

REDKNEE
Looking Beyond

**REDKNEE SOLUTIONS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FIRST QUARTER ENDED DECEMBER 31, 2016**

DATED: February 8, 2017

SCOPE OF ANALYSIS

This Management's Discussion and Analysis ("MD&A") covers the results of operations, financial condition and cash flows of Redknee Solutions Inc. (the "Company" or "Redknee") for the three months ended December 31, 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 months ended December 31, 2016 and the 2016 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 unaudited 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, data and content across numerous industries and business models while delivering a superior customer experience. Redknee's monetization 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 service offerings and capabilities to monetize the growing ecosystem of the Internet of Things ("IoT"). Redknee's software supports the introduction of new revenue streams and innovative tariffs, payment solutions, data services, and advanced customer care and subscriber self-care functionality. 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, via the cloud-based or as a Software-as-a-Service ("SaaS") offering, Redknee's highly scalable and agile, end-to-end platform supports the following market solutions:

- **Converged Billing and Customer Care** – Redknee's award-winning cloud-enabled real-time converged charging, billing, and customer care platform delivers the benefits of a flexible, end-to-end software platform, including real-time charging, billing, policy management and customer care for service providers' data, voice, and messaging services. These services, charging, billing and policy and customer care, can also be applied to other industries, including energy and transportation, enabling them to charge for new and existing services in real-time. Today, Redknee's scalable solution is supporting more than 100 million subscribers at a single customer and 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 30 operators, we believe Redknee's Policy Management solution is key to supporting operator data monetization strategies for real-time applications such as video streaming, interactive gaming and VoLTE.
- **Brand Challenger** – Redknee's Brand Challenger solution provides a cloud-based end-to-end converged billing solution for Mobile Network Operators ("MNOs"), Mobile Virtual Network Enablers ("MVNEs") and Mobile Virtual Network Operators ("MVNOs") to launch quickly to the market. Redknee's out-of-the-box solution offers a low risk business model that enables MNOs to launch a second brand, MVNEs to accelerate their growth strategies and MVNOs to improve their differentiation in the market. Redknee offers the Redknee Cloud in the Americas as part of its

strategy to offer SaaS and a fully managed service to Tier 1 operators, MVNOs and service providers that want to launch to the market quickly.

- **Wholesale Settlement** – Redknee’s Wholesale Settlement is a cloud-based solution that provides operators with greater visibility into network transactions in order to achieve converged settlement and accurate interconnect billing. Redknee’s solution helps service providers maximize the value of their network with a comprehensive and cost-effective interconnect, wholesale, roaming, MVNO, franchise management and content settlement software solution.
- **Product Catalog and Order Management** – Redknee’s Product Catalog and Order Management enables customers to maximize their sales strategies while centrally managing the order management process, products and product offerings. The solution offers fast and flexible modeling of any commercial offering and supports omni-channel and any-play sales strategies by offering client products and services across multiple lines of business.
- **E-Payments** – Redknee’s e-payment solutions strengthens a customer’s ability to monetize services, with the provision of different payment methods including 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.
- **Redknee Services** - Redknee’s Services Business Unit provides a full suite of professional services catering to the needs of CSPs, using best-in-class tools, processes and consulting to deliver agreed service levels. Services offered by Redknee include consulting services, managed services, software factory, test factory, cloud services, learning services, application services, analytics and business intelligence, revenue assurance and security services.

