Redknee Solutions Inc.

Consolidated Financial Statements

September 30, 2011 and 2010

(expressed in Canadian dollars)

PRICEWATERHOUSECOOPERS

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November 30, 2011

Independent Auditor's Report

To the Shareholders of
Redknee Solutions Inc.

We have audited the accompanying consolidated financial statements of Redknee Solutions Inc. and its subsidiaries, which comprise the consolidated balance sheets as at September 30, 2011 and 2010 and the consolidated statements of operations, comprehensive (loss) income, shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Redknee Solutions Inc. and its subsidiaries as at September 30, 2011 and 2010 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) “PricewaterhouseCoopers LLP”

Chartered Accountants, Licensed Public Accountants

Redknee Solutions Inc.
Consolidated Balance Sheets
As at September 30, 2011 and 2010

(expressed in Canadian dollars)

	2011 $	2010 $
Assets		
Current assets		
Cash and cash equivalents	15,458,072	18,738,958
Short-term investments	-	22,186
Trade accounts and other receivables	13,492,484	14,959,777
Unbilled revenue	10,887,593	7,196,714
Prepaid expenses	1,452,467	1,371,960
Goods in transit	468,303	256,709
	41,758,919	42,546,304
Restricted cash (notes 5 and 18(b))	815,313	811,979
Property and equipment (note 6)	392,700	635,526
Future income taxes and investment tax credits (note 14)	1,520,101	795,196
Other assets (note 15)	482,460	518,655
Intangible assets (note 7)	4,131,113	5,861,248
Goodwill (notes 2 and 3)	7,935,373	7,668,157
	57,035,979	58,837,065
Liabilities		
Current liabilities		
Accounts payable	1,798,668	2,624,339
Accrued liabilities	6,234,891	3,703,055
Income taxes payable	3,323,598	2,730,670
Deferred revenue	6,075,302	6,031,551
Current portion of loans payable (note 9)	3,339,064	3,071,885
Current portion of obligations under capital leases (note 10)	19,400	24,197
	20,790,923	18,185,697
Other long-term liabilities (notes 2 and 11(e))	544,899	468,505
Long-term portion of loans payable (note 9)	4,978,587	7,094,087
Obligations under capital leases (note 10)	12,790	32,178
Future income taxes (notes 2 and 14)	847,526	1,265,159
	27,174,725	27,045,626
Shareholders' Equity		
Share capital, net of employee share purchase loans (note 11(b))	48,112,321	47,662,953
Contributed surplus	4,484,861	4,345,128
Deficit	(22,583,579)	(20,050,301)
Accumulated other comprehensive loss	(152,349)	(166,341)
	(22,735,928)	(20,216,642)
	29,861,254	31,791,439
	57,035,979	58,837,065

Commitments, guarantees and contingencies (note 18)

Approved by the Board of Directors

(Signed) Terry Nickerson Director **(Signed) Lucas Skoczkowski** Director

See accompanying notes to consolidated financial statements.

Redknee Solutions Inc.

Consolidated Statements of Operations

For the years ended September 30, 2011 and 2010

(expressed in Canadian dollars)

	2011 $	2010 $
Revenue		
Software, services and other	37,709,784	29,814,462
Support	22,363,276	19,055,927
	60,073,060	48,870,389
Cost of revenue	21,317,198	13,107,426
Gross profit	38,755,862	35,762,963
Operating expenses		
Sales and marketing	15,959,445	12,548,407
General and administrative	9,789,388	7,637,960
Research and development (note 13)	12,108,147	9,950,052
Amortization of property and equipment and intangible assets	1,784,565	777,249
Foreign currency exchange loss (note 4)	66,534	1,679,999
	39,708,079	32,593,667
(Loss) income from operations	(952,217)	3,169,296
Interest income	164,717	72,574
Interest expense	(536,035)	(85,710)
(Loss) income before income taxes	(1,323,535)	3,156,160
Income taxes (note 14)		
Current	1,330,164	2,111,236
Future	(120,421)	(49,330)
Net (loss) income for the year	(2,533,278)	1,094,254
Net (loss) income per common share (note 11(b))		
Basic	(0.04)	0.02
Diluted	(0.04)	0.02
Weighted average number of common shares (note 11(b))		
Basic	64,165,013	60,137,683
Diluted	64,165,013	62,017,977

See accompanying notes to consolidated financial statements.

Redknee Solutions Inc.

Consolidated Statements of Comprehensive (Loss) Income

For the years ended September 30, 2011 and 2010

(expressed in Canadian dollars)

	2011 $	2010 $
Net (loss) income for the year	(2,533,278)	1,094,254
Other comprehensive income (loss)		
Foreign currency translation adjustment	13,992	(17,051)
Comprehensive (loss) income for the year	(2,519,286)	1,077,203

See accompanying notes to consolidated financial statements.

Redknee Solutions Inc.

Consolidated Statements of Shareholders' Equity

For the years ended September 30, 2011 and 2010

(expressed in Canadian dollars)

	Share capital		Employee share purchase loans	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total shareholders' equity
	Number	Amount $	$	$	$	$	$
Balance - September 30, 2009	58,808,751	41,237,082	(492,602)	4,572,737	(21,144,555)	(149,290)	24,023,372
Stock-based compensation (notes 11 and 12)	-	-	-	430,886	-	-	430,886
Net income for the year	-	-	-	-	1,094,254	-	1,094,254
Common shares issued in conjunction with acquisition of Nimbus Systems	3,628,044	4,473,378	-	-	-	-	4,473,378
Collection of employee share purchase loans	2,770	-	487,358	-	-	-	487,358
Stock options exercised	1,262,039	1,753,137	-	(453,895)	-	-	1,299,242
Restricted share units vested and exercised	165,000	204,600	-	(204,600)	-	-	-
Other comprehensive loss for the year	-	-	-	-	-	(17,051)	(17,051)
Balance - September 30, 2010	63,866,604	47,668,197	(5,244)	4,345,128	(20,050,301)	(166,341)	31,791,439
Stock-based compensation (notes 11 and 12)	-	-	-	420,123	-	-	420,123
Loss for the year	-	-	-	-	(2,533,278)	-	(2,533,278)
Collection of employee share purchase loans	-	-	5,244	-	-	-	5,244
Stock options exercised	166,300	239,524	-	(75,790)	-	-	163,734
Restricted share units vested and exercised	165,000	204,600	-	(204,600)	-	-	-
Other comprehensive income for the year	-	-	-	-	-	13,992	13,992
Balance - September 30, 2011	64,197,904	48,112,321	-	4,484,861	(22,583,579)	(152,349)	29,861,254

See accompanying notes to consolidated financial statements.

Redknee Solutions Inc.

Consolidated Statements of Cash Flows

For the years ended September 30, 2011 and 2010

(expressed in Canadian dollars)

	2011 $	2010 $
Cash provided by (used in)		
Operating activities		
Net (loss) income for the year	(2,533,278)	1,094,254
Items not involving cash		
Amortization of property and equipment	280,978	171,929
Amortization of intangible assets	1,503,587	605,320
Unrealized foreign currency exchange (gain) loss	(413,499)	1,467,351
Stock-based compensation	485,344	554,391
Future income taxes and investment tax credits	(1,142,538)	167,525
Changes in non-cash operating working capital (note 16)	178,843	(10,548,691)
	(1,640,563)	(6,487,921)
Financing activities		
Collection of employee share purchase loans	5,244	487,358
Proceeds from exercise of stock options	163,734	1,299,242
Repayment of obligations under capital leases	(24,185)	-
Proceeds of loans	297,158	7,789,507
Repayment of loans	(2,160,153)	-
	(1,718,202)	9,576,107
Investing activities		
Proceeds from short-term investments	22,186	148,813
Purchase of property and equipment	(38,152)	(114,746)
Purchase of software	(31,078)	(99,557)
Decrease (increase) in other assets	71,803	(54,354)
Increase in restricted cash	(3,334)	(489,257)
Acquisition of Nimbus Systems, net of cash acquired (notes 2 and 3)	(267,216)	(8,422,352)
	(245,791)	(9,031,453)
Effect of foreign exchange rate changes on cash and cash equivalents	323,670	(980,822)
Decrease in cash and cash equivalents during the year	(3,280,886)	(6,924,089)
Cash and cash equivalents - Beginning of year	18,738,958	25,663,047
Cash and cash equivalents - End of year	15,458,072	18,738,958
Supplemental cash flow information		
Interest paid	490,287	85,710
Interest received	151,888	72,574
Income taxes paid	542,142	344,882
Common shares issued in conjunction with acquisition of Nimbus Systems	-	4,473,378

See accompanying notes to consolidated financial statements.

