Redknee Solutions Inc.

Consolidated Financial Statements
September 30, 2010 and 2009
(expressed in Canadian dollars)

PRICEWATERHOUSECOOPERS

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Auditors' Report

To the Shareholders of
Redknee Solutions Inc.

We have audited the consolidated balance sheets of **Redknee Solutions Inc.** as at September 30, 2010 and 2009 and the consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants, Licensed Public Accountants

"PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate legal entity.

Redknee Solutions Inc.

Consolidated Balance Sheets

As at September 30, 2010 and 2009

(expressed in Canadian dollars)

	2010 $	2009 $
Assets		
Current assets		
Cash and cash equivalents	18,738,958	25,663,047
Short-term investments	22,186	107,049
Trade accounts and other receivables	14,959,777	8,160,277
Unbilled revenue	7,196,714	2,670,431
Investment tax credits receivable	-	600,000
Prepaid expenses	1,371,960	1,027,056
Goods in transit	256,709	242,099
	42,546,304	38,469,959
Restricted cash (notes 4 and 17(b))	811,979	322,722
Property and equipment (note 5)	635,526	275,331
Future income taxes (note 13)	795,196	334,513
Other assets (note 14)	518,655	464,303
Intangible assets (note 6)	5,861,248	1,487,680
Goodwill (note 2)	7,668,157	-
	58,837,065	41,354,508
Liabilities		
Current liabilities		
Accounts payable	2,624,339	907,694
Accrued liabilities	3,703,055	5,899,843
Income taxes payable	2,730,670	2,529,923
Deferred revenue	6,031,551	6,988,512
Current portion of loans payable (note 8)	3,071,885	-
Current portion of obligations under capital leases (note 9)	24,197	-
	18,185,697	16,325,972
Long-term deferred revenue	-	1,005,164
Other long-term liabilities (notes 2 and 10(e))	468,505	-
Long-term portion of loans payable (note 8)	7,094,087	-
Obligations under capital leases (note 9)	32,178	-
Future income taxes (notes 2 and 13)	1,265,159	-
	27,045,626	17,331,136
Shareholders' Equity		
Share capital, net of employee share purchase loans (note 10(b))	47,662,953	40,744,480
Contributed surplus	4,345,128	4,572,737
Deficit	(20,050,301)	(21,144,555)
Accumulated other comprehensive loss	(166,341)	(149,290)
	(20,216,642)	(21,293,845)
	31,791,439	24,023,372
	58,837,065	41,354,508

Commitments, guarantees and contingencies (note 17)

Approved by the Board of Directors

(signed) "Alan Michels" 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, 2010 and 2009

(expressed in Canadian dollars)

	2010 $	2009 $
Revenue		
Software, services and other	29,814,462	32,096,609
Support	19,055,927	21,153,523
	48,870,389	53,250,132
Cost of revenue	13,107,426	11,968,026
Gross profit	35,762,963	41,282,106
Operating expenses		
Sales and marketing	12,548,407	14,608,859
General and administrative	7,637,960	8,983,293
Research and development (note 12)	9,950,052	11,929,925
Amortization of property and equipment and intangible assets	777,249	677,229
Foreign exchange loss (note 3)	1,679,999	871,514
	32,593,667	37,070,820
Income from operations	3,169,296	4,211,286
Interest income	72,574	97,747
Interest expense	(85,710)	(19,687)
Income before income taxes	3,156,160	4,289,346
Income taxes (note 13)		
Current	2,111,236	961,915
Future	(49,330)	-
Net income for the year	1,094,254	3,327,431
Net income per common share (note 10(b))		
Basic	0.02	0.06
Diluted	0.02	0.06
Weighted average number of common shares (note 10(b))		
Basic	60,137,683	57,761,293
Diluted	62,017,977	59,832,102

See accompanying notes to consolidated financial statements

Redknee Solutions Inc.

Consolidated Statements of Comprehensive Income

For the years ended September 30, 2010 and 2009

(expressed in Canadian dollars)

	2010 $	2009 $
Net income for the year	1,094,254	3,327,431
Other comprehensive income (loss)		
Foreign currency translation adjustment	(17,051)	61,669
Comprehensive income for the year	1,077,203	3,389,100

See accompanying notes to consolidated financial statements.

