

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

## **REDKNEE SOLUTIONS INC.**

Three months ended December 31, 2016 and 2015  
(Unaudited)

# REDKNEE SOLUTIONS INC.

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

	December 31, 2016	September 30 2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 4)	\$ 28,056,119	\$ 37,080,510
Trade accounts and other receivables (note 5)	38,864,854	43,209,046
Unbilled revenue	25,245,987	27,290,500
Prepaid expenses	2,710,247	2,999,539
Income taxes receivable	2,961,761	2,662,163
Other assets (note 6)	165,744	268,929
Inventories	839,415	710,591
<b>Total current assets</b>	<b>98,844,127</b>	<b>114,221,278</b>
Restricted cash (note 13(a))	3,722,176	4,582,293
Property and equipment	5,659,446	6,262,965
Deferred income taxes	1,874,139	1,984,479
Investment tax credits	347,786	355,914
Other assets (note 6)	1,358,096	1,656,971
Intangible assets	33,122,489	35,721,065
Goodwill	32,271,078	32,271,078
<b>Total assets</b>	<b>\$ 177,199,337</b>	<b>\$ 197,056,043</b>

## Liabilities and Shareholders' Equity

Current liabilities:		
Trade payables	\$ 12,602,985	\$ 14,212,869
Accrued liabilities	26,045,131	23,405,832
Provisions (note 14)	18,606,138	21,981,367
Income taxes payable	495,243	724,412
Deferred revenue	15,257,256	18,915,596
Loans and borrowings (note 7)	49,839,580	50,445,790
<b>Total current liabilities</b>	<b>122,846,333</b>	<b>129,685,866</b>
Deferred revenue	479,404	639,688
Other liabilities	1,631,973	2,264,482
Pension and other long-term employment benefit plans	19,518,183	20,387,584
Provisions (note 14)	1,185,064	6,683,256
Deferred income taxes	643,911	687,947
<b>Total liabilities</b>	<b>146,304,868</b>	<b>160,348,823</b>
Shareholders' equity:		
Share capital	172,436,385	172,436,385
Treasury stock	(141,917)	(141,917)
Contributed surplus	10,354,237	9,812,545
Deficit	(140,308,486)	(133,954,043)
Accumulated other comprehensive loss	(11,445,750)	(11,445,750)
<b>Total shareholders' equity</b>	<b>30,894,469</b>	<b>36,707,220</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 177,199,337</b>	<b>\$ 197,056,043</b>

Restricted cash, guarantees and contingent liabilities (note 13)

Subsequent event (note 15)

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, except per share and share amounts)  
(Unaudited)

	Three months ended December 31,	
	2016	2015
Revenue:		
Software, services and other	\$ 14,004,104	\$ 25,118,234
Support and subscription	23,206,102	24,997,577
	<u>37,210,206</u>	<u>50,115,811</u>
Cost of revenue	16,131,529	20,397,916
Gross profit	21,078,677	29,717,895
Operating expenditures:		
Sales and marketing	5,035,137	8,401,274
General and administrative	7,721,945	7,288,271
Research and development	9,150,313	12,755,071
Acquisition and related costs (note 3)	–	833,704
Restructuring costs (note 14(a))	205,301	278,546
	<u>22,112,696</u>	<u>29,556,866</u>
Income (loss) from operations	(1,034,019)	161,029
Foreign exchange gain (loss)	412,716	(493,008)
Other expenses (note 15)	(3,200,000)	–
Finance income	184,927	5,374
Finance costs	(688,447)	(1,048,531)
Loss before income taxes	(4,324,823)	(1,375,136)
Income tax expense (note 9):		
Current	2,018,650	2,381,289
Deferred	10,970	548,568
	<u>2,029,620</u>	<u>2,929,857</u>
Loss for the period	(6,354,443)	(4,304,993)
Other comprehensive loss:		
Pension actuarial adjustment	–	(77,702)
Total comprehensive loss	<u>\$ (6,354,443)</u>	<u>\$ (4,382,695)</u>
Loss per common share:		
Basic	\$ (0.06)	\$ (0.04)
Diluted	(0.06)	(0.04)
Weighted average number of common shares (note 8(a)):		
Basic	108,252,436	109,136,362
Diluted	108,252,436	109,136,362