(expressed in Canadian dollars, except as otherwise indicated)

Nature of operations

Redknee Solutions Inc. (the Company or Redknee) was incorporated on March 29, 1999 and commenced operations in July 1999. Redknee is a leading provider of revenue generating software products, solutions and services to some of the largest network operators throughout the world, including wireless, wireline, broadband and satellite. Redknee delivers solutions in the areas of converged billing, interconnect billing, customer care, real-time rating, charging and policy management for voice, messaging and next-generation data services to over 90 network operators in over 50 countries. The Company's software products allow its wireless telecommunications network operator customers to extend and enhance their capabilities and service offerings, enabling them to introduce new revenue through the introduction of network-based services, including call and subscriber management, multimedia messaging information services and location aware services. In addition, the Company's software products also manage and analyze, in real time, complex and critical network operations, such as service provisioning, network management and customer care, as well as provide real-time rating, charging and billing.

1 Summary of significant accounting policies

a) Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP).

b) Principle of consolidation

The consolidated financial statements include the financial statements of Redknee and its wholly owned subsidiary companies, of which the principal subsidiaries are Redknee (Ireland) Ltd., Redknee (Germany) GmbH, Redknee (UK) Limited, Redknee (ME) FZ-LLC (Dubai), Redknee (US) Limited, Redknee (India) Technologies Pvt. Limited, Redknee Solutions (UK) Limited, Redknee MEA SAL (offshore) (Lebanon), Redknee Singapore PTE Limited, Redknee Spain SAL, S.L.U., and Nimbus Systems S.L. and NMB Lda (collectively Nimbus or Nimbus Systems). All significant intercompany balances and transactions have been eliminated on consolidation.

c) Revenue recognition

General

The Company's revenue is derived primarily from licensing of software products under non-cancellable licence agreements, the provision of related professional services (including installation, integration and training) and post-contract customer support (PCS). In certain cases, the Company also provides customers with hardware in conjunction with its software offerings.

The Company recognizes revenue in accordance with Canadian GAAP. Revenue is not recognized unless persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectibility is reasonably assured.

(expressed in Canadian dollars, except as otherwise indicated)

Multiple element arrangements

The Company enters into multiple element revenue arrangements, which may include any combination of software, service, support and/or hardware.

A multiple element arrangement is separated into more than one unit of accounting if all of the following criteria are met:

i) reliable and objective evidence of fair value exists for all undelivered elements (for software related deliverables, fair value is established through vendor-specific objective evidence (VSOE));

ii) undelivered elements are not considered essential to the functionality of delivered elements;

iii) the delivered elements have stand-alone value to the customers;

iv) delivery or performance of the undelivered elements is considered probable and substantially in the control of the Company; and

v) fees related to delivered elements are not subject to refund, forfeiture or other concession if undelivered elements are not delivered.

If these criteria are not met, the arrangement is accounted for as one unit of accounting, which would result in revenue being deferred until the earlier of when such criteria are met or when the last undelivered element is delivered.

If these criteria are met for each element and there is objective and reliable evidence of fair value for all units of accounting in an arrangement, the arrangement consideration is allocated to the separate units of accounting, based on each unit's relative fair value. There may be cases, however, in which there is objective and reliable evidence of fair value of the undelivered elements but no such evidence for the delivered elements. In those cases, the residual method is used to allocate the arrangement consideration. Under the residual method, the amount of consideration allocated to the delivered elements equals the total arrangement's consideration, less the aggregate fair value of the undelivered elements. The revenue policies below are then applied to each unit of accounting, as applicable.

Software

If services are not deemed essential to the functionality of the licensed software, revenue from licensed software is recognized at the later of delivery or the inception of the licence term. When the fair value of a delivered element has not been established, the Company uses the residual method to recognize revenue if the fair value of the undelivered elements is determinable.

If services are deemed essential to the functionality of the licensed software (which is frequently the arrangement), the licensed software and service revenues are recognized using contract accounting, following the percentage-of-completion method. The Company uses either the ratio of incurred costs to estimated total costs or the completion of applicable milestones, as appropriate, as the measure of its

(expressed in Canadian dollars, except as otherwise indicated)

progress to completion on each contract. If a loss on a contract is considered probable, the loss is recognized at the date determinable.

Services

If services are deemed essential to the functionality of the licensed software, the licence and service revenues are recognized under contract accounting, as described above.

If services are not deemed essential to the functionality of the software, the service revenue is recognized as the services are delivered to the customer. The Company has established VSOE for service elements, based on the normal pricing and discounting practices for those elements when they are sold separately.

Support

PCS revenue is recognized rateably over the term of the support agreement, which is typically one year. The Company has established VSOE of PCS, based on the PCS rates (percentage of licence fees) contractually agreed with customers. Absent a stated PCS rate or when there is a low contracted PCS rate, the Company uses a rate that represents the price when PCS is sold separately based on PCS renewals.

Hardware

Hardware revenue is recognized as hardware is delivered to customers, when the risks and rewards of ownership have been transferred. The fair value of hardware is established based on the prices charged when hardware is sold separately.

Unbilled and deferred revenue

Amounts are generally billable on reaching certain performance milestones, as defined by individual contracts. Revenue in excess of contract billings is recorded as unbilled revenue. Cash proceeds received in advance of performance under contracts are recorded as deferred revenue. Deferred revenue is classified as long-term if it relates to performance obligations that are expected to be fulfilled after 12 months from the consolidated balance sheet dates.

d) Net (loss) income per common share

The Company computes net (loss) income per common share, whereby basic net (loss) income per common share is computed by dividing net (loss) income attributable to all classes of common shareholders by the weighted average number of common shares outstanding during the applicable period. Diluted net (loss) income per common share is determined in the same manner as basic net (loss) income per share, except that the number of common shares is increased to assume the exercise of potentially dilutive stock options, unvested restricted share units and common shares associated with outstanding share purchase loans, using the treasury stock method, unless the effect of such an increase would be anti-dilutive. For 2010, some stock options were dilutive.

(expressed in Canadian dollars, except as otherwise indicated)

e) Cash and cash equivalents

Cash equivalents include highly liquid instruments with an original maturity of less than 90 days at issuance and are classified as held-for-trading.

f) Short-term investments

Short-term investments consist of interest bearing securities with original terms to maturity of less than one year and are classified as held-for-trading.

g) Goods in transit

Goods in transit are recorded at the lower of cost or net realizable value.

h) Property and equipment

Property and equipment are stated at cost, net of accumulated amortization, and are amortized on a straight-line basis over their estimated useful lives as follows:

Automobiles under capital lease	term of lease
Computer equipment	3 years or term of lease
Furniture and fixtures	3 years
Leasehold improvements	term of lease

Computer equipment and software under capital lease are initially recorded at the present value of the minimum lease payments at the inception of the lease.

