

**REDKNEE**  
Looking Beyond

**REDKNEE SOLUTIONS INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE THIRD QUARTER ENDED JUNE 30, 2017**

**DATED: August 9, 2017**

**SCOPE OF ANALYSIS**

This Management's Discussion and Analysis ("MD&A") covers the results of operations, financial condition and cash flows of Redknee Solutions Inc. (the "Company" or "Redknee") for the three and nine months ended June 30, 2017. This document is intended to assist the reader in better understanding operations and key financial results as they are, in our opinion, at the date of this report.

The MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three and nine-months ended June 30, 2017 and the 2016 annual financial statements and MD&A, which we prepared in accordance with International Financial Reporting Standards ("IFRS").

Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Forward-Looking Statements" and "Risks and Uncertainties". The unaudited condensed consolidated interim financial statements and the MD&A have been reviewed by Redknee's Audit Committee and approved by its Board of Directors.

Unless otherwise indicated, all dollar amounts are expressed in U.S. Dollars. In this document, "we," "us," "our," "Company" and "Redknee" all refer to Redknee Solutions Inc. collectively with its subsidiaries.

**FORWARD-LOOKING STATEMENTS**

Certain statements in this document may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, such statements use such words as "may", "will", "expect", "continue", "believe", "plan", "intend", "would", "could", "should", "anticipate" and other similar terminology. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date of this document. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under the "Risk Factors" section of the Company's most recently filed Annual Information Form ("AIF"). Although the forward-looking statements contained in this document are based upon what we believe are reasonable assumptions, we cannot assure investors that our actual results will be consistent with these forward-looking statements. We assume no obligation to update or revise these forward-looking statements to reflect new events or circumstances, except as required by securities law.

## OVERVIEW

Established in 1999, Redknee monetizes today's digital world for communications service providers. Our 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 Solutions Inc. (TSX: RKN) can be found on the Toronto Stock Exchange.

The Company derives its revenue from three main geographic areas namely:

1. APAC – Asia and Pacific Rim
2. Americas – North America, Latin America and Caribbean
3. EMEA – Europe, Middle East and Africa

Redknee's highly scalable and agile, end-to-end platform supports the following market solutions:

- **Converged Billing and Customer Care** – Redknee's award-winning, cloud-enabled, and real-time platform delivers the benefits of a flexible, end-to-end software platform, including real-time charging, billing, policy management, and customer care for service provider data, voice, and messaging services. Redknee's scalable solution supports more than 100 million subscribers at a single customer and enables operators to launch and monetize their 3G and LTE networks and deliver advanced data services, including Voice over LTE (VoLTE), M2M, IoT, cloud services, and Over the Top ("OTT") offerings.
- **Policy Management** – Redknee's Policy Management solution provides a single solution that enables service providers to take control of network resource usage, assure a quality experience for users, and offer personalized services and differentiated, service-specific charging. Serving more than 30 operators, Redknee's Policy Management solution is key to supporting operator data monetization strategies for real-time applications such as video streaming, interactive gaming, and VoLTE.
- **Brand Challenger** – Redknee's Brand Challenger solution provides a cloud-based, end-to-end converged billing solution for Mobile Network Operators ("MNOs"), Mobile Virtual Network Enablers ("MVNEs"), and Mobile Virtual Network Operators ("MVNOs") to launch quickly to the market. Redknee offers a low risk business model that enables MNOs to launch a second brand, MVNEs to accelerate their growth strategies, and MVNOs to improve their differentiation in the market. In the Americas, Redknee provides the Redknee Cloud as part of its SaaS offering, and it offers a fully managed service to Tier 1 operators, MVNOs, and service providers, wanting to launch to market quickly.

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

## ISSUANCE OF PREFERRED SHARES AND WARRANT

On January 26, 2017, the Company completed a private placement to Wave Systems Corp. (the "Investor"), an affiliate of ESW Capital, LLC ("ESW Capital"), of 800,000 Series A Preferred Shares (the "Preferred Shares") of the Company and a warrant (the "Warrant") to purchase 46,285,582 common shares of the Company for an exercise price of \$1.2963 per common share for gross proceeds of \$83.2 million (the "Financing Transaction") pursuant to the terms of a subscription agreement among the Company, ESW Capital and the Investor. On January 25, 2017, the Company's shareholders approved the Financing Transaction in a special meeting.

On January 26, 2017, the net proceeds from the Financing Transaction were used to repay the loans and borrowings under the Company's senior secured credit facility of approximately \$53.0 million, which included accrued interest up to the date of repayment and related legal costs. In December 2016, the Company accepted a superior offer from ESW Capital and incurred a breakage fee of \$3.2 million payable to an affiliate of Constellation Software Inc., which obligation was satisfied by ESW Capital as a prepayment of their subscription 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 fair value of the Preferred Shares upon issuance was \$55.5 million. The direct and incremental costs related to the Financing Transaction of \$3.3 million 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 \$2.2 million, the value of the Preferred Shares was \$53.3 million.