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)

Three months ended December 31, 2016 and 2015  
(Unaudited)

	Share capital		Treasury stock	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total shareholders' equity
	Number outstanding	Amount					
Balance, September 30, 2016	108,252,436	\$ 172,436,385	\$ (141,917)	\$ 9,812,545	\$ (133,954,043)	\$ (11,445,750)	\$ 36,707,220
Loss for the period	–	–	–	–	(6,354,443)	–	(6,354,443)
Share-based compensation	–	–	–	541,692	–	–	541,692
<b>Balance December 31, 2016</b>	<b>108,252,436</b>	<b>\$ 172,436,385</b>	<b>\$ (141,917)</b>	<b>\$ 10,354,237</b>	<b>\$ (140,308,486)</b>	<b>\$ (11,445,750)</b>	<b>\$ 30,894,469</b>
Balance, September 30, 2015	109,230,576	\$ 174,082,815	\$ (141,917)	\$ 7,899,360	\$ (67,086,722)	\$ (3,399,013)	\$ 111,354,523
Loss for the period	–	–	–	–	(4,304,993)	–	(4,304,993)
Pension actuarial adjustment	–	–	–	–	–	(77,702)	(77,702)
Purchase of shares under NCIB (note 8(b))	(517,700)	(825,068)	–	(281,414)	–	–	(1,106,482)
Share-based compensation	–	–	–	575,717	–	–	575,717
Stock options exercised	40,050	50,292	–	(12,792)	–	–	37,500
<b>Balance, December 31, 2015</b>	<b>108,752,926</b>	<b>\$ 173,308,039</b>	<b>\$ (141,917)</b>	<b>\$ 8,180,871</b>	<b>\$ (71,391,715)</b>	<b>\$ (3,476,715)</b>	<b>\$ 106,478,563</b>

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 December 31,	
	2016	2015
Cash provided by (used in):		
Operating activities:		
Net loss	\$ (6,354,443)	\$ (4,304,993)
Adjustments for:		
Depreciation of property and equipment	779,464	1,003,027
Amortization of intangible assets	2,261,176	2,287,866
Finance income	(184,927)	(5,374)
Finance costs	688,447	1,048,531
Pension expense	(869,401)	196,552
Income tax expense	2,029,620	2,929,857
Unrealized foreign exchange loss	1,187,015	1,103,147
Share-based compensation	(55,976)	249,609
Change in provisions	(8,873,421)	(2,832,167)
Change in non-cash operating working capital (note 10)	4,861,152	(719,629)
	<u>(4,531,294)</u>	<u>956,426</u>
Interest paid	(104,089)	(320,768)
Interest received	185,806	11,685
Income taxes paid	<u>(2,574,428)</u>	<u>(2,456,657)</u>
	(7,024,005)	(1,809,314)
Financing activities:		
Proceeds from exercise of stock options	–	37,500
Purchase of shares under normal course issuer bid	–	(1,106,482)
Interest paid on loans and borrowings	(1,084,943)	(829,640)
Repayment of loans and borrowings	(750,000)	(450,000)
Transaction costs on loans and borrowings	–	(90,496)
	<u>(1,834,943)</u>	<u>(2,439,118)</u>
Investing activities:		
Purchase of property and equipment	(290,345)	(507,420)
Purchase of intangible assets	–	(11,259)
Decrease in restricted cash	860,117	161,908
Settlement accrual paid	–	(6,639,799)
	<u>569,772</u>	<u>(6,996,570)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<u>(735,215)</u>	<u>(576,957)</u>
Decrease in cash and cash equivalents	(9,024,391)	(11,821,959)
Cash and cash equivalents, beginning of period	37,080,510	55,047,577
Cash and cash equivalents, end of period	<u>\$ 28,056,119</u>	<u>\$ 43,225,618</u>

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 months ended December 31, 2016 and 2015  
(Unaudited)

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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 months ended December 31, 2016 were authorized for issuance by the Board of Directors of the Company on February 8, 2017.