ISSUANCE OF PREFERRED SHARES AND WARRANT

On January 26, 2017, the Company completed a private placement to Wave Systems Corp. (the "Investor"), an affiliate of ESW Capital, LLC ("ESW Capital"), of 800,000 Series A Preferred Shares (the "Preferred Shares") of the Company and a warrant (the "Warrant") to purchase 46,285,582 common shares of the Company for an exercise price of \$1.2963 per common share for gross proceeds of \$83.2 million (the "Financing Transaction") pursuant to the terms of a subscription agreement among the Company, ESW Capital and the Investor. On January 25, 2017, the Company's shareholders approved the Financing Transaction in a special meeting. On January 26, 2017, the net proceeds from the Financing Transaction were used to repay the loans and borrowings under the Company's senior secured credit facility of approximately \$53.0 million, which included accrued interest up to the date of repayment and related legal costs. In December 2016, the Company accepted a superior offer from ESW Capital and incurred a breakage fee of \$3.2 million payable to an affiliate of Constellation Software Inc., which obligation was satisfied by ESW Capital as a prepayment of their subscription. The balance proceeds, after payment of costs related to the Financing Transaction and the prepayment of the subscription of \$3.2 million, amounted to \$23.8 million, which will be used to fund the Company's previously announced restructuring costs and working capital. The \$3.2 million breakage fee and the related prepayment of the subscription was recorded in other expenses in the condensed consolidated interim statements of comprehensive loss during the three months ended December 31, 2016 and accrued liabilities in the condensed consolidated interim statement of financial position at December 31, 2016, respectively. The direct and incremental costs related to the Financing Transaction of \$579,732 incurred during the three months ended December 31, 2016, were recorded as prepaid expenses in the condensed consolidated interim statements of financial position.

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 Loss (all amounts in thousands of US\$, except per share amounts) (unaudited)	Three Months Ended	
	December 31,	
	2016	2015
Revenue		
Software, services and other	14,004	25,118
Support and subscription	23,206	24,998
	37,210	50,116
Cost of revenue	16,131	20,398
Gross profit	21,079	29,718
Operating expenses		
Sales and marketing	5,035	8,401
General and administrative	7,722	7,288
Research and development	9,151	12,755
Restructuring costs	205	279
Acquisition and related costs	-	834
	22,113	29,557
Income (loss) from operations	(1,034)	161
Foreign exchange gain (loss)	413	(493)
Other expenses	(3,200)	-
Finance income	185	5
Finance costs	(688)	(1,048)
Loss before income taxes	(4,324)	(1,375)
Income tax expense	2,030	2,930
Loss for the period	(6,354)	(4,305)
Loss per common share		
Basic	\$ (0.06)	\$ (0.04)
Diluted	\$ (0.06)	\$ (0.04)
Weighted average number of common shares (thousands)		
Basic	108,252	109,136
Diluted	108,252	109,136

Statement of Financial Position Data \$US Thousands (unaudited)	As at December 31, 2016	As at September 30, 2016	\$ Change	% Change
Cash, Cash Equivalents and Restricted Cash	31,778	41,663	(9,885)	-24%
Trade Accounts, Other Receivables and Unbilled Revenue	64,111	70,500	(6,389)	-9%
Goodwill and Intangible Assets	65,394	67,992	(2,599)	-4%
Total Assets	177,199	197,056	(19,857)	-10%
Trade Payable and Accrued Liabilities	38,648	37,619	1,029	3%
Deferred Revenue	15,737	19,555	(3,819)	-20%
Short-term Loans and borrowings	49,840	50,446	(606)	-1%
Long-term liabilities	22,979	30,023	(7,044)	-23%
Shareholders' Equity	30,894	36,707	(5,813)	-16%

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 (unaudited)	Three Months Ended December 31,	
	2016	2015
Software and Services	12,407	22,650
Support and Subscription	23,206	24,998
Third Party Software and Hardware	1,597	2,468
Total	37,210	50,116

Percentage of Total Revenue (unaudited)	Three Months Ended December 31,	
	2016	2015
Software and Services	33%	45%
Support and Subscription	63%	50%
Third Party Software and Hardware	4%	5%
Total	100%	100%

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

For the three-month period ended December 31, 2016, the Company's revenues have declined by \$12.9 million from the previous year's comparative period to \$37.2 million. The change by revenue type for the quarter ended December 31, 2016 is as follows: \$10.2 million decrease in software and services revenue, \$1.8 million decrease in support and subscription revenue, and \$0.9 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 December 31, 2016 decreased to \$12.4 million, or 33% of total revenue, compared to \$22.7 million, or 45% of total revenue for the same period last year. The decrease in is mainly a result of lower software and services revenue in the APAC and EMEA region due to delayed decisions on orders from customers and overall reduced capital and operating spending in the global communications industry.