The Company reviews the carrying value of its property and equipment for impairment on a regular basis or whenever events or circumstances indicate that the carrying value may not be recoverable. If the carrying value exceeds the amount recoverable, based on undiscounted estimated future cash flows from its use and disposal, an impairment, measured by the amount by which the carrying value of the asset exceeds its fair value, is charged to the consolidated statements of operations. To date, the Company has not recorded an impairment charge on its property and equipment.

i) Intangible assets

Intangible assets consist of acquired software, backlog, technology and customer relationships. Intangible assets acquired through asset acquisitions or business combinations are initially recognized at fair value, based on an allocation of the purchase price. The intangible assets are amortized on a straight-line basis over their estimated useful lives. The Company evaluates the reasonableness of the estimated useful lives of these intangible assets on an annual basis.

(expressed in Canadian dollars, except as otherwise indicated)

The estimated useful lives of intangible assets are as follows:

Backlog	1 year
Software	1-3 years
Technology	5-10 years
Customer relationships	9-10 years

The Company reviews the carrying value of its intangible assets for impairment on a regular basis or whenever events or circumstances indicate that the carrying value may not be recoverable. If the carrying value exceeds the amount recoverable, based on undiscounted estimated future cash flows from its use and disposal, an impairment, measured by the amount by which the carrying value of the asset exceeds its fair value, is charged to the consolidated statements of operations. To date, the Company has not recorded an impairment charge on its intangible assets.

j) Goodwill

Goodwill represents the cost of acquired businesses in excess of the fair value of net identifiable assets acquired. Goodwill is not subject to amortization and is tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired. Impairment is tested by comparing the fair value of the reporting unit to which goodwill has been assigned to its carrying value including goodwill. When the carrying value of the reporting unit exceeds fair value, the excess of the carrying value of the goodwill compared to the implied fair value of the reporting unit's goodwill is recognized as an impairment loss.

k) Financial instruments

All financial instruments are measured at fair value on initial recognition. After initial recognition, financial instruments are measured at their fair values, except for loans and receivables and other financial liabilities, which are measured at amortized cost. The Company has designated cash and cash equivalents, short-term investments and restricted cash as held-for-trading. Trade accounts and other receivables are classified as loans and receivables and approximate fair value. Accounts payable, accrued liabilities, loans payable and other long-term liabilities are classified as other financial liabilities. Accounts payable, accrued liabilities and the current portion of loans payable approximate fair value due to the short term to maturity. The fair value of the long-term portion of loans payable has been disclosed in note 4.

l) Transaction costs

Transaction costs recorded in the consolidated financial statements directly attributable to financial assets and financial liabilities are expensed as incurred. Transaction costs related to business combinations are capitalized as part of the acquisition if they are direct and incremental to the purchase.

m) Research, design and development costs

Costs related to research, design and development of software products, net of investment tax credits, are initially charged to research and development expenses as incurred, unless the criteria for deferral are met.

(expressed in Canadian dollars, except as otherwise indicated)

Software development costs are capitalized beginning when a product's technological feasibility has been established. This generally occurs on completion of a working model and ends when a product is available for general release to customers. To date, completion of a working model of the Company's product and the general release of the product have substantially coincided. As a result, the Company has not capitalized any software development costs.

n) Stock-based compensation

The Company issues stock options, restricted share units (RSUs) and performance share units (PSUs) pursuant to several stock-based compensation plans, which are described in notes 11 and 12. The Company estimates the fair value of stock-based compensation to employees and directors and expenses the fair value over the estimated vesting period of the plans, using the straight-line method. Any consideration paid by employees or directors on the exercise of stock options or the purchase of common shares is credited to share capital together with any previously recognized compensation expense in contributed surplus. If common shares or stock options are repurchased from employees or directors, the excess of the consideration paid over the carrying value of the common shares or stock options cancelled is charged to deficit. Forfeitures of stock-based compensation awards are accounted for in the year in which the forfeiture occurs.

Loans given to employees to purchase common shares are recorded as a reduction in share capital. The number of common shares outstanding relating to loans outstanding has been excluded in the calculation of basic net (loss) income per common share. As loans are repaid, an offset to share capital will be recorded appropriately.

The Company has a deferred share unit (DSU) plan. The plan allows for settlement of DSUs by cash or other assets. The fair value of the Company's DSUs is charged to general and administrative expenses using the graded vesting method. Since the DSUs will be settled in cash, the fair value of the vested DSUs is revalued each quarter until the settlement date. The Company has set up a liability in the consolidated balance sheets for the total fair value of the vested DSUs included in other long-term liabilities. Forfeitures of DSUs are accounted for in the period in which the forfeiture occurs.

o) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the consolidated financial statement carrying values of existing assets and liabilities and their respective income tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in income tax rates is recognized in the consolidated statements of operations in the year that includes the enactment or substantive enactment date.

In assessing the valuation of future income tax assets, management considers whether a valuation allowance is required for any of the Company's future income tax assets, based on whether it is more likely than not that the future income tax assets will be realized. The ultimate realization of future income

(expressed in Canadian dollars, except as otherwise indicated)

tax assets is dependent on the generation of future taxable income during the years in which those temporary differences become deductible. Management considers projected future taxable income, uncertainties related to the industry in which the Company operates and income tax planning strategies in making this assessment.

Income tax reserves are established for uncertain income tax positions based on management's best estimates.

p) Investment tax credits

The Company is entitled to certain Canadian investment tax credits for qualifying research and development activities performed in Canada. The Company accrues investment tax credits when qualifying expenditures have been made, provided there is reasonable assurance that the credits will be realized. The amount of investment tax credits accrued can vary, based on estimates of future taxable income. These credits can be applied against future income tax liabilities and are subject to a 20-year carry-forward period or, in some cases, are refundable. The realized investment tax credits have been accounted for as a reduction of the related expenditures for items expensed in the consolidated statements of operations or a reduction of the related asset's cost for items capitalized in the consolidated balance sheets.

q) Use of estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses in preparing these consolidated financial statements. Actual results could differ from those estimates.

Significant estimates in these consolidated financial statements include the valuation of accounts receivable, future income taxes, determination of income taxes payable, estimation of useful lives of property and equipment and intangible assets, assessment of impairment of long-lived assets, valuation of investment tax credits receivable, valuation of common shares of the Company used in the computation of stock-based compensation and the determination of the amount and timing of revenue to be recognized and the determination of the fair value of assets and liabilities acquired in a business combination. In its determination of the valuation of accounts receivable, including the allowance for doubtful accounts, management relies on current customer information and its planned course of action, as well as assumptions about future business and economic conditions. The method used to estimate income taxes payable and the valuation allowance required for future income taxes is described in note 1(o). Generally, the method used to estimate the value of investment tax credits receivable is described in note 1(p). The assumptions used in the calculation of stock-based compensation expense are described in notes 11 and 12. In its determination of the amount and timing of revenue to be recognized, management relies on assumptions supporting its revenue recognition policy. Estimates of the percentage of completion and total costs for customers' projects are based on contractual terms and current actual and forecasted information. VSOE established by management on the Company's licence and service elements is based on the prices charged when the Company sells specific elements to customers at separately or contractually stated renewal prices. Changes in the Company's business practices or sales arrangements may impact its ability

(expressed in Canadian dollars, except as otherwise indicated)

to establish VSOE on currently or newly offered elements, thereby changing the amount and timing of revenue recognized.

In management's assessment of the fair value of assets and liabilities acquired in a business combination, management relies on accepted valuation techniques and models. Actual results could differ from those estimates.

r) Foreign currency translation

Translation of consolidated financial statements

The Company's foreign subsidiaries are considered to be integrated operations for accounting purposes, except for Redknee Solutions (UK) Limited, which is self-sustaining. The Company uses the temporal method to translate the foreign currency accounts for its integrated operations and the current rate method for its self-sustaining operations.

Under the temporal method, monetary items denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet dates and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates of exchange in effect at the time of the transactions, except to the extent they relate to items translated at historical rates, in which case, historical rates are applied. Foreign currency exchange gains and losses from the translation of the financial statements of integrated foreign operations are included in the consolidated statements of operations as an unrealized foreign currency exchange gain/loss.