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 to their face amount of \$80.0 million 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 \$2.4 million. During the nine months ended June 30, 2017, accretion expense, amortization of transaction costs and accrued dividends on the preferred shares amounted to \$3.9 million. 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 \$27.6 million. 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 \$30.3 million at June 30, 2017, 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 \$54.0 million from the Rights Offering described in the Subsequent Events section below. The decrease in fair value of \$1.0 million for the three months ended June 30, 2017 was recorded in finance costs in the consolidated statements of comprehensive loss. The increase in fair value of \$2.7 million for the nine

months ended June 30, 2017 was recorded in finance costs in the consolidated statements of comprehensive loss. In addition, total transaction costs of \$1.1 million incurred in the three months ended March 31, 2017 were allocated to the Warrant, which were expensed in finance costs in the consolidated statements of comprehensive loss.

### **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 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\$68.0 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.

**SELECTED CONSOLIDATED FINANCIAL INFORMATION**

The following table sets out selected consolidated financial information of Redknee for the periods indicated. Each investor should read the following information in conjunction with those financial statements and related notes. The operating results for any past period are not necessarily indicative of results for any future period. The selected financial information set out below has been derived from the condensed consolidated interim financial statements.

<b>Consolidated Statements of Comprehensive Loss</b> (all amounts in thousands of US\$, except per share amounts) <b>(unaudited)</b>	<b>Three Months Ended</b> <b>June 30,</b>		<b>Nine Months Ended</b> <b>June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Revenue</b>				
Software, services and other	12,388	17,166	39,855	59,390
Support and subscription	20,189	23,354	64,296	71,038
	<b>32,577</b>	<b>40,520</b>	<b>104,151</b>	<b>130,428</b>
<b>Cost of revenue</b>	13,964	22,181	44,295	60,933
<b>Gross profit</b>	<b>18,613</b>	<b>18,339</b>	<b>59,856</b>	<b>69,495</b>
<b>Operating expenses</b>				
Sales and marketing	6,789	6,686	17,246	22,904
General and administrative	8,338	7,363	23,786	23,281
Research and development	10,623	9,904	29,110	35,213
Restructuring costs	14,278	4,116	18,359	28,936
Acquisition and related costs	-	173	-	1,123
	<b>40,028</b>	<b>28,242</b>	<b>88,501</b>	<b>111,457</b>
<b>Loss from operations</b>	<b>(21,415)</b>	<b>(9,903)</b>	<b>(28,644)</b>	<b>(41,962)</b>
Foreign exchange loss	(2,449)	(155)	(3,115)	(619)
Other expense	-	-	(1,451)	-
Finance income	-	41	230	64
Finance costs	(1,530)	(1,889)	(10,913)	(4,697)
<b>Loss before income taxes</b>	<b>(25,394)</b>	<b>(11,906)</b>	<b>(43,892)</b>	<b>(47,214)</b>
Income tax expense	1,354	349	4,474	4,969
<b>Loss for the period</b>	<b>(26,748)</b>	<b>(12,255)</b>	<b>(48,367)</b>	<b>(52,184)</b>
<b>Loss per common share</b>				
Basic	\$ (0.25)	\$ (0.11)	\$ (0.45)	\$ (0.48)
Diluted	\$ (0.25)	\$ (0.11)	\$ (0.45)	\$ (0.48)
<b>Weighted average number of common shares (thousands)</b>				
Basic	108,517	108,238	108,371	108,557
Diluted	108,517	108,238	108,371	108,557

Statement of Financial Position Data \$US Thousands (unaudited)	As at	As at	\$ Change	% Change
	June 30, 2017	September 30, 2016		
Cash, Cash Equivalents and Restricted Cash	48,996	41,663	7,333	18%
Trade Accounts, Other Receivables and Unbilled Revenue	48,037	70,500	(22,463)	-32%
Goodwill and Intangible Assets	60,346	67,992	(7,646)	-11%
<b>Total Assets</b>	<b>172,739</b>	<b>197,056</b>	<b>(24,317)</b>	<b>-12%</b>
Trade Payable and Accrued Liabilities	25,997	37,619	(11,622)	-31%
Deferred Revenue	19,704	19,555	149	1%
Short-term Loans and borrowings	-	50,446	(50,446)	-100%
Other long-term liabilities	27,617	30,023	(2,407)	-8%
Preferred Shares	57,242	-	57,242	
Warrant	30,304	-	30,304	
Shareholders' Equity	(11,344)	36,707	(48,051)	-131%

## CURRENT PERIOD OPERATING RESULTS

### Revenue

The following tables set forth the Company's revenues by type and as a percentage of total revenue for the periods indicated:

\$US Thousands (unaudited)	Three Months Ended		Nine Months Ended	
	2017	June 30, 2016	2017	June 30, 2016
Software and Services	11,603	12,358	37,001	51,302
Support and Subscription	20,189	23,354	64,296	71,038
Third Party Software and Hardware	785	4,808	2,854	8,087
<b>Total</b>	<b>32,577</b>	<b>40,520</b>	<b>104,151</b>	<b>130,428</b>

Percentage of Total Revenue (unaudited)	Three Months Ended		Nine Months Ended	
	2017	June 30, 2016	2017	June 30, 2016
Software and Services	36%	30%	35%	40%
Support and Subscription	62%	58%	62%	54%
Third Party Software and Hardware	2%	12%	3%	6%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

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



For the three-month period ended June 30, 2017, the Company's revenues have declined by \$7.9 million from the previous year's comparative period to \$32.6 million. The change by revenue type for the quarter ended June 30, 2017 is as follows: \$0.8 million decrease in software and services revenue, \$3.1 million decrease in support and subscription revenue, and \$4.0 million decrease in third party software and hardware revenue.