### (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, 2016 (the "2016 annual financial statements").

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2016 and 2015  
(Unaudited)

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## 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 2016 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 2016 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 months ended December 31, 2016 and 2015  
(Unaudited)

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## 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 December 31, 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.



# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2016 and 2015  
(Unaudited)

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## 2. Significant accounting policies (continued):

The Company intends to adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on October 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 consolidated financial statements.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2016 and 2015  
(Unaudited)

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## 2. Significant accounting policies (continued):

### (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.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2016 and 2015  
(Unaudited)

### 3. Business acquisition:

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.

For the three ended December, 2016, the Company incurred acquisition and related costs of \$nil (2015 - \$713,710), 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:

The Company operates in a number of jurisdictions, some of which impose currency remittance restrictions and income tax withholdings, which impacts the timing and amount of cash which can be repatriated from these countries.

### 5. Trade accounts and other receivables:

	December 31, 2016	September 30, 2016
Trade receivables, net of allowance for doubtful accounts	\$ 31,499,962	\$ 33,330,804
Other receivables (a)	6,660,732	9,005,319
Employee receivables (b)	704,160	872,923
	<u>\$ 38,864,854</u>	<u>\$ 43,209,046</u>

(a) At December 31, 2016, the other receivables balance mainly includes amounts relating to service taxes receivable and initial net working capital acquired through the Acquisition of BSS. At December 31, 2015, the other receivables balance mainly includes amounts relating to service taxes receivable, initial net working capital acquired through the Acquisition of BSS and initial net working capital acquired through the Orga acquisition

(b) Employee receivables represent advances for business travel.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2016 and 2015  
(Unaudited)

## 6. Other assets:

	December 31, 2016	September 30, 2016
Deferred contract costs - current	\$ 165,744	\$ 268,929
Lease deposits - non-current	1,358,096	1,656,971
	<u>\$ 1,523,840</u>	<u>\$ 1,925,900</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. During the three months ended December 31, 2016, \$103,185 was amortized (2015 - \$120,995).

## 7. Loans and borrowings:

	December 31, 2016	September 30, 2016
Term loan (effective August 4, 2015)	\$ 52,000,000	\$ 52,750,000
Less embedded derivative at inception	1,206,496	1,206,496
	<u>50,793,504</u>	<u>51,543,504</u>
Less unamortized deferred financing costs	1,599,159	1,709,215
Add loan accretion	645,235	611,501
Current portion of loans and borrowings	<u>\$ 49,839,580</u>	<u>\$ 50,445,790</u>

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 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.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2016 and 2015  
(Unaudited)

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## 7. Loans and borrowings (continued):

As at December 31, 2016, \$52,000,000 (September 30, 2016 - \$52,750,000) is outstanding and principal and interest is payable quarterly over the term maturing August 4, 2020. At inception, 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 months ended December 31, 2016, \$110,056 of deferred financing costs was amortized (2015 - \$110,426).

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 \$3,304 at December 31, 2016 (September 30, 2016 - \$410,392), 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 \$407,088 for the three months ended December 31, 2016 (2015 - \$463,999) 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.

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 \$83,200,000 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. See note 15.

For the three months ended December 31, 2016, interest expense and fees of \$697,750 (2015 - \$961,993) in connection with loans payable has been recognized in finance costs in the consolidated statements of comprehensive loss.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2016 and 2015  
(Unaudited)

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## 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 months ended December 31 is as follows:

	2016	2015
Basic weighted average number of common shares outstanding	108,252,436	109,136,362
Add dilutive stock options outstanding	–	–
Diluted weighted average number of common shares outstanding	108,252,436	109,136,362

Due to the net loss for the three months ended December 31, 2016 and 2015, all options were excluded from the calculation of diluted loss per common share as their inclusion would be anti-dilutive. The total number of options that were excluded from the calculation for the three months ended December 31, 2016 were 9,955,775 (2015 – 10,833,287).

