

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

## **REDKNEE SOLUTIONS INC.**

Three and nine months ended June 30, 2017 and 2016  
(Unaudited)

# REDKNEE SOLUTIONS INC.

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

	June 30, 2017	September 30, 2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 4)	\$ 44,675,540	\$ 37,080,510
Trade accounts and other receivables (note 5)	25,644,241	43,209,046
Unbilled revenue	22,392,893	27,290,500
Prepaid expenses	2,639,236	2,999,539
Income taxes receivable	4,157,477	2,662,163
Other assets (note 6)	—	268,929
Inventories	897,530	710,591
<b>Total current assets</b>	<b>100,406,917</b>	<b>114,221,278</b>
Restricted cash (note 13(a))	4,320,503	4,582,293
Property and equipment	4,002,329	6,262,965
Deferred income taxes	1,986,231	1,984,479
Investment tax credits	359,966	355,914
Other assets (note 6)	1,316,975	1,656,971
Intangible assets	28,074,920	35,721,065
Goodwill	32,271,078	32,271,078
<b>Total assets</b>	<b>\$ 172,738,919</b>	<b>\$ 197,056,043</b>
<b>Liabilities and Shareholders' Equity (Deficit)</b>		
Current liabilities:		
Trade payables	\$ 7,027,117	\$ 14,212,869
Accrued liabilities	18,969,852	23,405,832
Provisions (note 14)	22,526,421	21,981,367
Income taxes payable	693,652	724,412
Deferred revenue	19,303,963	18,915,596
Loans and borrowings (note 7)	—	50,445,790
<b>Total current liabilities</b>	<b>68,521,005</b>	<b>129,685,866</b>
Deferred revenue	399,836	639,688
Other liabilities	1,741,055	2,264,482
Pension and other long-term employment benefit plans	21,842,320	20,387,584
Provisions (note 14)	3,751,361	6,683,256
Preferred shares (note 3)	57,242,060	—
Warrant (note 3)	30,303,566	—
Deferred income taxes	281,997	687,947
<b>Total liabilities</b>	<b>184,083,200</b>	<b>160,348,823</b>
Shareholders' equity:		
Share capital	172,638,921	172,436,385
Treasury stock	(141,917)	(141,917)
Contributed surplus	9,925,255	9,812,545
Deficit	(182,320,790)	(133,954,043)
Accumulated other comprehensive loss	(11,445,750)	(11,445,750)
<b>Total shareholders' equity (deficit)</b>	<b>(11,344,281)</b>	<b>36,707,220</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 172,738,919</b>	<b>\$ 197,056,043</b>

Commitments, guarantees and contingent liabilities (note 13)  
Related party transactions (note 15)  
Subsequent events (note 16)

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 June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Revenue (note 12):				
Software, services and other	\$ 12,387,266	\$ 17,165,876	\$ 39,855,491	\$ 59,389,563
Support and subscription	20,189,307	23,354,180	64,295,923	71,038,796
	32,576,573	40,520,056	104,151,414	130,428,359
Cost of revenue	13,964,206	22,181,399	44,295,030	60,932,909
Gross profit	18,612,367	18,338,657	59,856,384	69,495,450
Operating expenses:				
Sales and marketing	6,789,205	6,685,766	17,245,645	22,903,762
General and administrative	8,337,484	7,362,852	23,786,139	23,280,531
Research and development	10,622,543	9,904,602	29,110,061	35,213,390
Restructuring costs (note 14)	14,278,115	4,115,721	18,358,589	28,936,176
Acquisition and related costs	–	172,893	–	1,123,371
	40,027,347	28,241,834	88,500,434	111,457,230
Loss from operations	(21,414,980)	(9,903,177)	(28,644,050)	(41,961,780)
Foreign exchange loss	(2,449,022)	(155,023)	(3,114,891)	(619,799)
Other expense	–	–	(1,450,928)	–
Finance income	–	41,050	230,205	64,154
Finance costs	(1,530,806)	(1,889,017)	(10,912,651)	(4,696,951)
Loss before income taxes	(25,394,808)	(11,906,167)	(43,892,315)	(47,214,376)
Income tax expense (recovery) (note 9):				
Current	1,463,390	367,839	4,862,036	4,367,190
Deferred	(109,199)	(19,073)	(387,604)	602,500
	1,354,191	348,766	4,474,432	4,969,690
Net loss	(26,748,999)	(12,254,933)	(48,366,747)	(52,184,066)
Other comprehensive loss:				
Pension actuarial adjustment	–	–	–	(77,702)
Comprehensive loss	\$ (26,748,999)	\$ (12,254,933)	\$ (48,366,747)	\$ (52,261,768)
Net loss per common share:				
Basic	\$ (0.25)	\$ (0.11)	\$ (0.45)	\$ (0.48)
Diluted	(0.25)	(0.11)	(0.45)	(0.48)
Weighted average number of common shares (note 8(b)):				
Basic	108,516,880	108,238,408	108,371,076	108,556,804
Diluted	108,516,880	108,238,408	108,371,076	108,556,804