Under the current rate method, assets and liabilities denominated in foreign currencies of the self-sustaining operations are translated into Canadian dollars at the rate of exchange in effect at the consolidated balance sheet dates. Equity transactions, revenue and expenses, including amortization, are translated into Canadian dollars at the rates of exchange in effect on the dates on which such items are recognized. Exchange gains and losses from the translation of the financial statements of self-sustaining foreign operations are deferred and included in a separate component of shareholders' equity, referred to as accumulated other comprehensive income (loss), as a foreign currency translation adjustment. The accumulated other comprehensive income (loss) exclusively relates to such translation adjustments.

Translation of transactions

The Company and its subsidiaries, excluding Redknee Solutions (UK) Limited, have assets and liabilities denominated in foreign currencies as at the consolidated balance sheet dates. These assets and liabilities have been translated using the temporal method to the subsidiaries' reporting currency and the associated gain/loss has been recorded as an unrealized foreign currency exchange gain/loss in the consolidated statements of operations.

(expressed in Canadian dollars, except as otherwise indicated)

s) Allocations of costs

All facility, communication and information technology costs are allocated to: cost of sales, sales and marketing, research and development and general and administrative costs. This allocation has been based on the average head count per function.

t) Changes in accounting policies

Effective October 1, 2009, the Company adopted Canadian Institute of Chartered Accountants (CICA) Handbook Section 1506, Accounting Changes, which was amended to exclude from its scope changes in accounting policies on the complete replacement of an entity's primary basis of accounting. The impact of this amendment did not have an impact on the annual consolidated financial statements.

For the year ended September 30, 2010, the Company adopted the amendments to CICA Handbook Section 3862, Financial Instruments - Disclosures. The amendments require enhanced disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements and about the liquidity risk of financial instruments, which are included in note 4.

u) Future changes in accounting standards

The Company will cease to prepare its consolidated financial statements in accordance with Canadian GAAP as set out in Part V of the CICA Handbook - Accounting (Canadian GAAP) for the periods beginning on October 1, 2011 when it will start to apply International Financial Reporting Standards as published by the International Accounting Standards Board. Consequently, future accounting changes to Canadian GAAP are not discussed in these consolidated financial statements as they will never be applied by the Company.

2 Business acquisition

On August 12, 2010, the Company acquired 100% of the common shares of Nimbus. Established in 2001, Nimbus has been engaged in analysis, control and management solutions, with a particular focus on customer relationship management systems and billing, rating and partner relationship management. Nimbus currently supports group operators and non-telecommunications clients engaged in one of the world's leading transaction credit and loyalty card infrastructure companies. The acquisition was accounted for by the purchase method and the results of operations of Nimbus since the date of acquisition have been consolidated.

The total purchase price, net of cash acquired, of $13,042,946 consists of cash paid on closing of $7,779,700, 3,628,044 common shares issued, including 1,814,022 common shares placed in escrow, and later released, valued at $4,473,378 and acquisition costs of $789,868. The fair value of the common shares was determined to be $1.37 per common share on August 12, 2010. The fair value of the common shares held in escrow (which are subject to the terms and conditions of an escrow agreement) was determined to be $1.10 per common share. The 20% discount takes into consideration the length of the escrow period, the volatility of the common share prices during the period and the inability to transact with these common shares during this time. The purchase agreement also contains an earn-out provision, which outlines that the aggregate amount of up to €1,050,000 will be paid by the Company to the sellers in cash if certain future criteria are met. The earn-out has not been

(expressed in Canadian dollars, except as otherwise indicated)

accrued at either the date of purchase or the reporting date. Management has determined that the earn-out is non-compensatory in nature and will be accrued as part of the purchase equation once the likelihood of payment can be reasonably determined.

The purchase price was allocated to the assets and liabilities as follows:

	Final allocation $
Net assets acquired	
Stocks/investments	63,950
Trade accounts and other receivables	4,122,736
Unbilled receivables	1,831,000
Prepaid expenses	102,341
Property and equipment	421,499
Future income taxes	134,208
Indebtedness	(1,939,473)
Accounts payable and accrued liabilities	(1,888,893)
Long-term debt	(512,614)
Deferred revenue	(236,868)
Other liabilities	(345,000)
Income taxes payable	(124,685)
Future income tax liabilities	(1,491,159)
	137,042
Intangible assets	
Customer relationships	2,841,649
Technology	1,326,192
Backlog	802,690
Goodwill	7,935,373
	12,905,904
Total purchase consideration, net of cash acquired	13,042,946

The purchase was financed by:

	$
Cash	268,880
Loans payable	8,300,688
Common shares issued	4,473,378
	13,042,946

(expressed in Canadian dollars, except as otherwise indicated)

Redknee has finalized the allocation of the purchase price (except for the earn-out, if any) during fiscal 2011. The customer relationships and technology arising from this acquisition are amortized into income over their estimated useful lives of ten years. The backlog is amortized over its estimated useful life of one year.

3 Goodwill

The change in the carrying value of goodwill during the year ended September 30, 2011, is as follows:

	Balance - September 30, 2010 $	Additions (a) $	Balance - September 30, 2011 $
Goodwill	7,668,157	267,216	7,935,373

a) The additions of $267,216 recorded in the year are acquisition costs of $147,216 and future income tax liabilities of $120,000.

4 Financial instruments and capital management

Effective October 1, 2010, the Company adopted the amendments issued by the CICA to Handbook Section 3862, which require enhanced disclosures on fair value measurements of financial instruments. The amendments establish 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 Inputs are quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities.
Level 2 Inputs are 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).
Level 3 Inputs are inputs for the financial asset or financial liability that are not based on observable market data (i.e. unobservable inputs).

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. The Company has no financial assets or financial liabilities measured using level 2 or level 3 inputs.

Financial assets measured at fair value as at September 30, 2011 and 2010 in the consolidated financial statements are summarized below. The Company has no financial liabilities measured at fair value.

(expressed in Canadian dollars, except as otherwise indicated)

	2011			
	Level 1 $	**Level 2** $	**Level 3** $	**Total** $
Cash and cash equivalents	15,458,072	-	-	15,458,072
Restricted cash	815,313	-	-	815,313
	16,273,385	-	-	16,273,385

	2010			
	Level 1 $	**Level 2** $	**Level 3** $	**Total** $
Cash and cash equivalents	18,738,958	-	-	18,738,958
Short-term investments	22,186	-	-	22,186
Restricted cash	811,979	-	-	811,979
	19,573,123	-	-	19,573,123

There were no transfers of financial assets between levels during the years ended September 30, 2011 and 2010.

Under Canadian GAAP, financial instruments are classified into one of the following categories: held-for-trading, held-to-maturity, available-for-sale, loans and receivables, and other financial liabilities. The following table summarizes information regarding the carrying values of the Company’s financial instruments:

	2011 $	**2010** $
Held-for-trading (i)	16,273,385	19,573,123
Loans and receivables (ii)	13,492,484	14,959,777
Other financial liabilities (iii)	8,378,559	6,672,394
Loans payable (iv)	8,317,651	10,165,972

i) Includes cash, cash equivalents, restricted cash and short-term investments
ii) Includes trade accounts and other receivables
iii) Includes accounts payable, accrued liabilities and other long-term liabilities
iv) Includes current and long-term portions of loans payable

The carrying values of loans and receivables and accounts payable and accrued liabilities approximate fair values because they are due within one year.

The carrying values of financial liabilities within other long-term liabilities approximate fair value because they are expected to mature within two years.

(expressed in Canadian dollars, except as otherwise indicated)

The carrying values of loans payable with floating interest rates approximate fair values because the interest rates are market rates. The fair value of loans payable with fixed interest rates is $76,139, compared to a carrying value of $72,012.