(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. 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 \$1,106,482).

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2016 and 2015  
(Unaudited)

## 8. Share capital (continued):

### (c) Share-based compensation:

The share-based compensation relating to the Company's stock options, deferred share unit plan and under the share unit plan during the three months ended December 31, 2016 was a recovery of \$55,976 (2015 - expense of \$249,609).

#### (i) Stock options:

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

	CAD options	
	Number of stock options	Weighted average exercise price per share (CAD)
Outstanding, September 30, 2016	10,188,984	\$ 2.92
Granted	—	—
Exercised	—	—
Forfeited	(233,209)	3.72
<b>Outstanding, December 31, 2016</b>	<b>9,955,775</b>	<b>2.90</b>

#### (ii) Share unit plan:

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

RSU & PSU	
Outstanding, September 30, 2016	1,619,583
Granted	—
Exercised	—
Forfeited	(530,511)
<b>Outstanding, December 31, 2016</b>	<b>1,089,072</b>

There were no shares issued from the treasury stock during the three months ended December 31, 2016.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2016 and 2015  
(Unaudited)

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## 8. Share capital (continued):

### (iii) Deferred share unit plan:

During the three months ended December 31, 2016, there were no deferred share units ("DSUs") granted (December 31, 2015 - nil) and no DSUs were exercised, cancelled, or forfeited (December 31, 2015 - nil). The number of DSUs outstanding at December 31, 2016 was 917,029 (September 30, 2016 were 917,029).

## 9. Income tax expense:

The Company's current income tax expense for the three months ended December 31, 2016 mainly includes \$668,464 (2015 - \$2,100,332) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and \$1,350,186 (2015 - \$280,957) of foreign withholding taxes.

The Company's deferred tax expense of \$10,970 (2015 - \$548,568) 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 months ended December 31 is as follows:

	2016	2015
Trade accounts and other receivables	\$ 4,343,313	\$ 2,221,255
Unbilled revenue	2,044,513	(1,622,466)
Prepaid expenses	289,292	(113,777)
Other assets	402,060	30,509
Inventories	(128,824)	15,100
Trade payables	(1,609,884)	2,496,146
Accrued liabilities and other liabilities	3,248,833	(2,636,088)
Income taxes	90,473	(9,385)
Deferred revenue	(3,818,624)	(1,100,923)
	<u>\$ 4,861,152</u>	<u>\$ (719,629)</u>



# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2016 and 2015  
(Unaudited)

## 11. Financial instruments and capital management:

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

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

In the table below, the Company has segregated all financial assets and financial liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy, based on the inputs used to determine the fair value at the measurement date.

Financial assets and financial liabilities measured at fair value at December 31, 2016 and September 30, 2016 are summarized below:

	December 31, 2016		September 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (Level 1)	\$ 28,056,119	\$ 28,056,119	\$ 37,080,510	\$ 37,080,510
Restricted cash (Level 1)	3,722,176	3,722,176	4,582,293	4,582,293
Embedded derivative liability (other liabilities) (Level 2)	3,304	3,304	410,392	410,392

There were no transfers of financial assets between levels during the three months ended December 31, 2016 and 2015.

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

# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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## 11. Financial instruments and capital management (continued):

financial liabilities at FVTPL. The following table summarizes information regarding the carrying values of the Company's financial instruments:

	December 31, 2016	September 30, 2016
Financial assets at FVTPL <sup>(a)</sup>	\$ 31,778,295	\$ 41,662,803
Loans and receivables <sup>(b)</sup>	38,864,854	43,209,046
Other financial liabilities <sup>(c)</sup>	109,910,871	118,993,596

<sup>(a)</sup> Includes cash and cash equivalents and restricted cash;

<sup>(b)</sup> Includes trade accounts and other receivables; and

<sup>(c)</sup> Includes trade payables, accrued liabilities, provisions, other long-term liabilities and loans and borrowings.