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 (Deficit)  
(Expressed in U.S. dollars)

Nine months ended June 30, 2017 and 2016  
(Unaudited)

	Share capital		Treasury stock	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total shareholders' equity (deficit)
	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
Net loss	–	–	–	–	(48,366,747)	–	(48,366,747)
Share-based compensation	–	–	–	112,710	–	–	112,710
Stock options exercised (note 8(d))	267,500	202,536	–	–	–	–	202,536
<b>Balance, June 30, 2017</b>	<b>108,519,936</b>	<b>\$ 172,638,921</b>	<b>\$ (141,917)</b>	<b>\$ 9,925,255</b>	<b>\$ (182,320,790)</b>	<b>\$ (11,445,750)</b>	<b>\$ (11,344,281)</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
Net loss	–	–	–	–	(52,184,066)	–	(52,184,066)
Share-based compensation	–	–	–	1,906,431	–	–	1,906,431
Pension actuarial adjustment	–	–	–	–	–	(77,702)	(77,702)
Purchase of shares under NCIB (note 8(c))	(1,265,690)	(2,017,061)	–	(539,905)	–	–	(2,556,966)
Stock options exercised (note 8(d))	277,550	361,263	–	(120,863)	–	–	240,400
<b>Balance, June 30, 2016</b>	<b>108,242,436</b>	<b>\$ 172,427,017</b>	<b>\$ (141,917)</b>	<b>\$ 9,145,023</b>	<b>\$ (119,270,788)</b>	<b>\$ (3,476,715)</b>	<b>\$ 58,682,620</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 June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Cash provided by (used in):				
Operating activities:				
Net loss	\$ (26,748,999)	\$ (12,254,933)	\$ (48,366,747)	\$ (52,184,066)
Adjustments for:				
Depreciation of property and equipment	658,921	945,334	2,240,675	3,133,761
Amortization of intangible assets	2,221,673	2,478,532	6,656,214	7,214,128
Finance income	—	(41,050)	(230,205)	(64,154)
Finance costs	1,530,806	1,889,017	10,912,651	4,696,951
Pensions	1,497,408	(1,102,968)	1,454,736	274,231
Income tax expense	1,354,191	348,766	4,474,432	4,969,690
Unrealized foreign exchange loss (gain)	(875,970)	1,068,227	520,641	2,144,918
Share-based compensation (note 8(d))	666,937	315,079	(71,990)	2,071,724
Change in provisions	9,268,033	(288,484)	(2,386,841)	18,828,128
Change in non-cash operating working capital (note 10)	13,517,929	13,734,661	12,987,877	18,563,441
	3,090,929	7,092,181	(11,808,557)	9,648,752
Interest paid	(42,745)	(10,131)	(209,247)	(444,348)
Interest received	48,718	36,236	260,915	59,687
Income taxes paid	(2,138,455)	(3,114,105)	(6,382,229)	(7,319,716)
	958,447	4,004,181	(18,139,118)	1,944,375
Financing activities:				
Proceeds from exercise of stock options	846	2,340	202,536	240,400
Purchase of shares under NCIB (note 8(c))	—	—	—	(2,556,966)
Interest and fees paid on loans and borrowings	—	(1,064,028)	(2,330,904)	(2,852,621)
Repayment of loans and borrowings (note 7)	—	(450,000)	(52,750,000)	(1,350,000)
Transaction costs on loans and borrowings	—	—	—	(90,496)
Sale of treasury stock (note 3)	—	—	79,861,542	—
	846	(1,511,688)	24,983,174	(6,609,683)
Investing activities:				
Purchase of property and equipment	—	(518,298)	(309,154)	(2,140,218)
Purchase of intangible assets	—	(16,283)	—	(41,318)
Increase (decrease) in restricted cash	(793,969)	(203,093)	261,790	574,929
Payment of settlement accrual	—	(2,531,829)	—	(10,244,224)
	(793,969)	(3,269,503)	(47,364)	(11,850,831)
Effect of foreign exchange rate changes on cash and cash equivalents	1,242,266	(719,685)	798,338	(919,285)
Increase (decrease) in cash and cash equivalents	1,407,590	(1,496,695)	7,595,030	(17,435,424)
Cash and cash equivalents, beginning of period	43,267,950	39,108,848	37,080,510	55,047,577
Cash and cash equivalents, end of period	\$ 44,675,540	\$ 37,612,153	\$ 44,675,540	\$ 37,612,153