Support and Subscription Revenue

Support and subscription revenue consists of revenue from our customer support and subscription contracts, term-based software licenses, SaaS licensing, and maintenance contracts. These recurring revenue support and subscription agreements allow customers to receive technical support and upgrades. Support and subscription revenue is generated from such agreements relative to current year sales and the renewal of existing agreements for software licenses sold in prior periods. Typically, support contracts commence for a period of one or more years upon completion of acceptance testing and then renew annually thereafter.

Support and subscription revenue for the three-month period ended December 31, 2016 decreased by \$1.8 million to \$23.2 million, or 63% of total revenue, compared to \$25.0 million, or 50% of total revenue, for the same period last year. The decrease is mainly due to lower revenue in the EMEA and 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 December 31, 2016 decreased to \$1.6 million, or 4% of total revenue, compared to \$2.5 million, or 5% of total revenue, for the same period last year. The decrease is mainly due to management's initiatives to reduce the 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 December 31,	
	2016	2015
Asia and Pacific Rim	9,488	13,974
North America, South America and Caribbean	9,602	9,474
Europe, Middle East and Africa	18,120	26,668
Total	37,210	50,116

Percentage of Total Revenue (unaudited)	Three Months Ended December 31,	
	2016	2015
Asia and Pacific Rim	25%	28%
North America, South America and Caribbean	26%	19%
Europe, Middle East and Africa	49%	53%
Total	100%	100%

For the three-month period ended December 31, 2016, revenue from the APAC region was \$9.5 million, or 25% of total revenue, compared to \$14.0 million, or 28% of total revenue, for the same comparable period in fiscal 2016. 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 December 31, 2016, revenue from the Americas region slightly increased to \$9.6 million, or 26% of total revenue, compared to \$9.5 million, or 19% of total revenue, for the same comparable period in fiscal 2016. The slight increase is mainly attributable to higher support and subscription revenue offset by lower software and services revenue.

For the three-month period ended December 31, 2016, revenue from the EMEA region decreased to \$18.1 million, or 49%, compared to \$26.7 million, or 53% of total revenue, for the same comparable period in fiscal 2016. The decrease is mainly a result of lower software and services revenue in the region due to delayed decisions on 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 December 31, 2016, cost of revenue decreased to \$16.0 million from \$20.4 million incurred for the same comparable period in 2015. During the same period, gross margin slightly decreased by 2% from 59% in the three months ended December 31, 2015 to 57% in the three months ended December 31, 2016.

The decrease in gross margin for the three months ended December 31, 2016 was mainly due to lower revenue from high-margin software license deals.

Operating Expenses

Total operating expenses (excluding depreciation and amortization) in the three months ended December 31, 2016 decreased to \$19.1 million from \$26.3 million for the comparable period last year. Excluding depreciation, amortization, restructuring and acquisition costs, total operating costs in the first quarter of fiscal 2017 decreased to \$18.9 million, or 51% of total revenue, compared to \$25.2 million, or 50% of total revenue, for the same period last year. The decrease in overall operating expenses (excluding depreciation, amortization, restructuring and acquisition and related costs) is mainly attributable to lower sales and marketing costs and lower research and development 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 December 31,	
	2016	2015
Sales and Marketing	5,035	8,401
General and Administrative	7,722	7,288
Research and Development	9,151	12,755
Restructuring Costs	205	279
Acquisition and Related Costs	-	834
Total Operating Expenses	22,113	29,557
<i>Excluding Amortization and Depreciation</i>	<i>19,072</i>	<i>26,266</i>

Percentage of Total Revenue (unaudited)	Three Months Ended December 31,	
	2016	2015
Sales and Marketing	13%	17%
General and Administrative	21%	15%
Research and Development	25%	25%
Restructuring Costs	1%	1%
Acquisition and Related Costs	0%	2%
Total Operating Expenses	60%	59%
<i>Excluding Amortization and Depreciation</i>	<i>51%</i>	<i>52%</i>

Sales and Marketing Expenses

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

For the three-month period ended December 31, 2016, S&M expenditures decreased to \$5.0 million, or 13% of total revenue, compared to \$8.4 million, or 17% of total revenue, for the comparable period last year. The decrease is mainly due to lower headcount, lower sales commissions and impact of other cost optimization initiatives.

