5,665,135	\$ (57,080,147)	\$ (4,174,949)	\$ 118,146,676
Net loss	-	-	-	-	(5,574,241)	-	(5,574,241)
Purchase of treasury stock	-	-	(536,507)	-	-	-	(536,507)
Share-based compensation	-	-	-	1,884,721	-	-	1,884,721
Issue of treasury stock	-	-	415,816	(415,816)	-	-	-
Stock options exercised	326,842	324,952	-	(93,846)	-	-	231,106
Balance, June 30, 2015	109,230,576	\$ 174,082,815	\$ (141,917)	\$ 7,040,194	\$ (62,654,388)	\$ (4,174,949)	\$ 114,151,755

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

REDKNEE SOLUTIONS INC.

Condensed Consolidated Interim Statements of Cash Flows
(Expressed in U.S. dollars)
(Unaudited)

	Three months ended		Nine months ended	
	2016	2015	2016	2015
Cash provided by (used in):				
Operating activities:				
Net loss	\$ (12,254,933)	\$ (5,545,507)	\$ (52,184,066)	\$ (5,574,241)
Adjustments for:				
Depreciation of property and equipment	945,334	1,190,536	3,133,761	3,268,188
Amortization of intangible assets	2,478,532	1,628,468	7,214,128	4,968,057
Finance income	(41,050)	(3,812)	(64,154)	(15,486)
Finance costs	1,889,017	944,577	4,696,951	2,959,038
Pensions	(1,102,968)	688,179	274,231	453,032
Income tax expense	348,766	2,004,225	4,969,690	4,767,215
Unrealized foreign exchange loss (gain)	1,068,227	(466,177)	2,144,918	5,294,876
Share-based compensation	315,079	937,943	2,071,724	3,136,124
Settlement of acquisition related liabilities	—	4,105,974	—	1,962,921
Change in provisions	(288,484)	(4,978,333)	18,828,128	(13,561,578)
Change in non-cash operating working capital (note 10)	13,734,661	1,405,179	18,563,441	2,452,437
Interest paid	7,092,181	1,911,252	9,648,752	10,110,583
Interest received	(10,131)	(31,497)	(444,348)	(120,333)
Income taxes paid	36,236	6,701	59,687	18,375
	(3,114,105)	(2,681,294)	(7,319,716)	(5,590,925)
	4,004,181	(794,838)	1,944,375	4,417,700
Financing activities:				
Proceeds from exercise of stock options	2,340	151,881	240,400	231,106
Purchase of treasury stock	—	—	—	(536,507)
Purchase of shares under NCIB (note 8(b))	—	—	(2,556,966)	—
Interest and fees paid on loans and borrowings	(1,064,028)	(826,787)	(2,852,621)	(1,758,442)
Repayment of loans and borrowings	(450,000)	(375,000)	(1,350,000)	(1,125,000)
Transaction costs on loans and borrowings	—	—	(90,496)	—
	(1,511,688)	(1,049,906)	(6,609,683)	(3,188,843)
Investing activities:				
Purchase of property and equipment	(518,298)	(699,646)	(2,140,218)	(1,496,618)
Purchase of intangible assets	(16,283)	(41,114)	(41,318)	(804,171)
Increase (decrease) in restricted cash	(203,093)	(14,578,519)	574,929	(15,137,058)
Payment of settlement accrual (note 3(b))	(2,531,829)	(1,038,382)	(10,244,224)	(1,038,382)
	(3,269,503)	(16,357,661)	(11,850,831)	(18,476,229)
Effect of foreign exchange rate changes on cash and cash equivalents	(719,685)	859,130	(919,285)	(4,380,996)
Decrease in cash and cash equivalents	(1,496,695)	(17,343,275)	(17,435,424)	(21,628,368)
Cash and cash equivalents, beginning of period	39,108,848	104,351,704	55,047,577	108,636,797
Cash and cash equivalents, end of period	\$ 37,612,153	\$ 87,008,429	\$ 37,612,153	\$ 87,008,429

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

REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2016 and 2015
(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 nine months ended June 30, 2016 were authorized for issuance by the Board of Directors of the Company on August 3, 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 nine months ended June 30, 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.

REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 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 June 30, 2016 and could have an impact on future periods.