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

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2017 and 2016  
(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 monetizes today's digital world for communications service providers. The Company's market-leading portfolio of monetization and subscriber management solutions includes real-time billing, charging, policy, and customer care modules and is available on premise, cloud-based, or as Software-as-a-Service (SaaS). With a central focus on driving customer success, Redknee's products power growth and innovation for operators globally. The Company's software products allow communication service providers to monetize various markets, including consumer, enterprise, wholesale, and the expanding SaaS and cloud ecosystems. 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 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 the information required for full annual consolidated financial statements.

These condensed consolidated interim financial statements for the three and nine months ended June 30, 2017 were authorized for issuance by the Board of Directors of the Company on August 9, 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.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2017 and 2016  
(Unaudited)

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## 1. Basis of preparation (continued):

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").

## 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 and nine months ended June 30, 2017 and 2016  
(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 June 30, 2017 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 standard will be applicable for the Company effective October 1, 2018. 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 and nine months ended June 30, 2017 and 2016  
(Unaudited)

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## 2. Significant accounting policies (continued):

The Company will 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 and will adopt the standard effective October 1, 2018.

### (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 will adopt the

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2017 and 2016  
(Unaudited)

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## 2. Significant accounting policies (continued):

standard effective October 1, 2019 and is in the process of assessing the impact on its consolidated 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.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2017 and 2016  
(Unaudited)

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### 3. 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 in the quarter ended December 31, 2016. The balance of the proceeds, after payment of costs related to the Financing Transaction and the prepayment of the breakage fee of \$3.2 million, amounted to \$23.8 million, which are being used to fund the Company's previously announced restructuring costs and working capital. The \$3.2 million breakage fee was recorded in other expense in the condensed consolidated interim statements of comprehensive loss during the three months ended December 31, 2016.

The Preferred Shares are redeemable at the option of the Company at any time and redeemable at the option of the Investor any time after 10 years from the issuance date. The Warrant expires 10 years from the issuance date. The Preferred Shares are eligible to receive cumulative dividends at the rate of 10% per annum of the issue price and are payable quarterly, if, as and when declared by the Board of Directors, provided that if such dividends are not declared and paid, they will accrue and compound monthly at the rate of 10% per annum.

The fair value of the Preferred Shares upon issuance was \$55,561,498. The direct and incremental costs related to the Financing Transaction of \$3,338,458 were incurred during the three months ended March 31, 2017. The transaction costs were allocated to the value of the Preferred Shares and Warrant on a ratable basis. After allocation of transaction costs of \$2,227,168, the value of the Preferred Shares was \$53,334,330.

Upon issuance, the Preferred Shares were measured at fair value, based upon the present value of the redemption amount of the Preferred Shares and the present value of the quarterly dividends to be paid over the redemption term of 10 years. The Preferred Shares will be accreted

# REDKNEE SOLUTIONS INC.

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

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(Unaudited)

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### 3. Issuance of Preferred Shares and Warrant (continued):

to their face amount of \$80,000,000 plus accrued dividends over the 10-year maturity period using the effective interest rate method. During the three months ended June 30, 2017, accretion expense, amortization of transaction costs and accrued dividends on the preferred shares amounted to \$2,366,598. During the nine months ended June 30, 2017, accretion expense, amortization of transaction costs and accrued dividends on the preferred shares amounted to \$3,907,730. These charges are included in finance costs in the condensed consolidated interim statement of comprehensive loss.