General and Administrative Expenses

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

For the three-month period ended December 31, 2016, G&A expenditures slightly increased to \$7.7 million, or 21% of total revenue, from \$7.3 million, or 15% of total revenue, in fiscal 2015. The increase is mainly attributable to retention bonus expense and higher legal costs slightly offset by lower headcount and impact of other cost optimization initiatives.

Excluding share-based compensation, amortization and depreciation, G&A expenses were \$5.5 million, or 15% of revenue for the three months ended December 31, 2016 compared to \$4.9 million, or 10% of revenue for the three months ended December 31, 2015.

Research and Development Expenses

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

For the three-month period ended December 31, 2016, R&D expenditures decreased to \$9.2 million, or 25% of total revenue, from \$12.8 million, or 25% of total revenue, in fiscal 2016. The decrease is attributable to lower headcount and related costs incurred under 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 centers. 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 further 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 months ended December 31, 2016, restructuring charges related to employee terminations of \$0.2 million (2015 – \$0.3 million), were recorded.

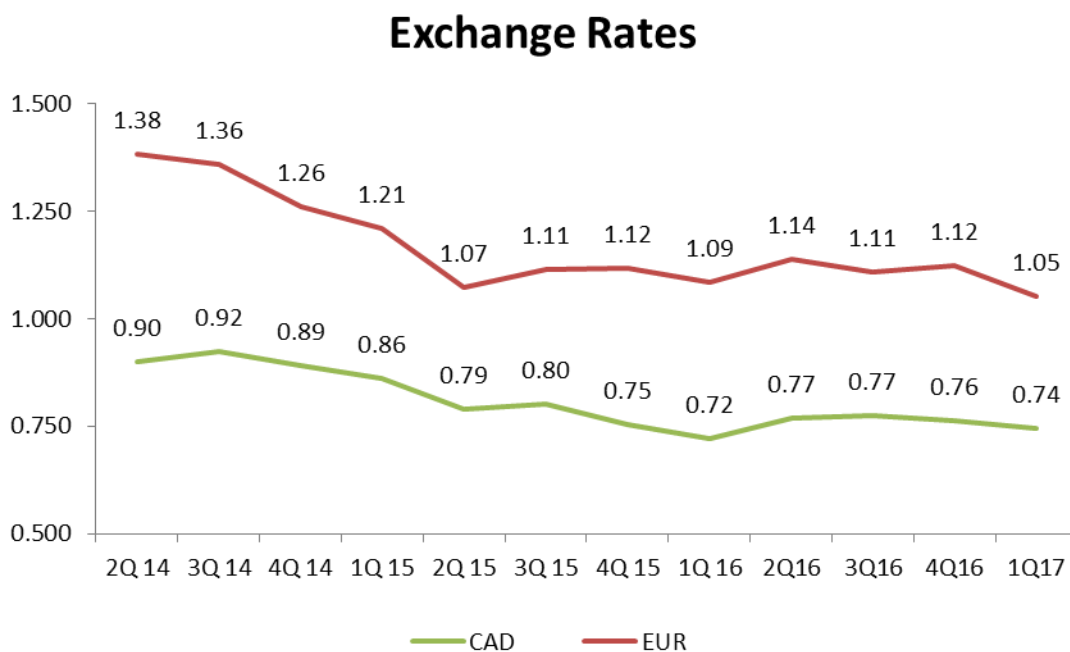
For the three months ended December 31, 2016, an amount of \$7.6 million has been paid and an additional amount of \$14.9 million is estimated as payable within one year. The balance of the restructuring provision, classified as long-term, payable over three years, amounts to \$1.2 million and has been discounted to its present value.