The carrying values of trade accounts and other receivables, trade payables, accrued liabilities, provisions and other long-term liabilities 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)  
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## 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 months ended December 31 is as follows:

	2016	2015
Europe, Middle East and Africa	\$ 18,119,726	\$ 26,667,765
North America, Latin America and Caribbean	9,602,211	9,473,555
Asia and Pacific Rim	9,488,269	13,974,491
	<u>\$ 37,210,206</u>	<u>\$ 50,115,811</u>

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

	2016	2015
Revenue by type:		
Software and services	\$ 12,406,891	\$ 22,650,194
Support and subscription	23,206,102	24,997,577
Third party software and hardware	1,597,213	2,468,040
	<u>\$ 37,210,206</u>	<u>\$ 50,115,811</u>

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2016 and 2015  
(Unaudited)

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## 13. Restricted cash, guarantees and contingent liabilities:

### (a) Restricted cash:

As at December 31, 2016, the Company had \$3,722,176 (September 30, 2016 - \$4,582,293) in cash allocated for planned payments to early retirees and lease guarantees, which are secured by restricted cash, shown separately in the condensed consolidated interim statements of financial position.

### (b) Guarantees and contingent liabilities:

The Company has provided routine indemnifications to its customers against liability if the Company's products infringe on a third party's intellectual property rights. The maximum exposure from these indemnifications cannot be reasonably estimated. In some cases, the Company has recourse against other parties to mitigate its risk of loss from these guarantees. The Company has never been called to perform its obligations under these indemnifications and the Company is not subject to any pending litigation in these matters.

In the normal course of operations, the Company is subject to claims from time to time, relating to labour, customers and other. The Company vigorously defends itself against such claims and reviews the probability of outcome that may result in an outflow of its cash or other resources as at each financial position date. 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.

The Company is defending an indemnification claim made by a customer pertaining to an intellectual property claim from a third party to the customer. No liability has been recognized as at December 31, 2016 as management is unable to estimate the costs that the Company will incur associated with the claim. Although liability is not admitted, if a defense against this matter is unsuccessful, the Company may incur costs associated with this claim. Management is unable to determine the timing of such costs.

# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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## 14. Provisions:

	Restructuring (a)	Other (b)	Total
Balance, September 30, 2016	\$ 24,949,623	\$ 3,715,000	\$ 28,664,623
Additions	205,301	–	205,301
Cash payments	(7,655,013)	–	(7,655,013)
Foreign exchange	(1,423,709)	–	(1,423,709)
Balance, December 31, 2016	\$ 16,076,202	\$ 3,715,000	\$ 19,791,202
Current			\$ 21,981,367
Non-current			6,683,256
Balance, September 30, 2016			\$ 28,664,623
Current			\$ 18,606,138
Non-current			1,185,064
Balance, December 31, 2016			\$ 19,791,202

(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 months ended December 31, 2016, restructuring charges related to employee terminations of \$205,301 (2015 - \$278,546) were recorded.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2016 and 2015  
(Unaudited)

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## 14. Provisions (continued):

For the three months ended December 31, 2016, an amount of \$7,655,013 has been paid and an additional amount of \$14,891,138 is estimated as payable within one year. The balance of the restructuring provision, classified as long-term, payable over three years, amounts to \$1,185,064 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) As at September 30, 2016, the Company had recorded a provision of \$3,715,000 as the best estimate of its obligations arising from transactions related to the acquisition of the BSS division. While negotiations are ongoing to settle all disputes arising from this transaction, no decision on a final settlement has been made. Management has used its best estimate to determine the amount of this provision, considering inputs from various sources including external legal advisors. The outcome of the Company's negotiations and final settlement is expected to occur within one year. The provision was recorded in acquisition and related costs in the consolidated statements of comprehensive loss during the three months ended September 30, 2016.

There is no change in estimate of this provision as at December 31, 2016.

## 15. Subsequent events:

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

# REDKNEE SOLUTIONS INC.

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

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## 15. Subsequent Event (continued):

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 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.