Foreign currency risk

Foreign currency risk arises because of fluctuations in foreign currency exchange rates. The Company's objective in managing its foreign currency risk is to minimize its net exposures to foreign currency cash flows by converting foreign-denominated cash balances into Canadian dollars to the extent practical to match Canadian dollar obligations. The Company conducts a significant portion of its business activities in foreign countries. The monetary assets and liabilities that are denominated in foreign currencies are affected by changes in the exchange rate between the Canadian dollar and these foreign currencies. The Company recognized a foreign currency exchange loss in 2011 of $66,534, as compared to a foreign currency exchange loss in 2010 of $1,679,999.

If a shift in foreign currency exchange rates of 10% were to occur, the foreign currency exchange gain or loss on the Company's net monetary assets could change by approximately $2,100,000 due to the fluctuation and this would be recorded in the consolidated statements of operations.

Credit risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Company is exposed to credit risk from banks and customers.

The Company has credit risk relating to cash and cash equivalents and restricted cash, which it manages by dealing with large chartered Canadian and international banks and investing in highly liquid investments of a rating of no less than R1, the credit rating assigned to those who pay on time.

The Company's exposure to credit risk geographically for cash and cash equivalents and restricted cash as at September 30 was as follows:

	2011 **%**	**2010** **%**
Europe, Middle East and Africa	60	21
North America, Latin America and Caribbean	37	73
Asia and Pacific Rim	3	6
	100	100

As at September 30, 2011, the Company's two largest customers accounted for 15% (2010 - 23%) of sales. 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 executed.

(expressed in Canadian dollars, except as otherwise indicated)

Credit reviews take into account the counterparty's financial position, past experience and other factors. Management regularly monitors customer credit limits. 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 60 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 perceived not to be fully collectible.

The Company's trade receivables had a carrying value of $14,008,466 as at September 30, 2011 (2010 - $14,742,669), representing the maximum exposure to credit risk of those financial assets, exclusive of the allowance for doubtful accounts. Of the trade receivables balance, $1,583,065 is factored with recourse. Normal credit terms for amounts due from customers call for payment within 30 to 60 days. Approximately 22% of trade receivables were past due as at September 30, 2011, of which $4,072,772 was outstanding for more than 120 days (2010 - 20% over 120 days in the amount of $3,581,462). The activity of the allowance for doubtful accounts for the year ended September 30 is as follows:

	2011 **$**	**2010** **$**
Allowance for doubtful accounts - Beginning of year	722,946	234,000
Bad debt expense	1,600,422	554,744
Writeoff of bad debts	(1,128,728)	(65,798)
Allowance for doubtful accounts - End of year	1,194,640	722,946

The allowance for doubtful accounts is charged to the consolidated statements of operations. Shortfalls in collections are applied against this provision. Estimates for allowance for doubtful accounts are determined by a customer-by-customer evaluation of collectibility at each consolidated balance sheet reporting date, taking into account the amounts that are past due and any available relevant information on the customers' liquidity and going concern problems.

(expressed in Canadian dollars, except as otherwise indicated)

The Company's exposure to credit risk for trade receivables by geographic area as at September 30 was as follows:

	2011 %	2010 %
Europe, Middle East and Africa	38	59
North America, Latin America and Caribbean	36	22
Asia and Pacific Rim	26	19
	100	100

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's financial liabilities will mature as follows:

	Less than 1 year $	1 to 2 years $	2 to 3 years $	3 to 4 years $	4 to 5 years $	Thereafter $
Accounts payable	1,798,668	-	-	-	-	-
Accrued liabilities	6,234,891	-	-	-	-	-
Loans payable	3,339,064	1,670,730	1,653,929	1,653,928	-	-
Other long-term liabilities	-	345,000	-	-	-	-
	11,372,623	2,015,730	1,653,929	1,653,928	-	-

The Company also has contractual obligations in the form of operating leases (note 18(a)).

Management believes the Company's existing cash and cash equivalents, restricted cash and cash from operations will be adequate to support all of its financial liabilities and contractual commitments.

Interest rate risk

Interest rate risk arises because of the fluctuation in interest rates. The Company is subject to interest rate risk on its cash and cash equivalents, restricted cash and certain loans payable. If a shift in interest rates of 10% were to occur, the impact on cash and cash equivalents and restricted cash and the related income for the year would not be material. On the loans payable, an incremental increase or decrease in the LIBOR rate of 0.25% will result in an increase or decrease in interest expense of $16,827, respectively.

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

(expressed in Canadian dollars, except as otherwise indicated)

composed of share capital and credit used plus credit available under certain credit facilities, which assist in financing (i) acquisitions and/or (ii) working capital requirements. The Company's primary uses of capital are financing its operations, increases in non-cash working capital, capital expenditures, debt repayments and acquisitions. The Company currently funds these requirements from cash flows from operations, cash raised through past share issuances, and lines available under certain credit facilities. The Company's objectives when managing capital are to ensure that the Company will continue to have enough liquidity so it can provide services to its customers and increase shareholder value. Management monitors its compliance with financial and non-financial covenants imposed by loan agreements on a quarterly basis. The Company has complied with all externally imposed capital requirements.

5 Restricted cash

The Company used short-term bank deposits as security for outstanding letters of credit (note 18(b)).

6 Property and equipment

			2011
	Cost $	Accumulated amortization $	Net $
Automobiles under capital lease	85,304	28,994	56,310
Computer equipment	1,613,888	1,425,131	188,757
Furniture and fixtures	1,352,373	1,244,375	107,998
Leasehold improvements	278,180	238,545	39,635
	3,329,745	2,937,045	392,700

			2010
	Cost $	Accumulated amortization $	Net $
Automobiles under capital lease	85,304	-	85,304
Computer equipment	1,589,445	1,309,714	279,731
Furniture and fixtures	1,341,358	1,147,626	193,732
Leasehold improvements	275,486	198,727	76,759
	3,291,593	2,656,067	635,526

The net book value of assets under capital lease as at September 30, 2011 was $56,310 (2010 - $85,304).

During 2011, the Company recorded an amortization expense of $280,978 (2010 - $171,929).

(expressed in Canadian dollars, except as otherwise indicated)

7 Intangible assets

	2011 $	2010 $
Backlog, net of accumulated amortization of $802,690 (2010 - $54,500)	-	748,190
Software, net of accumulated amortization of $2,244,157 (2010 - $2,145,181)	166,368	234,552
Technology, net of accumulated amortization of $716,786 (2010 - $426,167)	1,241,173	1,622,501
Customer relationships, net of accumulated amortization of $608,040 (2010 - $244,237)	2,723,572	3,256,005
	4,131,113	5,861,248

During 2011, the Company recorded an amortization expense of $1,503,587 (2010 - $605,300).

8 Related party transactions

The employee shareholder loans are described in note 11.

In April 2010, the Company entered into an agreement for $1.6 million with a related party through one of its subsidiaries to supply a unified rating and charging system. The related party relationship arises as a result of an individual who is a member of the board of directors of both the Company and the customer to this transaction. Included in revenue for fiscal 2011 is $800,000 (2010 - $785,000) for software, services and third party goods provided under this agreement. As at September 30, 2011, all monies owed to the Company as a result of this agreement have been received.

In August 2011, the Company entered into a consulting agreement with a member of the board of directors. As at September 30, 2011, the Company has incurred $10,000 in consulting expenses (2010 - $nil).