Acquisition and Related Costs

For the three-month period ended December 31, 2016, acquisition and related costs were \$nil as compared to \$0.8 million for the same period last year. Acquisition costs incurred in the prior year 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 months ended December 31, 2016, the Company recognized a foreign currency exchange gain of \$0.4 million, compared to a foreign currency exchange loss of \$0.5 million in the comparable period last year. The Company has monetary assets and liabilities in a number of currencies, the most

significant of which are denominated in Euro and the Canadian Dollar. The U.S. Dollar strengthened against the Euro and Canadian dollar during the three months. The foreign exchange gain was mainly due to the higher Euro and Canadian dollar denominated liabilities in comparison to the assets.

A change in foreign exchange rates as at December 31, 2016 of 10% would result in a gain or loss of approximately \$0.2 million arising from the translation of the Company's foreign currency denominated monetary assets and liabilities as at December 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 December 31, 2016, \$52.0 million (September 30, 2016 - \$52.7 million) is outstanding and principal and interest are payable quarterly over the term maturing August 4, 2020. At inception, the Company incurred \$3.4 million of transaction costs and has recorded these costs as deferred financing costs that are being amortized over the expected five-year term of the loans using the effective interest rate method. During the three months ended December 31, 2016, \$0.1 million of deferred financing costs was amortized (2015 - \$0.1 million).

Interest is at LIBOR plus an applicable margin, which was 4.0% at December 31, 2016 and 2015. 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 \$0.003 million at December 31, 2016 (September 30, 2016 - \$0.4 million), using the assumption that the expected repayment of this line of credit will be made by January 31, 2017. The change in fair value of \$0.4 million for the three months ended December 31, 2016 (2015 - \$0.5 million) was recorded in finance costs in the consolidated statements of comprehensive loss. The embedded derivative liability is included in other liabilities in the consolidated statements of financial position.

For the three months ended December 31, 2016, interest expense and fees of \$0.7 million (2015 - \$1.0 million) in connection with loans payable has been recognized in finance costs in the consolidated statements of comprehensive loss.

Income Taxes

The Company's operations are global, and the income tax provision is determined in each of the jurisdictions in which the Company conducts its business. The Company's current income tax expense for the three months ended December 31, 2016 mainly includes \$0.7 million (2015 - \$2.1 million) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and \$1.3 million (2015 - \$0.3 million) of foreign withholding taxes.

The Company's deferred tax expense of \$0.01 million (2015 - \$0.5 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, except share and per share amounts (Unaudited)	1Q17	4Q16	3Q16	2Q 16	1Q 16	4Q 15 ⁽¹⁾	3Q 15	2Q 15
Revenue	\$37,210	\$40,662	\$40,520	\$39,792	\$50,116	\$59,760	\$46,660	\$53,743
Net Income (Loss)	\$(6,354)	\$(14,683)	\$(12,255)	\$(35,624)	\$(4,305)	\$(4,433)	\$(5,546)	\$(2,040)
Basic loss per Share	\$(0.06)	\$(0.14)	\$(0.11)	\$(0.33)	\$(0.04)	\$(0.04)	\$(0.05)	\$(0.02)
Diluted loss per Share	\$(0.06)	\$(0.14)	\$(0.11)	\$(0.33)	\$(0.04)	\$(0.04)	\$(0.05)	\$(0.02)
Weighted average shares outstanding – Basic	108,252	108,227	108,305	108,305	109,136	109,231	109,180	109,089
Weighted average shares outstanding - Diluted	108,252	108,227	108,305	108,305	109,136	109,231	109,180	109,089

⁽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 at 90 days as of December 31, 2016 compared to 92 days as of September 30, 2016. 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 accounts and other receivables had a carrying value of \$38.9 million as at December 31, 2016.