The fair value of the Warrant upon issuance at January 26, 2017 was \$27,638,502. The Warrant contains an adjustment provision if the Company issues Common Shares or securities exchangeable for or convertible into Common Shares at a price per share less than the Warrant exercise price of \$1.2963, which results in the warrant being classified as a liability with changes in fair value recorded in the consolidated statements of comprehensive loss. The fair value of the Warrant is estimated at \$30,303,566 at June 30, 2017 (September 30, 2016 – nil), based on the terms of the warrant and using the assumption that the Company will issue additional Common Shares at the common share price of \$0.50 for a total proceeds of \$54,000,000 from the rights offering described in Note 16. The decrease in fair value of \$986,482 for the three months ended June 30, 2017 (2016 – nil) was recorded in finance costs in the consolidated statements of comprehensive loss. The increase in fair value of \$2,665,064 for the nine months ended June 30, 2017 (2016 – nil) was recorded in finance costs in the consolidated statements of comprehensive loss. In addition, total transaction costs of \$1,111,290 incurred in the three month ended March 31, 2017, were allocated to the Warrant, which were expensed in finance costs in the consolidated statements of comprehensive loss.

### 4. Cash and cash equivalents:

The Company operates in several 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.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2017 and 2016  
(Unaudited)

## 5. Trade accounts and other receivables:

	June 30, 2017	September 30, 2016
Trade receivables, net of allowance for doubtful accounts	\$ 19,857,906	\$ 33,330,804
Other receivables (a)	5,394,514	9,005,319
Employee receivables (b)	391,821	872,923
	<u>\$ 25,644,241</u>	<u>\$ 43,209,046</u>

(a) At June 30, 2017, the other receivables balance mainly includes amounts relating to service taxes receivable. At September 30, 2016, the other receivables balance mainly included 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.

## 6. Other assets:

	June 30, 2017	September 30, 2016
Deferred contract costs - current	\$ -	\$ 268,929
Lease deposits - non-current	1,316,975	1,656,971
	<u>\$ 1,316,975</u>	<u>\$ 1,925,900</u>

The Company recognized upfront direct costs related to one customer contract as an asset. This asset was being recovered through future minimum contractual payment terms. During the three and nine months ended June 30, 2017, \$69,232 and \$268,929 were amortized (2016 - \$98,539 and \$284,118), respectively. The costs have been fully amortized at June 30, 2017.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2017 and 2016  
(Unaudited)

## 7. Loans and borrowings:

	June 30, 2017	September 30, 2016
Term loan (effective August 4, 2015)	\$ –	\$ 52,750,000
Less embedded derivative at inception	–	1,206,496
	–	51,543,504
Less unamortized deferred financing costs	–	1,709,215
Add loan accretion	–	611,501
Current portion of loans and borrowings	\$ –	\$ 50,445,790

On August 4, 2015, the Company had 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 used the credit facilities for working capital, general corporate purposes, capital expenditures, and for acquisitions. The credit facilities were 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 had guaranteed the obligations of Redknee Inc. The Company's guarantee was secured by a pledge of all of its shares in Redknee Inc. The Company has applied to the lenders to have its security released in all jurisdictions.

As at June 30, 2017, no principal and interest is outstanding (September 30, 2016 - \$52,750,000). On January 26, 2017, the transaction for the issuance of the Preferred Shares and Warrant was completed and a portion of proceeds from this transaction were used to fully repay the loans and borrowings (note 3).

At inception, the Company incurred \$3,373,730 of transaction costs and recorded these costs as deferred financing costs that were being amortized over the expected five-year term of the loans using the effective interest rate method. As a result of full repayment of loans and borrowings on January 26, 2017, the deferred financing costs in amount of \$1,599,159 were fully written-off to the finance costs in the consolidated statements of comprehensive loss.

# REDKNEE SOLUTIONS INC.

Notes to Condensed Consolidated Interim Financial Statements (continued)  
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Three and nine months ended June 30, 2017 and 2016  
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## 7. Loans and borrowings (continued):

Interest was at LIBOR plus an applicable margin, which was 4.0% at June 30, 2017 and 2016. LIBOR was defined to have a floor of no less than 1.00%, which was determined to be an embedded derivative. The fair value of the embedded derivative liability was determined to be nil at June 30, 2017 (September 30, 2016 - \$410,392), as the loans and borrowings were fully repaid on January 26, 2017.