Redknee Solutions Inc.

Consolidated Statements of Shareholders' Equity

For the years ended September 30, 2010 and 2009

(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, 2008	58,350,626	40,663,829	(977,128)	4,410,677	(24,471,986)	(210,959)	19,414,433
Stock-based compensation (notes 10 and 11)	-	-	-	708,727	-	-	708,727
Net income for the year	-	-	-	-	3,327,431	-	3,327,431
Collection of employee share purchase loans	-	-	484,526	-	-	-	484,526
Stock options exercised	28,125	40,053	-	(13,467)	-	-	26,586
Restricted share units vested and exercised	430,000	533,200	-	(533,200)	-	-	-
Other comprehensive income for the year	-	-	-	-	-	61,669	61,669
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 10 and 11)	-	-	-	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

See accompanying notes to consolidated financial statements.

Redknee Solutions Inc.

Consolidated Statements of Cash Flows

For the years ended September 30, 2010 and 2009

(expressed in Canadian dollars)

	2010 $	2009 $
Cash provided by (used in)		
Operating activities		
Net income for the year	1,094,254	3,327,431
Items not involving cash		
Amortization of property and equipment	171,929	150,810
Amortization of intangible assets	605,320	526,419
Investment tax credits	600,000	(200,000)
Unrealized foreign exchange loss	1,467,351	796,424
Stock-based compensation	554,391	708,727
Future income taxes	(432,475)	-
Change in non-cash operating working capital (note 15)	(10,548,691)	5,389,401
	(6,487,921)	10,699,212
Financing activities		
Collection of employee share purchase loans	487,358	484,526
Proceeds from exercise of stock options	1,299,242	26,586
Repayment of obligations under capital leases	-	(619)
Net proceeds from loans payable	7,789,507	-
	9,576,107	510,493
Investing activities		
Proceeds from (purchase of) short-term investments	148,813	(50,686)
Purchase of property and equipment	(114,746)	(471,426)
Purchase of intangible assets	(99,557)	-
(Increase) decrease in other assets	(54,354)	63,991
(Increase) decrease in restricted cash	(489,257)	87,197
Acquisition of Nimbus Systems, net of cash acquired (note 2)	(8,422,352)	-
	(9,031,453)	(370,924)
Effect of foreign exchange rate changes on cash and cash equivalents	(980,822)	(418,341)
(Decrease) increase in cash and cash equivalents during the year	(6,924,089)	10,420,440
Cash and cash equivalents - Beginning of year	25,663,047	15,242,607
Cash and cash equivalents - End of year	18,738,958	25,663,047
Supplemental cash flow information		
Interest paid	85,710	19,687
Interest received	72,574	97,747
Income taxes paid	344,882	634,612
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) commenced operations on March 29, 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 80 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 the Company, Redknee, and its wholly owned subsidiary companies, of which the principal subsidiaries are Redknee (Ireland) Ltd., Redknee (Germany) GmbH, Redknee (UK) Ltd., Redknee (ME) FZ-LLC (Dubai), Redknee (US) Ltd., Redknee (India) Technologies Pvt. Ltd., Redknee Solutions (UK) Limited, Redknee (Lebanon) MEA SAL, Redknee Singapore PTE Ltd., Redknee Spain SAL Ltd., 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 income per common share

The Company computes net income per common share, whereby basic net income per common share is computed by dividing net income attributable to all classes of common shareholders by the weighted average number of shares outstanding during the applicable period. Diluted net income per common share is determined in the same manner as basic net 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 and 2009, 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:

Automobile	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.

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.

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

(expressed in Canadian dollars, except as otherwise indicated)

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 current 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 3.

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. 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 has stock-based compensation plans, which are described in notes 10 and 11. 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.

During the year, the Company implemented 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. Forfeitures of DSUs are accounted for in the period 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 income per common share. As loans are repaid, an offset to share capital will be recorded appropriately.

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 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 tax planning strategies in making this assessment.

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. 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 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 10 and 11. 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 to establish VSOE on currently or newly offered elements, thereby changing the amount and timing of revenue recognized.