For the nine-month period ended June 30, 2017, the Company's revenues have declined by \$26.3 million from the previous year's comparative period to \$104.2 million. The change by revenue type for the nine-months ending June 30, 2017 is as follows: \$14.3 million decrease in software and services revenue, \$6.8 million decrease in support and subscription revenue, and \$5.2 million decrease in third party software and hardware revenue.

### ***Software and Services Revenue***

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

Software and services revenue for the three-month period ended June 30, 2017 decreased to \$11.6 million, or 36% of total revenue, compared to \$12.4 million, or 30% of total revenue for the same period last year. For the nine-months period ended June 30, 2017, the Company's software and services revenue decreased to \$37.0 million, or 35% of total revenue, compared to \$51.3 million or 40% of total revenue for the same period last year.

The decrease in software and services revenue during the three months ended June 30, 2017 is mainly a result of lower software and services revenue in the APAC region due to delayed decisions on orders from customers. The decrease in the nine months ended June 30, 2017 is mainly a result of lower software and services revenue in all regions due to delayed decisions on orders from customers.

### ***Support and Subscription Revenue***

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

Support and subscription revenue for the three-month period ended June 30, 2017 decreased by \$3.2 million to \$20.2 million, or 62% of total revenue, compared to \$23.4 million, or 58% of total revenue, for the same period last year. For the nine-month period ended June 30, 2017, the Company's support and subscription revenue decreased to \$64.3 million, or 62% of total revenue, compared to \$71.0 million, or 54% of total revenue for the same period last year.

The decrease in support and subscription revenue for the three and nine months ended June 30, 2017 is mainly due to fewer software implementations in the EMEA and APAC region and due to the non-renewal of certain support contracts, compared to the same period last year.

### *Third Party Software and Hardware Revenue*

Third party software and hardware revenue consists of revenue from the sale of other vendors' software and hardware components as part of Redknee's solutions, including server platforms, database software and other ancillary components.

Third party software and hardware revenue for the three-month period ended June 30, 2017 decreased to \$0.8 million, or 2% of total revenue, compared to \$4.8 million, or 12% of total revenue, for the same period last year. For the nine-month period ended June 30, 2017, the Company's third party software and hardware revenue decreased to \$2.9 million, or 3% of total revenue, compared to \$8.1 million, or 6% of total revenue, for the same period last year.

The decrease in the three and nine months ended June 30, 2017 is mainly due to management's initiatives to reduce the sale of third party software and hardware components, which have minimal contribution to overall profitability.

### *Revenue by Geography*

Revenue is attributed to geographic locations based on the location of the customer. The following tables set forth revenues by main geographic area and as a percentage of total revenue for the periods indicated:

\$US Thousands (unaudited)	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Asia and Pacific Rim	6,103	9,944	23,672	32,338
North America, Latin America and Caribbean	8,934	11,075	26,961	29,988
Europe, Middle East and Africa	17,540	19,501	53,518	68,102
<b>Total</b>	<b>32,577</b>	<b>40,520</b>	<b>104,151</b>	<b>130,428</b>

Percentage of Total Revenue (unaudited)	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Asia and Pacific Rim	19%	25%	23%	25%
North America, Latin America and Caribbean	27%	27%	26%	23%
Europe, Middle East and Africa	54%	48%	51%	52%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

For the three-month period ended June 30, 2017, revenue from the APAC region was \$6.1 million, or 19% of total revenue, compared to \$9.9 million, or 25% of total revenue, for the same comparable period in fiscal 2016. For the nine-month period ended June 30, 2017, revenue from the APAC region was

\$23.7 million, or 23% of total revenue, compared to \$32.3 million, or 25% of total revenue, for the same period last year. This decrease is mainly a result of lower software and services revenue in the region due to fewer deployments of software products and lower support revenue.

For the three-month period ended June 30, 2017, revenue from the Americas region decreased to \$8.9 million, or 27% of total revenue, compared to \$11.1 million, or 27% of total revenue, for the same comparable period in fiscal 2016. For the nine-month period ended June 30, 2017, revenue from the Americas region decreased to \$27.0 million, or 26% of total revenue, compared to \$30.0 million, or 23% of total revenue, for the same comparable period in fiscal 2016. The decrease in revenue is mainly attributable to lower software and services revenue slightly offset by higher support and subscription revenue.

For the three-month period ended June 30, 2017, revenue from the EMEA region decreased to \$17.5 million, or 54%, compared to \$19.5 million, or 48% of total revenue, for the same comparable period in fiscal 2016. For the nine-month period ended June 30, 2017, revenue from the EMEA region decreased to \$53.5 million, or 51%, compared to \$68.1 million, or 52% of total revenue, for the same comparable period in fiscal 2016. The decrease in revenue is mainly a result of lower software and services revenue in the region due to delayed decisions on orders from customers for implementation of software contracts and lower support revenue due to the non-renewal of certain support contracts.