The change in fair value of nil and \$410,393 for the three and nine months ended June 30, 2017 (2016 - \$17,380 and \$103,913), respectively, was recorded in finance costs in the condensed consolidated statements of comprehensive loss. The embedded derivative liability was included in other liabilities in the consolidated statements of financial position as at September 30, 2016.

For the three and nine months ended June 30, 2017, interest expense and fees of nil and \$1,235,294 (2016 - \$1,644,685 and \$3,682,856) respectively, in connection with loans payable has been recognized in finance costs in the condensed consolidated statements of comprehensive loss.

## 8. Share capital:

### (a) Series A Preferred Shares and Subordinate voting shares:

On January 26, 2017, the Company issued 800,000 Series A preferred shares (the "Series A Preferred Shares") to Wave Systems Corp. (the "Investor") as described in note 3. The Investor, as the holder of the Series A Preferred Shares, is entitled to elect a number of directors that will be a majority of the Board, with the holders of the Common Shares being entitled to elect the balance of the directors, which resulted in the Common Shares becoming "restricted securities" under applicable securities laws and the TSX Company Manual, on January 26, 2017. The Preferred Shares are redeemable any time at the option of the Company and redeemable at the option of the Investor any time after 10 years of issuance. The holders of the Preferred Shares are entitled to dividends, payable quarterly at the rate of 10% per annum of the issue price. Provided that to the extent such dividends are not declared and paid, dividends shall accrue and compound monthly at the rate of 10%.

On March 29, 2017, at its annual and special meeting, the shareholders passed a resolution to amend and restate Redknee's articles to re-designate the common shares of the Company (the "Common Shares") as subordinate voting shares (the "Subordinate Voting Shares"). The Company has filed amended and restated articles with Industry Canada and TSX in order to give effect to the re-designation of the Common Shares as Subordinate Voting Shares.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2017 and 2016  
(Unaudited)

## 8. Share capital (continued):

### (b) Loss per share:

A reconciliation of the number of subordinate voting shares used for purposes of calculating basic and diluted income or loss per share for the three and nine months ended June 30, 2017 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Basic weighted average number of subordinate voting shares outstanding	108,516,880	108,238,408	108,371,076	108,556,804
Add dilutive stock options and warrant outstanding	–	–	–	–
Diluted weighted average number of subordinate voting shares outstanding	108,516,880	108,238,408	108,371,076	108,556,804

Due to the net loss for the three and nine months ended June 30, 2017 and 2016, all options and warrant were excluded from the calculation of diluted loss share as their inclusion would be anti-dilutive. The total number of options that were excluded from the calculation for the three and nine months ended June 30, 2017 were 5,658,164 (2016 – 10,262,878).

### (c) 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 nine months ended June 30, 2017, the Company has not purchased or cancelled any common shares under this program (2016 – 1,265,690 common shares for \$2,556,966).

### (d) Share-based compensation:

The share-based compensation relating to the Company's stock options, deferred share unit plan and under the share unit plan during the three and nine months ended June 30, 2017 was an expense of \$666,937 and recovery of \$71,990 (2016 - expense of \$315,079 and \$2,071,724), respectively.



# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2017 and 2016  
(Unaudited)

## 8. Share capital (continued):

### (i) Stock options:

The table below is a summary of the stock option plans for the nine months ended June 30, 2017:

	CAD options	
	Number of stock options	Weighted average exercise price per share (CAD)
Outstanding, September 30, 2016	10,188,984	\$ 2.92
Granted	—	—
Exercised	(267,500)	1.01
Forfeited	(4,263,320)	2.87
<b>Outstanding, June 30, 2017</b>	<b>5,658,164</b>	<b>\$ 3.05</b>

### (ii) Share unit plan:

The table below is a summary of the restricted share units ("RSU") and performance share units ("PSU") for the nine months ended June 30, 2017:

RSU & PSU	
Outstanding, September 30, 2016	1,619,583
Granted	4,030,024
Exercised	—
Forfeited	(1,801,050)
<b>Outstanding, June 30, 2017</b>	<b>3,848,557</b>

There were no shares issued from the treasury stock during the three and nine months ended June 30, 2017.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2017 and 2016  
(Unaudited)

## 8. Share capital (continued):

(iii) Deferred share unit plan:

During the nine months ended June 30, 2017, there were 933,335 deferred share units ("DSUs") granted (June 30, 2016 – 380,435), 212,585 DSUs were exercised and no DSUs were cancelled or forfeited (June 30, 2016 - nil). The number of DSUs outstanding at June 30, 2017 was 1,637,779 (September 30, 2016 were 917,029).