(expressed in Canadian dollars, except as otherwise indicated)

9 Loans payable

	2011 $	2010 $
Term loan, bearing interest at LIBOR plus 4%, due in August 2015	6,658,778	8,247,432
Term loan, denominated in euros, €nil (2010 - €53,200), bearing interest at Euribor six months plus 0.65%, due in April 2013	-	74,512
Term loan, denominated in euros, €51,544 (2010 - €96,247), bearing interest at 4.95%, due in December 2012	72,012	134,803
Term loan, denominated in euros, €nil (2010 - €13,889), bearing interest at 6.63%, due in October 2011	-	19,453
Term loan, denominated in euros, €nil (2010 - €15,641), bearing interest at nil%, due in December 2011	-	21,907
Term loan, denominated in euros, €nil (2010 - €150,000), bearing interest at 3.99%, due in February 2013	-	210,090
Term loan, denominated in euros, €nil (2010 - €100,000), bearing interest at 6.41%, due in June 2012	-	140,060
Term loan, denominated in euros, €nil (2010 - €20,000), bearing interest at Euribor three months plus 3%, renewable on a six-month cycle	-	28,012
Bank indebtedness, denominated in euros, €1,133,108 (2010 - €920,872), face value discount of 2% to 4%, due on demand	1,586,861	1,289,703
Total loans payable	8,317,651	10,165,972
Less: Current portion of loans payable	3,339,064	3,071,885
Long-term portion of loans payable	4,978,587	7,094,087

As at September 30, 2011, the Company has a credit facility with Export Development Canada for up to an aggregate principal amount of US$10,000,000 to assist in financing (i) one or more acquisitions and/or (ii) working capital requirements.

The Company borrowed against this credit facility for the Nimbus acquisition. As at September 30, 2011, US$6,409,451 (CA$6,658,778) remains outstanding and is repayable semi-annually over four years. Interest on this credit facility is LIBOR plus 4% and is payable semi-annually after the first specified repayment date. Accounts receivable, chattel paper, documents of title, equipment, intangible assets, inventory and securities are pledged as security for the credit facility.

Certain non-financial covenants exist under the agreement, which, if interpreted to be violated by the lender, could result in the amounts borrowed being due and payable to the lender on demand. The Company is in compliance with its debt covenants as at September 30, 2011.

As a result of the acquisition of Nimbus, the Company currently holds bank loans through its wholly owned subsidiary, Redknee Spain SAL, S.L.U. These loans are secured by shareholder guarantees.

Interest of $485,202 in connection with loans payable has been charged to the consolidated statements of operations for the year ended September 30, 2011 (2010 - $60,244).

(expressed in Canadian dollars, except as otherwise indicated)

10 Obligations under capital leases

The Company has financed certain automobiles by entering into capital leasing arrangements. The following are the future minimum lease payments under non-cancellable capital leases:

	2011 $	2010 $
Total minimum capital lease payments	33,743	62,196
Less: Imputed interest at rates averaging 7.00%	1,553	5,821
Present value of capital lease payments	32,190	56,375
Less: Current portion	19,400	24,197
Long-term obligations	12,790	32,178

Interest expense on obligations under capital leases amounted to $2,535 (2010 - $nil).

11 Share capital

a) Authorized

Unlimited voting common shares
Unlimited preferred shares

b) Net (loss) income per common share

For the year ended September 30, 2011, all potentially dilutive instruments in the amount of 1,377,778 common shares have been excluded because the impact would be anti-dilutive.

A reconciliation of the number of common shares used for purposes of calculating basic and diluted net (loss) income per common share for the years ended September 30 is as follows:

	2011	2010
Weighted average number of common shares outstanding	64,165,013	60,142,325
Less: Shares associated with outstanding common share purchase loans	-	4,642
Basic weighted average number of common shares outstanding	64,165,013	60,137,683
Add: Dilutive stock options outstanding	-	1,715,294
Add: Unvested restricted common share units	-	165,000
Diluted weighted average number of common shares outstanding	64,165,013	62,017,977

(expressed in Canadian dollars, except as otherwise indicated)

c) Share purchase plans

For the period from November 1, 2006 to November 8, 2006, the Company allowed employees to acquire up to 1,125,000 common shares at a value of $1.24 per share, which was fair value on that date. The total number of common shares purchased under this program was 215,653, of which 63,500 common shares were purchased using loans offered by the Company. These loans are unsecured, repayable in three years and non-interest bearing. The total amount of the loans issued under this program was $78,740 and the balance outstanding as at September 30, 2011 aggregated $nil (2010 - $12,818).

For the period from November 1, 2006 to November 8, 2006, the Company allowed its employees to exercise their vested stock options and acquire common shares using loans from the Company. These loans are secured by the common shares acquired on exercise of the stock options. The loans are non-interest bearing and are repayable in three years or in proportion to any sale of common shares by the employee. The total number of stock options that were exercised under this program was 3,226,445. The total amount of loans issued under this program was $1,016,846 and the balance outstanding as at September 30, 2011 aggregated $nil (2010 - $5,244).

Employees are eligible to a cash bonus annually equal to 10% of the outstanding loan amount, provided that they remain employees of the Company as at the anniversary date. The Company recorded $nil (2010 - $18,333) as an expense for the year ended September 30, 2011.

d) Restricted share plan

On November 10, 2006, the Company established a restricted share plan (RSP) for the purpose of providing additional compensation for certain employees and directors that is reflective of the responsibility, commitment and risk accompanying their role. Eligible employees are any employees or directors of the Company that the board of directors designates as eligible to participate in the RSP. The number of common shares which may be issued under the RSP is limited to 1,125,000.

Vesting of common shares issued to directors, unless otherwise noted, is deemed to be immediate on being granted but subject to resale restrictions, such that no vested common shares can be sold until the earlier of the one-year anniversary date of the grant date and the holder's date of death. The vesting period for all other participants, provided that the participants are actively employed by the Company on the applicable date, is: one third of the common shares granted will vest on the first anniversary of the grant date; one third of the common shares granted will be vested on the second anniversary of the grant date; and one third of the common shares granted will vest on the third anniversary of the grant date.

On November 10, 2006, in addition to establishing the RSP, the board of directors approved and the Company granted 966,250 RSUs at a price of $1.24 per unit, with 81,250 of these being granted to directors and the remaining 885,000 being granted to other participants. These RSUs are placed in a trust until the RSUs vest, at which time they are issued to the beneficiary. The associated stock-based compensation expense of $1,198,150 is measured at fair value and is amortized over the appropriate vesting period using the straight-line method, of which $155,000 will not be expensed in future periods due to forfeitures to date. In 2011, the Company expensed approximately $17,084 (2010 - $204,600) relating to these RSUs.

(expressed in Canadian dollars, except as otherwise indicated)

	2011	**2010**
Outstanding - Beginning of year	165,000	330,000
Granted	-	-
Exercised	(165,000)	(165,000)
Outstanding - End of year	-	165,000

e) Share unit plan

On July 29, 2010, the Company established a share unit plan for the purpose of providing additional compensation for certain employees, officers or consultants that is reflective of the responsibility, commitment and risk accompanying their role. An eligible individual is defined as an employee, officer or consultant of the Company that the compensation committee designates as eligible to participate in the share unit plan. Units granted under the share unit plan may be PSUs or RSUs. PSUs granted are subject to vesting contingent on the achievement of performance conditions based on certain Company performance metrics. The related compensation expense is recognized over the related service period, which is based on management's best estimate of the outcome of the performance conditions. RSUs are subject to a vesting term at the compensation committee's discretion provided that the vesting term does not exceed three years from the grant date.

During 2011, the Company granted 353,175 PSUs under the share unit plan to employees at a weighted average price of $1.26 per unit. During the year, 174,624 PSUs were forfeited. As at September 30, 2011, 178,551 (2010 - nil) PSUs were outstanding under the share unit plan. During the year, no compensation cost was recognized related to the PSUs.

During 2011, the Company granted 220,488 RSUs to non-directors under the share unit plan at a weighted average price of $1.20 per unit. The associated stock-based compensation expense of $264,000 is measured at fair value and is amortized over the appropriate vesting period using the straight-line method. In 2011, the Company expense approximately $16,381 relating to these RSUs.

The fair value of RSUs and PSUs granted during the year is estimated using the Black-Scholes option pricing model, with the following assumptions: risk-free interest rate of 3.4%; dividend yield of nil; volatility of 66.8%; and expected lives of the units of seven years. The fair value of the units is expensed over the applicable vesting period of the units using the straight-line method.