### **Cost of Revenue and Gross Margin**

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

For the three months ended June 30, 2017, cost of revenue decreased to \$14.0 million from \$22.2 million incurred for the same comparable period in 2016. During the same period, gross margin increased by 12% from 45% in the three months ended June 30, 2016 to 57% in the three months ended June 30, 2017.

For the nine months ended June 30, 2017, cost of revenue decreased to \$44.3 million from \$60.9 million incurred for the same comparable period in 2016. During the same period, gross margin increased by 4% from 53% in the nine months ended June 30, 2016 to 57% in the nine months ended June 30, 2017.

The increase in gross margin for the three and nine months ended June 30, 2017 was mainly due to lower headcount and related costs incurred as a result of the Company's cost structure optimization plan. In addition, the revenue mix for third party software and hardware revenue, which has lower margins, decreased during the three and nine months ended June 30, 2017.

### **Operating Expenses**

Total operating expenses (excluding depreciation and amortization) in the three months ended June 30, 2017 increased to \$37.1 million from \$24.8 million for the comparable period last year. This includes restructuring costs of \$14.3 million and \$4.1 million for the three months ended June 30, 2017 and June 30, 2016, respectively. Excluding depreciation, amortization, restructuring and acquisition and related

costs, total operating costs in the third quarter of fiscal 2017 slightly increased to \$22.9 million, or 70% of total revenue, compared to \$20.5 million, or 51% of total revenue, for the same period last year. The increase in overall operating expenses (excluding depreciation, amortization, restructuring and acquisition and related costs) is mainly attributable to higher general and administrative costs, as further explained below by function.

Total operating expenses (excluding depreciation and amortization) for the nine months ended June 30, 2017 decreased to \$79.6 million, as compared to \$101.1 million for the same period last year. This includes restructuring costs of \$18.4 million and \$28.9 million for the nine months ended June 30, 2017 and June 30, 2016, respectively. Excluding depreciation, amortization, restructuring and acquisition and related costs, total operating costs in the nine-month period ended June 30, 2017 were \$61.2 million, or 59% of total revenue, compared to \$71.1 million, or 54% of total revenue, for the same period last year. The decrease in overall operating expenses (excluding depreciation, amortization, restructuring and acquisition and related costs) is mainly attributable to lower research and development costs and lower sales and marketing costs as a result of the Company's cost-cutting initiatives.

The following tables set forth total operating expenses by function and as a percentage of total revenue for the periods indicated:

\$US Thousands (unaudited)	Three Months Ended		Nine Months Ended	
	2017	June 30, 2016	2017	June 30, 2016
Sales and Marketing	6,789	6,686	17,246	22,904
General and Administrative	8,338	7,363	23,786	23,281
Research and Development	10,623	9,904	29,110	35,213
Restructuring Costs	14,278	4,116	18,359	28,936
Acquisition and Related Costs	-	173	-	1,123
<b>Total Operating Expenses</b>	<b>40,028</b>	<b>28,242</b>	<b>88,501</b>	<b>111,457</b>
<i>Excluding Amortization and Depreciation</i>	<i>37,147</i>	<i>24,818</i>	<i>79,604</i>	<i>101,109</i>

Percentage of Total Revenue (unaudited)	Three Months Ended		Nine Months Ended	
	2017	June 30, 2016	2017	June 30, 2016
Sales and Marketing	20%	16%	17%	18%
General and Administrative	26%	18%	22%	18%
Research and Development	33%	24%	28%	27%
Restructuring Costs	44%	9%	18%	22%
Acquisition and Related Costs	0%	0%	0%	1%
<b>Total Operating Expenses</b>	<b>123%</b>	<b>70%</b>	<b>85%</b>	<b>85%</b>
<i>Excluding Amortization and Depreciation</i>	<i>114%</i>	<i>61%</i>	<i>76%</i>	<i>78%</i>

### *Sales and Marketing Expenses*

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

For the three-month period ended June 30, 2017, S&M expenditures slightly increased to \$6.8 million, or 20% of total revenue, compared to \$6.7 million, or 16% of total revenue, for the comparable period last year. The slight increase is mainly due to an allowance for doubtful accounts made for certain customers mostly offset by lower headcount, lower sales commissions and impact of other cost optimization initiatives. For the nine-month period ended June 30, 2017, S&M expenditures decreased to \$17.2 million, or 17% of total revenue, compared to \$22.9 million, or 18% of total revenue, for the comparable period last year. The decrease is mainly due to lower headcount, lower sales commissions and impact of other cost optimization initiatives, slightly offset by an allowance for doubtful accounts made for certain customers.

### *General and Administrative Expenses*

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

For the three-month period ended June 30, 2017, G&A expenditures increased to \$8.3 million, or 26% of total revenue, from \$7.4 million, or 18% of total revenue, in fiscal 2016. The increase was mainly due to the share-based compensation related to the deferred share units issued to the new Directors. For the nine-month period ended June 30, 2017, G&A expenditures slightly increased to \$23.8 million, or 22% of total revenue, from \$23.3 million, or 18% of total revenue, in fiscal 2016. The slight increase is mainly attributable to higher share-based compensation and a legal provision related to a claim made by a party pertaining to an intellectual property matter mostly offset by lower headcount and impact of other cost optimization initiatives.