In management's assessment of 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.

(expressed in Canadian dollars, except as otherwise indicated)

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 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 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 depreciation and 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 gain/loss in the consolidated statements of operations.

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.

Effective October 1, 2009, the Company adopted Section 3064, Goodwill and Intangible Assets, which replaces Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, and which established standards for the recognition, measurement and disclosure of goodwill and intangible assets. The adoption of this standard required the Company to retroactively reclassify its computer software assets that meet the definition of an intangible asset on its consolidated balance sheets from property and equipment to intangible assets. The net book value of the purchased

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computer software reclassified as at September 30, 2009 was $352,358. The adoption of this amendment did not impact the Company's consolidated statement of operations for fiscal 2009.

For the year ended September 30, 2010, the Company has adopted the amendments to 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 3. Although the amendments apply to financial statements relating to fiscal years ending after September 30, 2009, comparative information is not required in the first year of application.

u) Future changes in accounting standards

In October 2008, the CICA issued Section 1582, Business Combinations (Section 1582), concurrently with Sections 1601, Consolidated Financial Statements (Section 1601), and 1602, Non-controlling Interests (Section 1602). Section 1582, which replaces Section 1581, Business Combinations, establishes standards for the measurement of a business combination and the recognition and measurement of assets acquired and liabilities assumed. Section 1601, which replaces Section 1600, carries forward the existing guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. Section 1602 establishes guidance for the treatment of non-controlling interests subsequent to acquisition through a business combination. These new standards are effective for the Company's interim and annual periods commencing on January 1, 2011, with earlier adoption permitted as at the beginning of a fiscal year. The Company is currently assessing the impact of the new standards on its consolidated financial statements.

In December 2009, the CICA issued Emerging Issues Committee Abstract 175 (EIC 175), replacing EIC 142. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have VSOE or third party evidence of selling price, that the entity allocate revenue in an arrangement using the estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the entity's fiscal period of adoption. The Company is currently assessing the future impact of these amendments on its consolidated financial statements and has not yet determined the timing and method of their adoption.

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

(expressed in Canadian dollars, except as otherwise indicated)

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 $12,895,730 consists of cash paid on closing of $8,053,600, 3,628,044 common shares issued, including 1,814,022 common shares placed in escrow, valued at $4,473,378 and acquisition costs of $642,652. 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 share prices during the period and the inability to transact with these 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 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:

	Preliminary 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)
Taxes payable	(124,685)
Future income tax liabilities	(1,371,159)
	257,042
Intangible assets	
Customer relationships	2,841,649
Technology	1,326,192
Backlog	802,690
Goodwill	7,668,157
	12,638,688
Total purchase consideration, net of cash acquired	12,895,730

(expressed in Canadian dollars, except as otherwise indicated)

The purchase was financed by:

	$
Cash	121,664
Loans payable	8,300,688
Common shares issued	4,473,378
	12,895,730

Redknee expects to finalize the allocation of the purchase price during fiscal 2011 and the preliminary allocation may change. The customer relationships and technology arising from this acquisition will be amortized into income over their estimated useful lives of ten years. The backlog will be amortized over its estimated useful life of one year.

3 Financial instruments and capital management

Effective October 1, 2010, the Company adopted the amendments issued by the CICA to 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 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 liabilities.
- Level 2 Inputs are inputs other than quoted prices included in level 1 that are observable for the financial asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).
- Level 3 Inputs are inputs for the asset or 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, 2010 and 2009 in the consolidated financial statements are summarized below. The Company has no financial liabilities measured at fair value.

				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

(expressed in Canadian dollars, except as otherwise indicated)

				2009
	Level 1 $	**Level 2** $	**Level 3** $	**Total** $
Cash and cash equivalents	25,663,047	-	-	25,663,047
Short-term investments	107,049	-	-	107,049
Restricted cash	322,722	-	-	322,722
	26,092,818	-	-	26,092,818

There were no transfers of financial assets between levels during the years ended September 30, 2010 and 2009.

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:

	2010 $	**2009** $
Held-for-trading (i)	19,573,123	26,092,818
Loans and receivables (ii)	14,742,669	7,276,836
Other financial liabilities (iii)	6,795,899	6,807,537
Loans payable (iv)	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 other financial liabilities approximate fair values because they are due within one year.