(i) Amendments to IFRS 2 - Classification and measurement of Share-based payment transactions ("IFRS 2"):

On June 20, 2016, the IASB issued amendments to IFRS 2, Share-based Payment, clarifying how to account for certain types of share-based payment transactions. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively, retrospective, or early, application is permitted if information is available without the use of hindsight. The amendments provide requirements on the accounting for:

- The effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- Share-based payment transactions with a net settlement feature for withholding tax obligations; and
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2016 and 2015
(Unaudited)

2. Significant accounting policies (continued):

(ii) IFRS 9, Financial Instruments ("IFRS 9"):

The IASB issued IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, and which establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduces more judgment to assess the effectiveness of a hedging relationship. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with certain exemptions. The Company is in the process of assessing the impact of this standard on its condensed consolidated interim financial statements.

(iii) 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 nine months ended June 30, 2016 and 2015
(Unaudited)

2. Significant accounting policies (continued):

(iv) 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 is in the process of assessing the impact of this standard on its condensed consolidated interim financial statements.

3. Business acquisition:

(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 nine months ended June 30, 2016 and 2015
(Unaudited)

3. Business acquisition (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 vendor 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 Company completed the purchase price allocation as at June 30, 2016. 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	4,772,105	5,251,987
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)
	(481,776)	(530,169)
Acquired intangible assets:		
Customer relationships	10,500,000	10,895,544
Acquired technology	5,600,000	6,823,472
Goodwill	22,381,776	24,632,478
	38,481,776	42,351,494
	€ 38,000,000	\$ 41,821,325

REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2016 and 2015
(Unaudited)

3. Business acquisitions (continued):

The Company applied significant estimates and assumptions in accounting for the Acquisition relating to the allocation of the purchase price, valuation of intangible assets, valuation of accounts receivable and other valuations used in the business acquisition, such as deferred revenue and contract loss provisions. The Company allocated €16,100,000 (\$17,719,016) to intangible assets, including customer relationships and developed technology based on their estimated fair values at the date of purchase. These customer relationships and technology assets are being amortized over their estimated useful lives of 10 and 5 years, respectively. The useful lives of the intangible assets are 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 \$24,632,478 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 nine months ended June 30, 2016, the Company obtained additional information about the facts and circumstances that existed at the acquisition date, resulting in the following changes from amounts disclosed in the Company's consolidated financial statements as at and for the year ended September 30, 2015: increasing deferred revenue by \$451,872, decreasing unbilled revenue by \$330,336, increasing customer relationship intangible asset by \$440,224, increasing technology intangible asset by \$1,100,560 and decreasing deferred income taxes by \$2,200,434, and a resulting increase in goodwill of \$1,441,858.

(iv) Other items:

For the three and nine months ended June 30, 2016, the Company incurred acquisition and related costs of \$172,893 and \$960,470 (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 nine months ended June 30, 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, which was fully paid during the nine months ended June 30, 2016.

(ii) Other items:

For the three and nine months ended June 30, 2016, the Company incurred acquisition and related costs of nil and \$162,901 (2015 - \$4,517,200 and \$5,211,683) 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.

4. Cash and cash equivalents:

	June 30, 2016	September 30, 2015
Cash	\$ 37,612,153	\$ 55,003,802
Cash equivalents	—	43,775
	<hr/>	<hr/>
	\$ 37,612,153	\$ 55,047,577

REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2016 and 2015
(Unaudited)

5. Trade accounts and other receivables:

	June 30, 2016	September 30, 2015
Trade receivables, net of allowance for doubtful accounts	\$ 41,870,783	\$ 58,749,604
Other receivables (a)	10,593,596	8,017,424
Employee receivables (b)	146,937	672,857
	<u>\$ 52,611,316</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:

	June 30, 2016	September 30, 2015
Deferred contract costs - current	\$ 373,584	\$ 392,195
Deferred contract costs - non-current	–	265,507
Lease deposits - non-current	1,648,806	1,551,133
	<u>1,648,806</u>	<u>1,816,640</u>
	<u>\$ 2,022,390</u>	<u>\$ 2,208,835</u>

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 nine months ended June 30, 2016, \$98,539 and \$284,118 were amortized (2015 - \$165,072 and \$816,624), respectively.

REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2016 and 2015
(Unaudited)

7. Loans and borrowings:

	June 30, 2016	September 30, 2015
Term loan (effective August 4, 2015)	\$ 58,200,000	\$ 59,550,000
Less embedded derivative at inception	1,206,496	1,206,496
	56,993,504	58,343,504
Less unamortized deferred financing costs	1,819,099	2,053,227
Add loan accretion	577,767	470,789
	55,752,172	56,761,066
Less current portion of loans and borrowings	7,700,000	1,800,000
Long-term portion of loans and borrowings	\$ 48,052,172	\$ 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.

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 June 30, 2016, \$58,200,000 (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. On July 1, 2016, the Company made a prepayment of \$5,000,000 on the term loan. 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 nine months ended June 30, 2016, \$108,713 and \$324,624 of deferred financing fees were amortized and recorded in finance costs in the condensed consolidated interim statements of comprehensive loss (2015 - \$97,222 and \$291,667), respectively.

REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2016 and 2015
(Unaudited)

7. Loans and borrowings (continued):

Interest is at LIBOR plus an applicable margin of 4.0%. 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 \$765,893 at June 30, 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 decrease in fair value the embedded derivative liability of \$17,380 and \$103,913 for the three months and nine months ended June 30, 2016 (2015 - increase of \$130,244 and \$140,433), 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 lenders on demand. In 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 until such time as the financial covenants are met. In June 2016, the lenders waived the financial covenant requirements for the quarter ended June 30, 2016. If the Company is not able to complete a refinancing transaction before September 30, 2016, being the next measurement date for the financial covenants, or is not able to obtain a waiver of covenants as of September 30, 2016, then the amount of loans and borrowing outstanding as at September 30, 2016 will become due and payable to the lenders on demand and classified as a current liability.

For the three and nine months ended June 30, 2016, interest expense and fees in connection with loans payable of \$1,644,685 and \$3,682,856 (2015 - \$801,965 and \$2,245,815), 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 nine months ended June 30, 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 nine months ended June 30 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
Basic weighted average number of common shares outstanding	108,238,408	109,179,897	108,556,804	109,072,383
Add dilutive stock options outstanding	—	—	—	—
Diluted weighted average number of common shares outstanding	108,238,408	109,179,897	108,556,804	109,072,383

Due to the net loss for the three and nine months ended June 30, 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 nine months ended June 30, 2016 was 10,262,878 (2015 - 7,681,352).

(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 nine months ended June 30, 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 nine months ended June 30, 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 nine months ended June 30, 2016 was \$315,079 and \$2,071,724 (2015 - \$937,943 and \$3,136,124), respectively.

(i) Stock options:

The table below is a summary of the stock option plans for the nine months ended June 30, 2016:

	CAD options	
	Number of stock options	Weighted average exercise price per share (CAD)
Outstanding, September 30, 2015	7,780,332	\$ 2.91
Granted	3,426,875	2.99
Exercised	(277,550)	1.17
Forfeited	(666,779)	3.87
Outstanding, June 30, 2016	10,262,878	2.92

(ii) Share unit plan:

The table below is a summary of the restricted share units ("RSU") and performance share units ("PSU") for the nine months ended June 30, 2016:

RSU & PSU	
Outstanding, September 30, 2015	1,116,838
Granted	1,027,570
Exercised	(199,964)
Forfeited	(319,013)
Outstanding, June 30, 2016	1,625,431

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 nine months ended June 30, 2016 and 2015
(Unaudited)

8. Share capital (continued):

(iii) Deferred share unit plan:

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

9. Income tax expense:

The Company's income tax expense for the nine months ended June 30, 2016 mainly includes \$2,036,145 (2015 - \$1,816,312) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and \$2,331,045 (2015 - \$3,105,348) of foreign withholding taxes.