The allowance for doubtful accounts as at December 31, 2016 was \$1.1 million, compared to \$0.7 million as at September 30, 2016. 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 significant unbilled revenue balances.

Unbilled revenue decreased by \$2.0 million to \$25.2 million at December 31, 2016, as compared to \$27.3 million as at September 30, 2016. 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 three months ended December 31, 2016.

OTHER ASSETS

Other assets were at \$1.5 million as at December 31, 2016, compared to \$1.9 million as at September 30, 2016. 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 month ended December 31, 2016, \$0.1 million was amortized (2015 - \$0.1 million).

DEFERRED REVENUE

Deferred revenue represents amounts that have been billed and collected in accordance with the terms of the contract but where the criteria for revenue recognition has not been met. Redknee operates in an industry where contract prices are fixed and payments are based on billing milestones. All services provided from inception are 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 decreased to \$15.7 million at September 30, 2016, as compared to \$19.6 million at September 30, 2016.

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, share capital issuances and cash on hand.

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

Statement of Cash Flows Summary (\$ US Thousands) (Unaudited)	Three months ended	
	December 31,	
	2016	2015
Cash inflows and (outflows) by activity:		
Operating activities	(7,024)	(1,809)
Investing activities	570	(6,997)
Financing activities	(1,835)	(2,439)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(735)	(577)
Net cash inflows (outflows)	(9,024)	(11,822)
Cash and cash equivalents, beginning of period	37,081	55,048
Cash and cash equivalents, end of period	28,056	43,226

Cash from Operating Activities

Cash used by operating activities was \$7.0 million in the three months ended December 31, 2016, compared to cash used for operating activities of \$1.8 million in the same period last year. Cash provided by operating activities, net of restructuring payments, was \$0.6 million in the three months ended December 31, 2016 (2015 – Cash used by operating activities of \$0.1 million).

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance decreased to a negative \$24.0 million as at December 31, 2016, as compared to negative \$15.5 million at September 30, 2016. Excluding the loans and borrowings from the current liabilities, the Company's working capital balances decreased to \$25.8 million as at December 31, 2016 as compared to \$35.0 million at September 30, 2016. The decrease in working capital mainly relates to the decrease in cash and accounts receivable. As described under "Commitments and Contractual Obligations", the loans and borrowings have been classified as a current liability as of December 31, 2016. Subsequent to the quarter-end, the net proceeds from the Financing Transaction were used to fully repay the loans and borrowings.

Cash used for Investing Activities

Cash provided by investing activities during the three months ended December 31, 2016 was \$0.6 million, compared to cash used of \$7.0 million during the same period in fiscal 2016. The source of cash mainly relates to the release of restricted cash. The use of cash during the comparative period last year mainly related to the settlement payments made to Nokia Networks of \$6.6 million.

Cash used for Financing Activities

In the three months ended December 31, 2016, cash used for financing activities was \$1.8 million, compared to cash used of \$2.4 million during the same period in fiscal 2016. The use of cash in the three months ended December 31, 2016 relates to interest and principal repayments on the loan.

BUSINESS ACQUISITION

Acquisition of Orga Systems

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.

For the three ended December, 2016, the Company incurred acquisition and related costs of \$nil (2015 - \$0.7 million), 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 certain lenders. The amended credit agreement added to the Company's existing credit facility, increasing the revolving line of credit to \$40.0 million and the term loan to \$60.0 million for a total credit facility in the amount of \$100.0 million.

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

As at December 31, 2016, \$52.0 million (September 30, 2016 - \$52.8 million) is outstanding and principal and interest is payable quarterly over the term maturing August 4, 2020. At inception, the Company incurred \$3.4 million of transaction costs and has recorded these costs as deferred financing costs that are being amortized over the expected five-year term of the loans using the effective interest rate method. During the three months ended December 31, 2016, \$0.1 million of deferred financing costs was amortized (2015 - \$0.1 million).