Excluding share-based compensation, amortization and depreciation, G&A expenses were \$5.1 million, or 16% of revenue and \$16.8 million, or 16% of revenue for the three and nine months ended June 30, 2017, respectively. Excluding share-based compensation, amortization and depreciation, G&A expenses were \$4.7 million, or 12% of revenue and \$14.5 million, or 11% of revenue for the three and nine months ended June 30, 2016, respectively.

### *Research and Development Expenses*

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

For the three-month period ended June 30, 2017, R&D expenditures slightly increased to \$10.6 million, or 33% of total revenue, from \$9.9 million, or 24% of total revenue, in fiscal 2016. The increase is due to higher professional fees related to Crossover and DevFactory (as defined in the Related Party Transactions section below), mostly offset by lower headcount and related costs incurred under the

Company's cost structure optimization plan. For the nine-month period ended June 30, 2017, R&D expenditures decreased to \$29.1 million, or 28% of total revenue, from \$35.2 million, or 27% of total revenue, in fiscal 2016. The decrease is attributable to lower headcount and related costs incurred under the Company's cost structure optimization plan slightly offset by higher professional fees related to Crossover and DevFactory (as defined in the Related Party Transactions section below).

### ***Restructuring Costs***

In August 2014, the Company announced that it would eliminate certain satellite office locations, concentrate research and development and support staff into existing locations and consolidate activities to lower cost centers. The Company also announced restructuring actions throughout the organization intended to reduce its overall cost structure and improve its margin performance.

As announced in February 2016, the Company initiated a further cost structure optimization plan to close certain offices and refocus on its activities in certain regions, resulting in headcount reductions globally.

In 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 \$14.3 million and \$18.4 million respectively (2016 – \$4.1 million and \$28.9 million), were recorded.

For the three and nine months ended June 30, 2017, amounts of \$6.0 million and \$18.2 million, respectively, have been paid, and an additional amount of \$21.2 million is estimated as payable within one year. The balance of the restructuring provision, classified as long-term, payable over three years, amounts to \$3.8 million and has been discounted to its present value.

As we implement the restructuring plan, there will be additional charges incurred in the future.

### ***Acquisition and Related Costs***

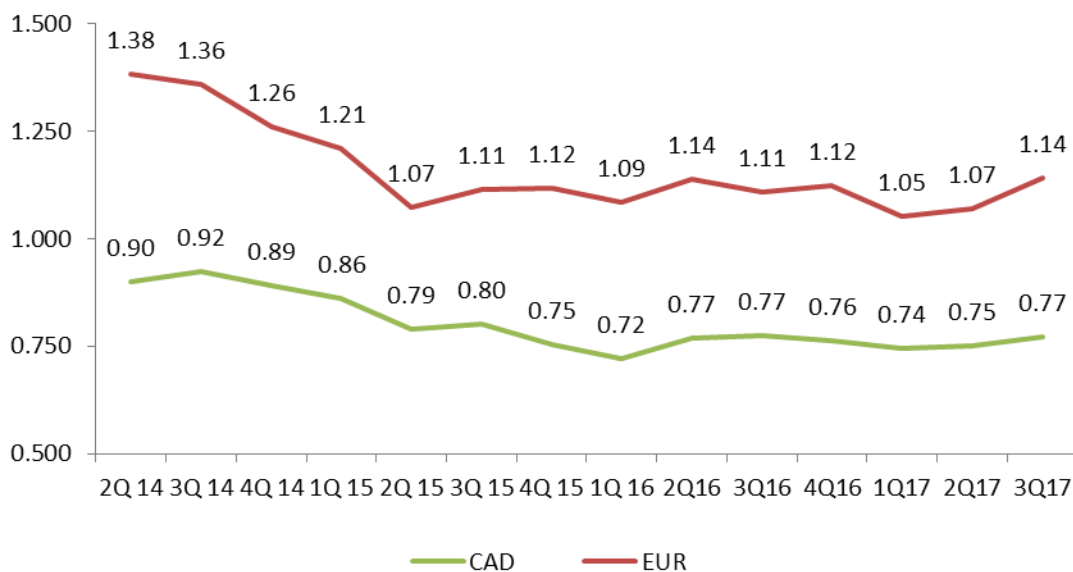
For the three-month period ended June 30, 2017, acquisition and related costs were \$nil as compared to \$0.2 million for the same period last year. For the nine-month period ended June 30, 2017, acquisition and related costs were \$nil as compared to \$1.1 million for the same period last year. Acquisition costs incurred in the prior year mainly consist of legal and professional fees related to the acquisition of Orga Systems.

### ***Foreign Exchange Gain/Loss***

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



## Exchange Rates



Source: Bank of Canada

For the three months ended June 30, 2017, the Company recognized a foreign currency exchange loss of \$2.4 million, compared to a foreign currency exchange loss of \$0.2 million in the comparable period last year. For the nine months ended June 30, 2017, the Company recognized a foreign currency exchange loss of \$3.1 million, compared to a foreign currency exchange loss of \$0.6 million in the comparable period last year. The Company has monetary assets and liabilities in a number of currencies, the most significant of which are denominated in Euro and the Canadian Dollar. The U.S. Dollar strengthened against the Euro and Canadian dollar during the nine months ended June 30, 2017. The foreign exchange loss was mainly due to the higher Euro and Canadian dollar denominated assets in comparison to the liabilities.