## 9. Income tax expense:

The Company's current income tax expense for the nine months ended June 30, 2017 mainly includes \$1,648,418 (2016 - \$2,036,145) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and \$3,213,618 (2016 - \$2,331,045) of foreign withholding taxes. The Company's deferred tax recovery of \$387,604 (2016 – expense of \$602,500) consists primarily of changes in temporary differences recognized during the current period.

## 10. Change in non-cash operating working capital:

The change in non-cash working capital for the three and nine months ended June 30 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Trade accounts and other receivables	\$ 3,523,910	\$ 8,657,573	\$ 17,534,095	\$ 14,833,036
Unbilled revenue	3,411,675	2,041,198	4,897,607	5,610,461
Prepaid expenses	(838,026)	81,241	360,303	(822,479)
Other assets	56,705	198,299	608,925	186,445
Inventories	248,184	1,205,344	(186,939)	88,405
Trade payables	(422,009)	1,751,804	(7,185,752)	3,415,188
Accrued liabilities and other liabilities	2,576,878	(743,190)	(3,158,846)	(10,045,702)
Income taxes	153,598	(118,290)	(30,031)	(128,177)
Deferred revenue	4,807,014	660,682	148,515	5,426,264
	<u>\$ 13,517,929</u>	<u>\$ 13,734,661</u>	<u>\$ 12,987,877</u>	<u>\$ 18,563,441</u>

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2017 and 2016  
(Unaudited)

## 11. Financial instruments and capital management:

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

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

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

Financial assets and financial liabilities measured at fair value at June 30, 2017 and September 30, 2016 are summarized below:

	June 30, 2017		September 30, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (Level 1)	\$ 44,675,540	\$ 44,675,540	\$ 37,080,510	\$ 37,080,510
Restricted cash (Level 1)	4,320,503	4,320,503	4,582,293	4,582,293
Embedded derivative liability (Level 2)	—	—	410,392	410,392
Warrant (Level 2)	30,303,566	30,303,566	—	—

There were no transfers of financial assets between levels during the nine months ended June 30, 2017.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2017 and 2016  
(Unaudited)

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## 11. Financial instruments and capital management (continued):

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

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	June 30, 2017	September 30, 2016
Financial assets at FVTPL <sup>(a)</sup>	\$ 48,996,043	\$ 41,662,803
Loans and receivables <sup>(b)</sup>	25,644,241	43,209,046
Other financial liabilities <sup>(c)</sup>	111,257,866	118,993,596
Financial liabilities at FVTPL <sup>(d)</sup>	30,303,566	–

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

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

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

<sup>(d)</sup> Includes the Warrant liability.

The carrying values of trade accounts and other receivables, trade payables, accrued liabilities and provisions approximate fair values because of the short-term nature of these financial instruments.

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

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

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2017 and 2016  
(Unaudited)

## 12. Segment reporting:

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

Revenue is attributed to geographic locations, based on the location of the external customer. The Company's revenue by geographic area for the three and nine months ended June 30 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Europe, Middle East and Africa	\$ 17,540,388	\$ 19,500,943	\$ 53,518,015	\$ 68,102,491
North America, Latin America and Caribbean	8,933,504	11,074,747	26,961,310	29,988,032
Asia and Pacific Rim	6,102,681	9,944,366	23,672,089	32,337,836
	<u>\$ 32,576,573</u>	<u>\$ 40,520,056</u>	<u>\$ 104,151,414</u>	<u>\$ 130,428,359</u>

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

	Three months ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Revenue by type:				
Software and services	\$ 11,602,535	\$ 12,357,746	\$ 37,000,848	\$ 51,302,323
Support and subscription	20,189,307	23,354,180	64,295,923	71,038,796
Third-party software and hardware	784,731	4,808,130	2,854,643	8,087,240
	<u>\$ 32,576,573</u>	<u>\$ 40,520,056</u>	<u>\$ 104,151,414</u>	<u>\$ 130,428,359</u>

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2017 and 2016  
(Unaudited)

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

### (a) Restricted cash:

As at June 30, 2017, the Company had \$4,320,503 (September 30, 2016 - \$4,852,293) in cash allocated for planned payments to early retirees and lease guarantees, which are secured by restricted cash. The restricted cash is shown separately in the condensed consolidated interim statements of financial position.