	2011	**2010**
Outstanding - Beginning of year	-	-
Granted	220,448	-
Outstanding - End of year	220,448	-

(expressed in Canadian dollars, except as otherwise indicated)

f) Deferred share unit plan

On August 11, 2010, the Company established a DSU plan to promote a greater alignment of long-term interests between eligible directors of the corporation and the shareholders of the Company and to provide a compensation system for eligible directors that, together with the other director compensation mechanisms of the Company, is reflective of the responsibility, commitment and risk accompanying board of directors' membership and the performance of the duties required of the various committees of the board of directors. An eligible director may elect to receive his or her annual cash remuneration in the form of DSUs, cash or any combination thereof.

DSUs elected by an eligible director will be credited to the eligible director's account as of the applicable conversion date. The number of DSUs (including fractional DSUs) to be credited to an eligible director's account as of a particular conversion date will be determined by dividing the portion of that eligible director's annual remuneration for the applicable period to be satisfied by DSUs by the fair value of those DSUs on the particular conversion date.

In addition to the DSUs granted, the board of directors may award such number of DSUs to an eligible director as the board of directors deems advisable to provide the eligible director with appropriate equity-based compensation for the services he or she renders to the Company. The board of directors will determine the date on which such DSUs may be granted and the date as of which such DSUs will be credited to a participant's DSU account, together with any terms or conditions with respect to the vesting of such DSUs. The Company and an eligible director who receives an award of DSUs will enter into a DSU award agreement to evidence the award and the terms, including terms with respect to vesting, applicable thereto. In the case of an eligible director who is a US taxpayer, where the eligible director is provided an election of determining the form of the equity-based compensation that may be granted by the board of directors in its discretion, such election will be made prior to the date on which the board of directors provides the eligible director with a legally binding right to the award (i.e. the date of grant of the award).

An eligible director, or the beneficiary of an eligible director, as the case may be, who redeems DSUs hereunder will be entitled to receive a cash payment in an amount equal to the fair value of the DSUs that are being redeemed as of the entitlement date applicable to such DSUs, net of any applicable withholding taxes and other required source deductions.

An eligible director who is not a US taxpayer may elect up to two separate dates as of which either a portion (specified in whole percentages or number of DSUs on any one date) or all of the DSUs credited to the eligible director's account will be redeemed (each such date being an entitlement date) by filing one or two irrevocable written redemption elections with the secretary of the Company. No entitlement date elected by an eligible director will be before the eligible director's termination date or later than December 15 of the calendar year following the year in which the eligible director's termination date occurs. Where an eligible director does not elect a particular date or dates within the permissible period set out above as his or her entitlement date or entitlement dates, as the case may be, there will be a single entitlement date for such eligible director, which will be December 15 of the year following the year in which the eligible director's termination date occurs.

(expressed in Canadian dollars, except as otherwise indicated)

The entitlement date of an eligible director who is a US taxpayer will be the first trading day after the date that is six months after his or her termination date and all vested DSUs credited to such eligible director's account on such date will be redeemed and settled during the period that commences on such entitlement date and ends on December 31 of the calendar year that includes such entitlement date.

During 2011, the Company issued 97,500 (2010 - 87,592) DSUs. As at September 30, 2011, 185,092 (2010 - 87,592) DSUs were outstanding under the DSU plan. During 2011, the Company recorded compensation expense of $76,394 (2010 - $123,505). The value of the liability related to the DSUs as at September 30, 2011 was $199,899 (2010 - $123,505) and is included in other long-term liabilities.

12 Stock option plan

The Company's stock option plan (the plan) was implemented to encourage ownership of the Company by directors, officers, employees and consultants of the Company. The total stock options outstanding as at September 30, 2011 consist of stock options granted under a stock option plan in place prior to the Company's initial public offering in February 2007 and stock options granted under the current plan. The maximum number of common shares that may be set aside for issuance under the current plan is 5,250,000 shares. The total number of stock options outstanding under the current plan does not exceed the maximum allowable set out above. In accordance with the plan, the exercise price of each stock option is based on the board of directors' determination of fair value of the Company's common shares on the date of grant. A stock option's term is determined at the board of directors' discretion but its maximum term cannot exceed ten years.

a) Stock options

Stock options are non-transferable and vest up to 25% at the end of the first year from date of grant and an additional 25% on each of the second, third and fourth anniversaries of grant. Stock options are priced in GBP or CAD.

CAD stock options	**Number of stock options**	**Weighted average exercise price per share CA$**
Outstanding - September 30, 2009	7,179,212	1.05
Granted	420,000	1.40
Exercised	(976,539)	1.13
Forfeited	(1,294,432)	1.27
Outstanding - September 30, 2010	5,328,241	1.01
Granted	1,003,125	1.39
Exercised	(139,300)	1.06
Forfeited	(1,144,552)	1.13
Outstanding - September 30, 2011	5,047,514	1.01

(expressed in Canadian dollars, except as otherwise indicated)

GBP stock options	**Number of stock options**	**Weighted average exercise price per share GB£**
Outstanding - September 30, 2009	1,160,500	0.59
Exercised	(218,000)	0.42
Forfeited	(230,375)	0.53
Outstanding - September 30, 2010	712,125	0.69
Exercised	(27,000)	0.57
Forfeited	(220,625)	0.51
Outstanding - September 30, 2011	464,500	0.48

Summary information about stock options outstanding and exercisable as at September 30, 2011 is as follows (the stock options with exercise prices denominated in foreign currency were converted into Canadian dollars using the foreign currency exchange rate in effect as at September 30, 2011):

		Stock options outstanding		**Stock options exercisable**	
Exercise price (original currency)	**Exercise price (CAD)**	**Number outstanding**	**Weighted average remaining contractual life (years)**	**Number exercisable**	**Weighted average remaining contractual life (years)**
CAD 0.23	CAD 0.23	55,000	7.20	35,000	7.20
CAD 0.36	CAD 0.36	1,329,250	7.45	707,750	7.45
GBP 0.41	CAD 0.67	115,000	6.45	115,000	6.45
GBP 0.44	CAD 0.71	248,000	6.29	177,750	6.29
GBP 0.59	CAD 0.96	75,000	5.95	75,000	5.95
CAD 1.18	CAD 1.18	325,000	6.93	-	-
CAD 1.21	CAD 1.21	2,254,012	2.84	2,254,012	2.84
CAD 1.24	CAD 1.24	11,875	5.08	11,875	5.08
CAD 1.25	CAD 1.25	338,000	7.87	169,000	7.87
CAD 1.35	CAD 1.30	30,000	6.37	-	-
GBP 0.93	CAD 1.51	26,500	5.75	26,500	5.75
CAD 1.37	CAD 1.37	80,000	8.87	20,000	8.87
CAD 1.40	CAD 1.40	175,000	8.67	43,750	8.67
CAD 1.44	CAD 1.44	50,000	8.03	12,500	8.03
CAD 1.50	CAD 1.50	385,000	6.18	-	-
CAD 2.16	CAD 2.16	14,377	5.28	14,375	5.28
		5,512,014	5.44	3,662,512	4.57

The common share price of the Company as at September 30, 2011 was $1.08 (2010 - $1.41) per share.

(expressed in Canadian dollars, except as otherwise indicated)

Summary information about stock options outstanding and exercisable as at September 30, 2010 is as follows:

Stock options outstanding		Stock options exercisable	
Number outstanding	**Weighted average remaining contractual life (years)**	**Number exercisable**	**Weighted average remaining contractual life (years)**
6,040,366	6.42	3,776,521	5.14

b) Fair values and stock-based compensation expense

The fair value of stock option grants made to employees and directors is estimated using the Black-Scholes option pricing model, with the following assumptions: risk-free interest rate of 3.4% (2010 - 3.4%); dividend yield of nil (2010 - nil); volatility of 66.8% (2010 - 66.8%); and expected lives of stock options of seven years (2010 - seven years). The fair value of the stock options is expensed over the vesting period of the stock options using the straight-line method.