A change in foreign exchange rates as at June 30, 2017 of 10% would result in a gain or loss of approximately \$0.5 million arising from the translation of the Company's foreign currency denominated monetary assets and liabilities as at June 30, 2017. This translation foreign currency gain or loss would be recorded in the consolidated statements of comprehensive loss.

### Finance Costs

As described under "Loans and Borrowings", the Company had a total credit facility in the amount of \$100.0 million. As at June 30, 2017, no principal and interest is outstanding (September 30, 2016 - \$52.7 million). On January 26, 2017, the transaction for the issuance of the Preferred Shares and Warrant was completed and a portion of the proceeds from this transaction were used to fully repay the loans and borrowings. At inception of the credit facility, the Company incurred \$3.4 million 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, deferred financing costs in amount of \$1.6 million were fully written-off to the finance costs in the consolidated statements of comprehensive loss.

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 March 31, 2017 (September 30, 2016 - \$0.4 million), as the loans and borrowings were fully repaid during the quarter ended March 31, 2017.

The change in fair value of \$nil and \$0.4 million for the three and nine months ended June 30, 2017 (2016 - \$0.01 million and \$0.1 million), 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 \$1.2 million (2016 - \$1.6 million and \$3.7 million) in connection with loans payable has been recognized in finance costs in the condensed consolidated statements of comprehensive loss.

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 to their face amount of \$80.0 million 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 \$3.9 million and is 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 \$27.6 million. 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 \$30.3 million 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 \$54.0 million from the Rights Offering. The decrease in fair value of \$1.0 million 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 \$2.7 million 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 \$1.1 million 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..

### **Income Taxes**

The Company's operations are global, and the income tax provision is determined in each of the jurisdictions in which the Company conducts its business. The Company's current income tax expense for the nine months ended June 30, 2017 mainly includes \$1.6 million (2016 - \$2.0 million) of corporate tax expense incurred by foreign subsidiaries generating taxable profits and \$3.2 million (2016 - \$2.3 million) of foreign withholding taxes. The Company's deferred tax recovery of \$0.4 million (2016 – expense of \$0.6 million) consists primarily of changes in temporary differences recognized during the current period.



**SUMMARY OF RESULTS**

All financial results are in thousands, unless otherwise stated, with the exception of per share amounts. The table below provides summarized information for our eight most recently completed quarters:

<b>\$US Thousands, except share and per share amounts (Unaudited)</b>	<b>3Q17</b>	<b>2Q17</b>	<b>1Q17</b>	<b>4Q16</b>	<b>3Q16</b>	<b>2Q 16</b>	<b>1Q 16</b>	<b>4Q 15 <sup>(1)</sup></b>
Revenue	\$32,577	\$34,365	\$37,210	\$40,662	\$40,520	\$39,792	\$50,116	\$59,760
Net Loss	\$(26,749)	\$(15,263)	\$(6,354)	\$(14,683)	\$(12,255)	\$(35,624)	\$(4,305)	\$(4,433)
Loss per Share	\$(0.25)	\$(0.14)	\$(0.06)	\$(0.14)	\$(0.11)	\$(0.33)	\$(0.04)	\$(0.04)
Diluted Loss per Share	\$(0.25)	\$(0.14)	\$(0.06)	\$(0.14)	\$(0.11)	\$(0.33)	\$(0.04)	\$(0.04)
Weighted average shares outstanding – Basic (thousands)	108,517	108,339	108,252	108,227	108,238	108,305	109,136	109,231
Weighted average shares outstanding - Diluted (thousands)	108,517	108,339	108,252	108,227	108,238	108,305	109,136	109,231

<sup>(1)</sup> Includes two months of results from Orga Systems, post acquisition

**TRADE ACCOUNTS AND OTHER RECEIVABLES**

The Company's Days Sales Outstanding in Trade Receivable ("DSO") is at 65 days as of June 30, 2017 compared to 92 days as of September 30, 2016. The Company calculates DSO based on the annualized revenue and the accounts receivable balance at period end. In order to minimize the risk of loss for trade receivables, the Company's extension of credit to customers involves review and approval by senior management, as well as progress payments as contracts are performed. Credit reviews take into account the counterparty's financial position, past experience and other factors. Management regularly monitors customer credit limits. The Company also maintains credit insurance in certain jurisdictions. The Company believes that the concentration of credit risk from trade receivables is limited, as they are widely distributed among customers in various countries.

While the Company's credit controls and processes have been effective in mitigating credit risk, these controls cannot eliminate credit risk and there can be no assurance that these controls will continue to be effective or that the Company's low credit loss experience will continue. Most sales are invoiced with payment terms in the range of 30 to 180 days. The Company reviews its trade receivable accounts regularly and reduces amounts to their expected realizable values by making an allowance for doubtful accounts as soon as the account is determined not to be fully collectible. The Company's trade accounts and other receivables had a carrying value of \$25.6 million as at June 30, 2017.