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 $591,521, compared to a carrying value of $526,313.

Foreign currency risk

Foreign currency risk arises because of fluctuations in foreign 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

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currency exchange loss in 2010 of $1,679,999, as compared to a foreign currency exchange loss in 2009 of $871,514.

If a shift in foreign currency exchange rates of 10% were to occur, the foreign exchange gain or loss on the Company's net monetary assets could change by approximately $1,800,000 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, restricted cash and short-term investments, 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, restricted cash and short-term investments as at September 30 was as follows:

	2010	**2009**
	%	**%**
Asia and Pacific Rim	6	10
Americas	73	44
Europe, Middle East and Africa	21	46
	100	100

As at September 30, 2010, the Company's two largest customers accounted for 23% of sales (2009 - 28%). 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.

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 receivables, as soon as the account is perceived not to be fully collectible.

(expressed in Canadian dollars, except as otherwise indicated)

The Company's net trade receivables had a carrying value of $14,742,669 as at September 30, 2010 (2009 - $7,184,810), representing the maximum exposure to credit risk of those financial assets, exclusive of the allowance for doubtful accounts. Normal credit terms for amounts due from customers call for payment within 30 to 60 days. Approximately 20% of trade receivables were past due as at September 30, 2010, of which $3,581,462 was outstanding for more than 120 days (2009 - 38% over 120 days in the amount of $2,133,000). During the year, the Company recorded a bad debt expense of $554,744 (2009 - $32,000). The allowance for doubtful accounts as at September 30, 2010 is $722,946 (2009 - $234,000).

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.

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

	2010 %	2009 %
Asia and Pacific Rim	19	29
Americas	22	29
Europe, Middle East and Africa	59	42
	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	2,624,339	-	-	-	-	-
Accrued liabilities	3,703,055	-	-	-	-	-
Loans payable	3,071,885	1,820,862	2,058,847	1,639,442	1,574,936	-
Other long-term liabilities	-	-	345,000	-	-	123,505
	9,399,279	1,820,862	2,403,847	1,639,442	1,574,936	123,505

The Company also has contractual obligations in the form of operating leases (note 17(a)).

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

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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, short-term investments and certain loans payable. If a shift in interest rates of 10% were to occur, the impact on cash and cash equivalents, restricted cash and short-term investments 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 $22,262, 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 composed of share capital and credit used plus credit available under certain credit facilities, which assist in financing (i) acquisitions and/or (ii) provide 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 returns to its shareholders. Management monitors its compliance with covenants imposed by loan agreements on a quarterly basis. The Company has complied with all externally imposed capital requirements.

4 Restricted cash

The Company used short-term bank deposits as security for outstanding letters of credit (note 17(b)).

5 Property and equipment

			2010
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Automobile	207,534	122,230	85,304
Computer equipment and computer equipment under capital lease	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
	3,413,823	2,778,297	635,526

(expressed in Canadian dollars, except as otherwise indicated)

			2009
	Cost **$**	**Accumulated amortization** **$**	**Net** **$**
Computer equipment and computer equipment under capital lease	1,392,890	1,236,661	156,229
Furniture and fixtures	1,177,213	1,105,426	71,787
Leasehold improvements	205,565	158,250	47,315
	2,775,668	2,500,337	275,331

The net book value of assets under capital lease as at September 30, 2010 was $56,375 (2009 - $nil).

During 2010, the Company recorded an amortization expense of $171,929 (2009 - $150,810).

6 Intangible assets

	2010 **$**	**2009** **$**
Backlog, net of accumulated amortization of $54,500 (2009 - $nil)	748,190	-
Software, net of accumulated amortization of $2,145,181 (2009 - $1,888,501)	234,552	348,236
Technology, net of accumulated amortization of $426,167 (2009 - $241,220)	1,622,501	548,780
Customer relationships, net of accumulated amortization of $244,237 (2009 - $126,097)	3,256,005	590,664
	5,861,248	1,487,680

During 2010, the Company recorded an amortization expense of $605,300 (2009 - $531,111).