The Company's deferred tax expense of \$602,500 (2015 - recovery of \$154,445) 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 nine months ended June 30 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
Trade accounts and other receivables	\$ 8,657,573	\$ 7,990,587	\$ 14,833,036	\$ 4,446,055
Unbilled revenue	2,041,198	(4,558,006)	5,610,461	7,131,218
Prepaid expenses	81,241	(21,211)	(822,479)	1,587,445
Other assets	198,299	115,803	186,445	557,761
Inventories	1,205,344	684,560	88,405	3,024,063
Trade payables	1,751,804	(1,556,754)	3,415,188	(129,799)
Accrued liabilities and other liabilities	(743,190)	(994,178)	(10,045,702)	(10,132,959)
Income taxes receivable (payable)	(118,290)	113,945	(128,177)	170,868
Deferred revenue	660,682	(369,567)	5,426,264	(4,202,215)
	\$ 13,734,661	\$ 1,405,179	\$ 18,563,441	\$ 2,452,437

REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 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 June 30, 2016 and September 30, 2015 are summarized below:

	June 30, 2016		September 30, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (Level 1)	\$ 37,612,153	\$ 37,612,153	\$ 55,047,577	\$ 55,047,577
Restricted cash (Level 1)	5,397,158	5,397,158	5,972,087	5,972,087
Settlement accrual (Level 3)	–	–	10,244,224	10,244,224
Embedded derivative liability (Level 2)	765,893	765,893	869,806	869,806

REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2016 and 2015
(Unaudited)

11. Financial instruments and capital management (continued):

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

	June 30, 2016	September 30, 2015
Financial assets at FVTPL ^(a)	\$ 43,009,311	\$ 61,019,664
Loans and receivables ^(b)	52,611,316	67,439,885
Other financial liabilities ^(c)	125,911,341	113,588,948
Financial liabilities at FVTPL ^(d)	–	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

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 value of loans and borrowings with floating interest rates approximates fair value because the interest rates approximate market rates.

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. The estimates are subjective in nature and involve uncertainties and matters of judgment.

REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 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 nine months ended June 30 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
Europe, Middle East and Africa	\$ 19,500,943	\$ 21,973,052	\$ 68,102,491	\$ 81,665,917
North America, Latin America and Caribbean	11,074,747	6,573,188	29,988,032	20,133,375
Asia and Pacific Rim	9,944,366	18,113,905	32,337,836	61,180,689
	<u>\$ 40,520,056</u>	<u>\$ 46,660,145</u>	<u>\$ 130,428,359</u>	<u>\$ 162,979,981</u>

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

	Three months ended June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
Revenue by type:				
Software and services	\$ 12,357,746	\$ 21,531,408	\$ 51,302,323	\$ 84,044,208
Support and subscription	23,354,180	21,720,499	71,038,796	68,864,412
Third-party software and hardware	4,808,130	3,408,238	8,087,240	10,071,361
	<u>\$ 40,520,056</u>	<u>\$ 46,660,145</u>	<u>\$ 130,428,359</u>	<u>\$ 162,979,981</u>

REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2016 and 2015
(Unaudited)

13. Restricted cash, guarantees and contingent liabilities:

(a) Restricted cash:

As at June 30, 2016, the Company had \$5,397,158 (September 30, 2015 - \$5,972,087) in cash allocated for planned payments to early retirees and lease guarantees, which are secured by restricted cash. The restricted cash is 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 nine months ended June 30, 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	28,936,176	–	28,936,176
Cash payments	(8,185,439)	–	(8,185,439)
Utilization	–	(1,801,121)	(1,801,121)
Foreign exchange	(62,621)	(58,867)	(121,488)
Balance, June 30, 2016	\$ 26,784,066	\$ 4,822,935	\$ 31,607,001
Current			\$ 8,772,519
Non-current			4,006,354
Balance, September 30, 2015			\$ 12,778,873
Current			\$ 25,716,638
Non-current			5,890,363
Balance, June 30, 2016			\$ 31,607,001

(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 nine months ended June 30, 2016, restructuring charges related to employee terminations of \$4,115,721, and \$28,936,176 respectively (2015 - \$570,203 and \$1,158,552), were recorded.

REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2016 and 2015
(Unaudited)

14. Provisions (continued):

For the nine months ended June 30, 2016, an amount of \$8,185,439 has been paid and an additional amount of \$21,068,960 is estimated as payable within one year. The balance of the restructuring provision, classified as long-term, payable over four years, amounts to \$5,715,106 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 nine months ended June 30, 2016, \$67,408 and \$1,801,121 (2015 - nil and nil) of the provision was utilized against the costs incurred for the project.