The allowance for doubtful accounts as at June 30, 2017 was \$2.1 million, compared to \$0.7 million as at September 30, 2016. Estimates for allowance for doubtful accounts are determined based on a customer-by-customer evaluation of collectability at each consolidated statement of financial position reporting date, taking into account the amounts that are past due and any available relevant information on the customers' liquidity and ability to pay.

**UNBILLED REVENUE**

Unbilled revenue represents revenue that has been earned but not billed. Redknee operates in an industry where contract prices are fixed and payments are often based on billing milestones. All services provided from inception of the contracted arrangement are recoverable under the contract terms. Differences between the timing of billings, based upon billing milestones or other contractual terms, collection of cash and the recognition of revenue result in either unbilled revenue or deferred revenue.

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

Unbilled revenue decreased by \$4.9 million to \$22.4 million at June 30, 2017, as compared to \$27.3 million as at September 30, 2016. This decrease is mainly attributable to the completion and customer acceptance of significant project milestones during the period and the impact of lower software and services revenue in the nine months ended June 30, 2017.

**OTHER ASSETS**

Other assets were at \$1.3 million as at June 30, 2017, compared to \$1.9 million as at September 30, 2016. The Company recognized upfront direct costs related to one customer contract as an asset. This asset was recovered through minimum contractual payment terms. During the three and nine months ended June 30, 2017, \$0.1 million and \$0.3 million were amortized (2016 - \$0.1 million and \$0.3 million), respectively. The costs have been fully amortized at June 30, 2017.

**DEFERRED REVENUE**

Deferred revenue represents amounts that have been billed and collected in accordance with the terms of the contract but where the criteria for revenue recognition has not been met. Redknee operates in an industry where contract prices are fixed and payments are based on billing milestones. All services provided from inception are recoverable under the contract terms. Differences between the timing of billings, based upon billing milestones or other contractual terms, and the recognition of revenue are recognized as either unbilled revenue or deferred revenue. Deferred revenue increased to \$19.7 million at June 30, 2017, as compared to \$19.6 million at September 30, 2016.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's objective in managing capital resources is to ensure sufficient liquidity to drive its organic growth, fund operations and undertake selective acquisitions, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company currently funds its operations, changes in non-cash working capital and capital expenditures from internally generated cash flows, share capital issuances including preferred shares and cash on hand.

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.

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

Statement of Cash Flows Summary (\$ US Thousands) (Unaudited)	Three months ended		Nine months ended	
	2017	June 30, 2016	2017	June 30, 2016
Cash inflows and (outflows) by activity:				
Operating activities	958	4,004	(18,139)	1,944
Investing activities	(794)	(3,270)	(47)	(11,851)
Financing activities	1	(1,512)	24,983	(6,610)
Effect of foreign currency exchange rate changes on cash and cash equivalents	1,242	(720)	798	(919)
Net cash inflows (outflows)	1,408	(1,497)	7,595	(17,435)
Cash and cash equivalents, beginning of period	43,268	39,109	37,081	55,048
Cash and cash equivalents, end of period	44,676	37,612	44,676	37,612

### Cash from Operating Activities

Cash provided by operating activities was \$1.0 million in the three months ended June 30, 2017, compared to cash provided by operating activities of \$4.0 million in the same period last year. In the nine months ended June 30, 2017, cash used for operating activities was \$18.1 million, compared to cash provided by operating activities of \$1.9 million in the same period last year.

Cash provided by operating activities, net of restructuring payments, was \$7.0 million in the three months ended June 30, 2017 (2016 – Cash provided by operating activities of \$7.6 million). For the nine months ended June 30, 2017, cash provided by operating activities, net of restructuring payments was \$0.1 million (2016 – Cash provided by operating activities of \$10.1 million).

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance increased to \$31.9 million as at June 30, 2017, as compared to negative \$15.5 million at September 30, 2016. Excluding the loans and borrowings from the current liabilities as at September 30, 2016, the Company's working capital balances decreased to \$31.9 million as at June 30, 2017 as compared to \$35.0 million at September 30, 2016. The decrease in working capital mainly relates to the decrease in accounts receivable, decrease in unbilled revenue and increase in short-term provisions slightly offset by decrease in accounts payable and accrued liabilities.

### **Cash used for Investing Activities**

Cash used in investing activities during the three months ended June 30, 2017 was \$0.8 million, compared to cash used of \$3.3 million during the same period in fiscal 2016. The use of cash mainly relates to the increase in restricted cash. The use of cash during the comparative period last year mainly related to the settlement payments made to Nokia Networks of \$2.5 million, purchase of capital assets of \$0.5 million and increase of restricted cash of \$0.2 million.

Cash used in investing activities during the nine months ended June 30, 2017 was less than \$0.1 million, compared to cash used of \$11.9 million during the same period in fiscal 2016. The use of cash mainly relates to the purchase of capital assets mostly offset by release of restricted cash. The use of cash during the comparative period last year mainly related to the settlement payments made to Nokia Networks of \$10.2 million and purchase of capital assets of \$2.1 million, offset by release of restricted cash of \$0.6 million.

### **Cash from for Financing Activities**

In the three months ended June 30, 2017, cash provided by financing activities was less than \$0.1 million, compared to cash used of \$1.5 million during the same period in fiscal 2016. For the nine months ended June 30, 2017, cash provided by financing activities was \$25.0 million compared to cash used of \$6.6 million during the same period in fiscal 2016.