The Company is required to comply with certain financial and non-financial covenants that exist under the agreement. On December 9, 2016, the Company entered into a new waiver and amendment to its amended and restated credit agreement (as amended, the "Credit Agreement"). Under the December 9, 2016 waiver, the lenders waived compliance with the financial covenants under the Credit Agreement for the twelve-month period ending December 31, 2016. The waiver and amendment also included a requirement that the Company complete the transaction for the issuance of the Preferred Shares and Warrant for gross proceeds of \$83.2 million by January 31, 2017, amongst satisfaction of other conditions. The loans and borrowings have been classified as a current liability as of December 31, 2016.

On January 26, 2017, the transaction for the issuance of the Preferred Shares and Warrant was completed and the proceeds from this transaction were used to fully repay the loans and borrowings.

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 and cash raised through past share issuances. 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 conditions relating to the current loans and borrowings are discussed in loans and borrowing section above.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures within the Company have been designed to provide reasonable assurance that all relevant information is identified and passed to its Disclosure Committee to ensure appropriate and timely decisions are made regarding public disclosure.

Internal controls over financial reporting have been designed by management, with the participation of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with IFRS. The control framework used by the CEO and the CFO to design the Company's internal control over financial reporting is the "Internal Control – Integrated Framework (2013)" published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Changes in Internal Controls over Financial Reporting

There have been no changes to the Company's internal controls over financial reporting during the three months ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

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 September 30, 2016 and could have an impact on future periods

(i) IFRS 15, Revenue from Contracts with Customers ("IFRS 15"):

The IASB issued IFRS 15, which is effective for annual periods beginning on or after January 1, 2018. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue, at a point in time and over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company is in the process of assessing the impact of this standard on its consolidated financial statements.

(ii) 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, 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, retrospectively, 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.

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

The IASB issued IFRS 9, which replaces IAS 39, Financial Instruments: Recognition and Measurement, and which establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes a new general hedge accounting standard which

will align hedge accounting more closely with risk management. It does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduces more judgment to assess the effectiveness of a hedging relationship. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with certain exemptions. The Company is in the process of assessing the impact of this standard on its consolidated financial statements.

(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.

(v) Amendments to IAS 7 – Disclosure initiative:

On January 7, 2016 the IASB issued Disclosure Initiative (Amendments to IAS 7). The amendments apply prospectively for annual periods beginning on or after October 1, 2017. Earlier application is permitted.

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. One way to meet this new disclosure requirement is to provide a reconciliation between the opening and closing balances for liabilities from financing activities. The Company intends to adopt the amendments to IAS 7 in its financial statements for the annual period beginning on October 1, 2017. The Company does not expect the amendments to have a material impact on the financial statements.

(vi) Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealized Losses:

On January 19, 2016 the IASB issued Recognition of Deferred Tax Assets for Unrealized Losses. The amendments apply retrospectively for annual periods beginning on or after October 1, 2017. Earlier application is permitted.

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences.

The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on October 1, 2017. The extent of the impact of adoption of the amendments 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 32 filed and 156 granted patents. To date Redknee has not initiated any action with respect to assertions and/or claims of patent infringement.

OUTSTANDING SHARE DATA

The number of common shares outstanding as at December 31, 2016 is 108,252,436 (September 30, 2016 – 108,252,436). In addition, there were 9,955,775 (2015 – 10,833,287) stock options outstanding with exercise prices ranging from CAD \$0.23 to CAD \$6.30 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. The NCIB was not renewed. During the three months ended December 31, 2016, the Company has purchased and cancelled nil common shares under this program (2015 – 517,700 common shares for \$1.1 million).

(b) Share-based Compensation

The share-based compensation relating to the Company's stock options, deferred share unit plan, the share unit plan and the retention plan, during the three months ended December 31, 2016, was a recovery of \$0.1 million (2015 - expense of \$0.2 million).

RISK FACTORS

In addition to risks discussed herein, please refer to our FY16 AIF and FY16 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 FY17 Q1.

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.