### (b) Guarantees and contingent liabilities:

The Company has provided routine indemnifications to its customers against liability if the Company's products infringe on a third party's intellectual property rights. The maximum exposure from these indemnifications cannot be reasonably estimated. In some cases, the Company has recourse against other parties to mitigate its risk of loss from these guarantees. 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. As at June 30, 2017, the Company has recorded a provision of the best estimate of its obligation to settle certain claims made by terminated employees. This liability is included in provisions in the consolidated statement of financial position as at June 30, 2017 and the charge was recorded as restructuring costs in the condensed consolidated statement of comprehensive loss. Refer to note 14(a).

The Company is defending a claim made by a party pertaining to an intellectual property matter. A provision has been recognized as at June 30, 2017 as the best estimate of the costs that the Company will incur associated with the claim. This liability is included in provisions in the consolidated statement of financial position as at June 30, 2017 and the charge was recorded in the general and administrative expense on the condensed consolidated statement of comprehensive loss. Refer to note 14(b). Although liability is not admitted, if a defense against this matter is unsuccessful, the Company may incur the costs associated with this claim that will likely be settled within twelve months from June 30, 2017.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2017 and 2016  
(Unaudited)

## 14. Provisions:

	Restructuring (a)	Other (b)	Total
Balance, September 30, 2016	\$ 24,949,623	\$ 3,715,000	\$ 28,664,623
Additions	18,358,589	1,313,725	19,672,314
Cash payments	(18,185,664)	–	(18,185,664)
Release of provision	–	(1,157,238)	(1,157,238)
Settlement	–	(2,557,762)	(2,557,762)
Foreign exchange	(158,491)	–	(158,491)
<b>Balance, June 30, 2017</b>	<b>\$ 24,964,057</b>	<b>\$ 1,313,725</b>	<b>\$ 26,277,782</b>
Current			\$ 21,981,367
Non-current			6,683,256
<b>Balance, September 30, 2016</b>			<b>\$ 28,664,623</b>
Current			\$ 22,526,421
Non-current			3,751,361
<b>Balance, June 30, 2017</b>			<b>\$ 26,277,782</b>

(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 February 2017, under the new strategic plan, the Company announced a corporate restructuring plan that is expected to be complete in 2018. The restructuring would involve reduction in headcount, location reorganization and entity simplification.

During the three and nine months ended June 30, 2017, restructuring charges related to employee terminations of \$14,278,115 and \$18,358,589 respectively (2016 - \$4,115,721 and \$28,936,176) were recorded.

# REDKNEE SOLUTIONS INC.

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

Three and nine months ended June 30, 2017 and 2016  
(Unaudited)

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## 14. Provisions (continued):

For the nine months ended June 30, 2017, an amount of \$18,185,664 has been paid and an additional amount of \$21,212,696 is estimated as payable within one year. The balance of the restructuring provision, classified as long-term, payable over three years, amounts to \$3,751,361 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. An amount of \$5,397,901 was collected by the Company during the nine months ended June 30, 2017 as the final settlement relating to disputes from this acquisition. During the nine months ended June 30, 2017, all balances relating to the acquisition that were previously recorded on the statement of financial position and the provision of \$3,715,000 were settled, resulting in income of \$1,157,238 being recorded in other (expense) income on the condensed consolidated interim statement of comprehensive loss.

Additions to the provisions for nine months ended June 30, 2017 represents the claim described in note 13 (b) above. This provision has been recorded in the general and administrative expense on the condensed consolidated interim statement of comprehensive loss.

## 15. Related Party Transactions:

On May 8, 2017, the Company entered into short term service agreements ("Service Agreements") with Crossover Markets Inc. ("Crossover") and DevFactory FZ-LLC ("DevFactory") to provide cross functional and specialized technical services. Each of Crossover and DevFactory is an affiliate of ESW Capital, LLC. On June 9, 2017, the Company extended the short term Services Agreements with Crossover and DevFactory until the termination of the Standby Purchase Agreement as defined in Note 16. Subject to the closing of the Rights Offering (as per Note 16), the Company will enter into longer term service agreements with Crossover and DevFactory.