The source of cash in the nine months ended June 30, 2017 mainly relates to the net proceeds from the Financing Transaction after full repayment of the loans and borrowings. The use of cash during the comparative periods last year mainly relates to the interest and principal repayments of the loan and repurchase of common shares for cancellation under the Normal course issuer bid ("NCIB").

## **COMMITMENTS AND CONTRACTUAL OBLIGATIONS**

### **Loans and borrowings**

On August 4, 2015, the Company had entered into an amended and restated credit agreement with certain lenders. The amended credit agreement added to the Company's existing credit facility, increasing the revolving line of credit to \$40.0 million and the term loan to \$60.0 million for a total credit facility in the amount of \$100.0 million.

The Company used 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 had guaranteed the obligations of Redknee Inc. The Company's guarantee is 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 - \$52.7 million). On January 26, 2017, the transaction for the issuance of the Preferred Shares and Warrant was completed and a portion of the proceeds from this transaction were used to fully repay the loans and borrowings. (See "Issuance of Preferred Shares and Warrant" on page 5)

At inception, the Company incurred \$3.4 million 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 borrowing on January 26, 2017, the deferred financing costs in amount of \$1.6 million were fully written-off to the finance costs in the condensed consolidated statements of comprehensive loss.

## **MANAGEMENT OF CAPITAL**

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its growth strategy, fund research and development and undertake selective acquisitions, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company's capital is currently composed of preferred shares (classified as liability), subordinated voting shares and warrant (classified as share capital), which assist in financing (i) acquisitions, (ii) restructuring, and (iii) working capital requirements. The Company's primary uses of capital are financing its operations including restructuring, increases in non-cash working capital, capital expenditures, payment of preferred share dividends when approved by the Board of Directors and acquisitions. The Company currently funds these requirements from cash flows from operations and cash raised through past share issuances. The Company's objectives when managing capital are to ensure that the Company will continue to have enough liquidity so it can provide services to its customers and increase shareholder value.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

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

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

### **Changes in Internal Controls over Financial Reporting**

There have been no changes to the Company's internal controls over financial reporting during the three and nine months ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

## ACCOUNTING CHANGES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

### New accounting pronouncements

The IASB has issued new standards and amendments to existing standards. These changes in accounting are not yet effective at 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

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

(v) Amendments to IAS 7 – Disclosure initiative:

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

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

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

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

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

The Company intends to adopt the amendments to IAS 12 in its financial statements for the annual period beginning on October 1, 2017. The extent of the impact of adoption of the amendments has not yet been determined.

## **PATENT PORTFOLIO**

As part of Redknee's commitment to R&D to maintain its position as a key industry innovator in the real-time BSS software space, the Company currently has a portfolio of 38 filed and 145 granted patents. To date Redknee has not initiated any action with respect to assertions and/or claims of patent infringement.

## **OUTSTANDING SHARE DATA**

The number of common shares outstanding as at June 30, 2017 is 108,519,936 (September 30, 2016 – 108,252,436). In addition, there were 5,658,164 (2016 – 10,329,737) stock options outstanding with exercise prices ranging from CAD \$0.36 to CAD \$6.30 per share.

## **SHARE CAPITAL**

### **(a) Series A Preferred Shares and Subordinated 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"). 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.



(b) Normal course issuer bid :

On December 2, 2015, the Company announced an NCIB under which it may purchase up to 9,437,270 of its common shares commencing on December 7, 2015, and expiring on December 6, 2016. The NCIB was not renewed. During the 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 \$2.6 million).

(c) Share-based Compensation

The share-based compensation relating to the Company's stock options, deferred share unit plan, and under the share unit plan during the three and nine months ended June 30, 2017 was an expense of \$0.7 million and recovery of \$0.1 million (2016 - expense of \$0.3 million and \$2.1 million), respectively.

## 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 Subsequent Event section above. Subject to the closing of the Rights Offering, the Company will enter into longer term service agreements with Crossover and DevFactory. 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. Management and the Special Committee of the Board of Directors believe that the pricing is representative of the fair value based upon a benchmarking assessment undertaken with the assistance of our advisors. The Crossover and DevFactory charges 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 \$1.4 million 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 \$1.4 million is outstanding at June 30, 2017 and is recorded in Accrued liabilities in the condensed consolidated interim statement of financial position. Management currently estimates Crossover’s fees will not exceed \$6.8 million for services provided during the first 12 months of the Crossover Services Agreement.

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 \$0.6 million 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 \$0.6 million is outstanding at June 30, 2017 and is recorded in Accrued liabilities in the condensed consolidated interim statement of financial position. Management currently estimates DevFactory's fees will not exceed \$10.5 million for services provided during the first 12 months of the DevFactory Services Agreement.

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 less than \$0.1 million 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.

### **RISK FACTORS**

In addition to risks discussed herein, please refer to our FY16 AIF and FY16 Annual MD&A for a discussion of the principal risks and uncertainties that could affect our business. There were no material changes in the Company's principal risks and uncertainties during FY17 Q3.

### **ADDITIONAL INFORMATION**

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