Stock options granted during the year ended September 30, 2011 of 1,003,125 (2010 - 420,000) had a weighted average grant date fair value of $1.39 (2010 - $1.40) per share. Total fair value of these stock options granted was $912,829 (2010 - $443,205). During 2011, the Company recorded a stock-based compensation expense of $386,657 (2010 - $226,286) related to stock options granted under this plan.

13 Research and development expenses

	2011 $	2010 $
Gross research and development expenses	13,226,483	10,996,338
Less: Investment tax credits recognized	1,118,336	1,046,286
	12,108,147	9,950,052

In 2011 and 2010, the Company continued to earn investment tax credits related to research and development expenses.

(expressed in Canadian dollars, except as otherwise indicated)

14 Income taxes

The Company's effective income tax rate differs from the statutory rate that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to (loss) income before income taxes. These differences result from the following items:

	2011 **$**	**2010** **$**
(Loss) income before income taxes	(1,323,535)	3,156,160
Effective income tax rate	28.75%	31.75%
Expected income taxes based on (loss) income before income taxes	(380,516)	1,002,081
Increase (decrease) in income taxes resulting from		
Non-deductible items	452,353	234,499
Differences due to different income tax rates for foreign subsidiaries	104,569	(305,359)
Impact of income tax rates on temporary differences	44,788	1,402,400
Change in valuation allowance	19,287	(2,000,270)
Change in income tax reserve	62,623	146,071
Benefit of previously unrecorded income tax assets/liabilities	474,413	385,016
Filing adjustments relating to prior years' investment tax credits claimed and other items	432,226	1,197,468
Income tax expense	1,209,743	2,061,906
Current	1,330,164	2,111,236
Future	(120,421)	(49,330)
Income tax expense	1,209,743	2,061,906

(expressed in Canadian dollars, except as otherwise indicated)

The income tax effects of temporary differences that give rise to significant portions of future income tax assets and liabilities are as follows:

	2011 **$**	**2010** **$**
Future income tax assets		
SRED / non-capital loss carry-forwards	11,815,039	11,150,882
Property and equipment	358,722	313,558
Financing costs and long-term debt	319,516	631,635
Other	24,377	501,768
Investment tax credits	1,290,558	620,705
Corporate minimum taxes	852,504	631,546
	14,660,716	13,850,094
Less: Valuation allowance	12,798,767	12,718,921
Net future income tax asset and investment tax credits	1,861,949	1,131,173
Future income tax liability	(1,189,374)	(1,601,136)
Net future income tax asset (liability) and investment tax credits	672,575	(469,963)

Future income taxes and investment tax credits have been classified on the consolidated balance sheets as follows:

	2011 **$**	**2010** **$**
Future income tax asset and investment tax credits	1,520,101	795,196
Future income tax liability	(847,526)	(1,265,159)
Net future income tax asset (liability)	672,575	(469,963)

As at September 30, 2011, the Company has approximately $37,346,000 (2010 - $34,179,000) of federal non-capital losses (that will begin to expire in 2014) and scientific research and experimental development (SRED) pools for income tax purposes, which are available to reduce future years' income for Canadian income tax purposes. In addition, the Company has approximately $8,300,000 (2010 - $8,800,000) and $nil (2010 - $542,000) of non-capital losses from foreign subsidiaries with an indefinite life and a three-year life, respectively. The utilization of these non-capital losses will first reduce the related intangible assets, then any amounts in excess of this will be included in net income (loss) in the applicable reporting period.

(expressed in Canadian dollars, except as otherwise indicated)

The Company's Canadian income tax losses available for carry-forward expire as follows:

	$
2014	1,500,000
2025	2,500,000
2026	2,900,000
2027	2,300,000
2028	300,000
2029	300,000
2030	200,000
2031	100,000
	10,100,000

The Company has $9,993,000 (2010 - $9,371,000) of investment tax credits, which can also be used to reduce future federal income taxes. The Company has recorded $1,290,558 of these credits. These credits have a life of 10 to 20 years and will not begin to expire until 2023.

15 Other assets

The Company has included $469,177 (2010 - $501,334) for deposits on various rental properties, service contracts and support costs on software in other assets. The rental deposits are collectible at the end of the rental terms, which vary in length. Other assets also include $13,283 (2010 - $17,321) in support costs related to software used by the Company, which are amortized over the year to which the support is applicable.

16 Changes in non-cash operating working capital

The changes in non-cash working capital are as follows (2010 - excludes the impact of Nimbus Systems):

	2011 $	2010 $
Trade accounts and other receivables	1,785,241	(2,982,574)
Unbilled revenue	(3,803,138)	(2,842,838)
Prepaid expenses	(83,887)	(242,563)
Accounts payable	(1,008,754)	663,082
Accrued liabilities	2,545,373	(3,141,304)
Deferred revenue	25,745	(2,198,993)
Income taxes payable	929,857	211,109
Goods in transit	(211,594)	(14,610)
	178,843	(10,548,691)

(expressed in Canadian dollars, except as otherwise indicated)

17 Segmented reporting

The Company reviewed its operations and 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. The following information provides the required enterprisewide disclosures.

The Company's revenue by geographic area is as follows:

	2011 $	**2010** $
Europe, Middle East and Africa	26,123,962	21,488,364
North America, Latin America and Caribbean	18,968,059	16,125,196
Asia and Pacific Rim	14,981,039	11,256,829
	60,073,060	48,870,389

Revenue is attributed to geographic locations, based on the location of the external customer. Sales related to Canadian customers were $130,797 and $402,810 for each of 2011 and 2010, respectively.

	2011 $	**2010** $
Revenue by type		
Software and services	33,356,970	27,360,570
Support	22,363,276	19,055,928
Third party software and hardware	4,352,814	2,453,891
	60,073,060	48,870,389

The Company's property and equipment by geographic area are as follows:

	2011 $	**2010** $
Canada	40,423	126,091
India	210	12,544
Lebanon	44,910	64,088
Spain	300,243	418,019
United Kingdom	-	8,931
Other	6,914	5,853
	392,700	635,526

The Company's goodwill is common across all locations. Therefore, management does not classify goodwill on a location basis.

(expressed in Canadian dollars, except as otherwise indicated)

18 Commitments, guarantees and contingencies

a) Lease commitments

Future minimum lease payments for premises and equipment under non-cancellable operating leases are as follows:

	$
2012	1,870,831
2013	1,264,433
2014	835,794
2015	877,029
2016 and thereafter	1,534,801
	6,382,888

Rent expense related to premises under lease for the year ended September 30, 2011 was $1,276,987 (2010 - $1,163,110).

b) Letters of credit

As at September 30, 2011, the Company had $815,313 (2010 - $811,979) in outstanding letters of credit relating to customer contracts, which are secured by restricted cash, shown separately in the consolidated balance sheets.

c) Guarantees

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.

d) Litigation and claims

The Company is involved in certain claims and litigation arising out of the ordinary course and conduct of business. Management assesses such claims and, if considered likely to result in a loss and, when the amount of the loss is quantifiable, provisions for loss are made, based on management's assessment of the most likely outcome. Management does not provide claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable. The Company is not currently a party to, or has any of its property as the subject of, legal proceedings, which would be material to the Company's financial condition or results of operations.

(expressed in Canadian dollars, except as otherwise indicated)

The Company is currently involved in a legal dispute with one of its customers. The Company has expensed $418,000 of costs to date, $178,000 of which was recorded in the current year. The remaining exposure is $182,000 on this contingency.

e) Earn-out agreement

The Nimbus purchase agreement contains an earn-out provision, which outlines that an aggregate amount of up to €1,050,000 will be paid by the Company to the sellers in cash if certain future criteria are met. As at September 30, 2011, no amount has been recorded in the consolidated financial statements. Subsequent to year-end, certain criteria were met that triggered part of the contingency related to the earn-out to be resolved. The amount related to this portion of the earn-out is €350,000.