# REDKNEE SOLUTIONS INC.

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

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## 15. Related Party Transactions (continued):

The Service Agreements have been negotiated and approved by the Special Committee of the Board of Directors. The contracted rates with these related parties are priced as agreed to by the parties and are to be settled in cash on normal payment terms upon receipt of invoices. The Company has not offered any security to these vendors.

Crossover will provide Redknee with access to lower cost temporary employees. Crossover will leverage its network of global resources to hire, and assign resources on behalf of Redknee. These resources will provide a variety of services, including HR, operations, finance, and support functions, at any global location for pricing agreed to in the Crossover service agreement. During the three months ended June 30, 2017, the Company has incurred \$1,410,262 of costs associated with services provided by Crossover. The costs have been recorded in cost of goods sold or operating expenses in accordance with the department of the contract resource in the condensed consolidated interim statement of comprehensive loss. The balance of \$1,410,262 is outstanding at June 30, 2017 and is recorded in Accrued liabilities in the condensed consolidated interim statement of financial position.

DevFactory will provide certain technology services to Redknee as per agreed statement of work. The technology services will include Source code analysis, code cleanup service and various other technical services related to Redknee's software solution. During the three months ended June 30, 2017, the Company has incurred \$572,461 of costs associated with services provided by DevFactory for source code analysis services. The costs have been recorded in research and development expense in the condensed consolidated interim statement of comprehensive loss. The balance of \$572,461 is outstanding at June 30, 2017 and is recorded in Accrued liabilities in the condensed consolidated interim statement of financial position.

In the normal course of business, the Company retained certain contractors with specialized skills and knowledge to assist the Company in its operations. These contractors are retained from other entities controlled by ESW. The costs of \$11,900 for the three months ended June 30, 2017 have been recorded in general and administrative expense in the condensed consolidated interim statement of comprehensive loss and is included in Accrued liabilities in the statement of financial position.

## 16. Subsequent event:

On June 9, the Company entered into a Standby Purchase Agreement with Wave Systems Corp., an affiliate of ESW, and ESW in connection with the launching of an approximately US\$54 million rights offering, fully backstopped by Wave (the "Rights Offering"). Pursuant to the Standby Purchase Agreement, ESW has agreed to purchase from the Company, at the Subscription Price

# REDKNEE SOLUTIONS INC.

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

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## 16. Subsequent event (continued):

of CAD\$0.63 per share (\$0.50 per share) and on the Closing Date, all of the Rights Shares that were not otherwise subscribed for and taken up under the Rights Offering by holders of Rights so that the maximum number of Subordinate Voting Shares that may be issued under the Rights Offering will have been issued (the "Standby Commitment"). The net proceeds of the Rights Offering will be used to fund a restructuring of the business (the "Restructuring") in furtherance of the previously announced strategic plan (the "Strategic Plan").

On July 25, 2017, the Company's shareholders approved the Rights Offering in a special meeting. Under the Rights Offering resolution by the shareholders, following was approved:

- (a) The issuance to the holders of the Company's outstanding subordinate voting shares (the "Subordinate Voting Shares") of transferable rights (each, a "Right") to subscribe for Subordinate Voting Shares on the basis of one Right for each Subordinate Voting Share held as of the record date of the offering at CAD\$0.63 per share (\$0.50 per share) for gross proceeds of approximately CAD\$68 million (\$54 million), assuming exercise of all Rights and giving effect to the Standby Commitment;
- (b) The issuance to Wave of a Subordinate Voting Share purchase warrant to acquire 2,500,000 Subordinate Voting Shares at a price of \$0.50 per Subordinate Voting Share as consideration for providing the Standby Commitment; and
- (c) The potential issuance by the Company to Wave Systems Investment Corp. (the "Preferred Shareholder"), at the Preferred Shareholder's request, of up to 49,899,794 additional Subordinate Voting Shares at a price of \$0.73 per share (assuming the exercise of all options that will vest prior to the date of the Rights Offering Circular) following the completion of the Rights Offering in accordance with the terms and conditions of the subscription agreement dated December 18, 2016 between Wave, the Company and ESW and subsequently assigned to the Preferred Shareholder by Wave.

The shareholders who opt to subscribe to their Rights will need to do so by August 29, 2017, and the closing of the Rights Offering is on or about September 5, 2017.