7 Related party transactions

The employee shareholder loans are described in note 10.

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 both the Company and the customer to this transaction. Included in revenue for fiscal 2010 is $785,000 for software, services and third party goods provided under this agreement. As at September 30, 2010, all monies owed to the Company as a result of this agreement have been received.

(expressed in Canadian dollars, except as otherwise indicated)

8 Loans payable

	2010 $	2009 $
Term loan, bearing interest at LIBOR plus 4%, due in August 2015	8,247,432	-
Term loan, denominated in euros, €53,200, bearing interest at Euribor six months plus 0.65%, due in April 2013	74,512	-
Term loan, denominated in euros, €96,247, bearing interest at 4.95%, due in November 2012	134,803	-
Term loan, denominated in euros, €13,889, bearing interest at 6.63%, due in October 2011	19,453	-
Term loan, denominated in euros, €15,641, bearing interest at nil%, due in December 2011	21,907	-
Term loan, denominated in euros, €150,000, bearing interest at 3.99%, due in February 2013	210,090	-
Term loan, denominated in euros, €100,000, bearing interest at 6.41%, due in June 2012	140,060	-
Term loan, denominated in euros, €20,000, bearing interest at Euribor three months plus 3%, renewable on a six-month cycle	28,012	-
Bank indebtedness, denominated in euros, €920,872, face value discount of 2%-4%, due on demand	1,289,703	-
Less: Current portion of loans payable	3,071,885	-
	7,094,087	-

As at September 30, 2010, 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.

During the year, the Company borrowed against this credit facility for the Nimbus acquisition. As at September 30, 2010, US$7,960,000 (CA$8,197,208) remains outstanding and is repayable semi-annually over five years. Interest on this 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. Management has determined that no covenants are in breach as of the reporting date.

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

Interest of $60,244 in connection with loans payable has been charged to the consolidated statements of operations for the year ended September 30, 2010 (2009 - $nil).

(expressed in Canadian dollars, except as otherwise indicated)

9 Obligations under capital leases

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

	2010 $
Total minimum capital lease payments	62,196
Less: Imputed interest at rates averaging 7.00%	5,821
Present value of capital lease payments	56,375
Less: Current portion	24,197
Long-term obligations	32,178

Interest expense on obligations under capital leases amounted to $nil (2009 - $nil).

10 Share capital

a) Authorized

Unlimited voting common shares
Unlimited preferred shares

b) Net income per common share

For the year ended September 30, 2010, the diluted weighted average shares outstanding include unvested restricted share units and dilutive outstanding stock options. Shares relating to outstanding employee share purchase loans and the remainder of outstanding stock options in the amount of 4,325,072 (2009 - 7,685,736) 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 income per common share for the year ended September 30 is as follows:

	2010	2009
Weighted average number of common shares outstanding	60,142,325	58,780,626
Less: Shares associated with outstanding common share purchase loans	4,642	1,019,333
Basic weighted average number of common shares outstanding	60,137,683	57,761,293
Add: Dilutive stock options outstanding (based on the share price of $1.41 (2009 - $1.07) at the balance sheet dates)	1,715,294	1,740,809
Add: Unvested restricted common share units	165,000	330,000
Diluted weighted average number of common shares outstanding	62,017,977	59,832,102

(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, 2010 aggregated $12,818 (2009 - $27,910).

The 215,653 common shares issued under this plan were recorded in share capital as an increase in the number of common shares issued and outstanding with the corresponding value of $267,410 assigned.

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 3,226,445 stock options exercised under this plan were recorded in share capital as an increase in the number of common shares issued and outstanding with the corresponding value of $1,559,211 assigned, which includes a $267,996 reclassification from contributed surplus relating to prior compensation expense recognized on these stock options. The total amount of loans issued under this program was $1,016,846 and the balance outstanding as at September 30, 2010 aggregated $5,244 (2009 - $492,602).

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 $18,333 (2009 - $74,110) as an expense for the year ended September 30, 2010.

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. Common shares granted under the RSP are subject to vesting from the grant date, which can be time based or performance based, vesting at the board of directors' discretion.

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: 50% of the common shares granted will vest on the second anniversary of the grant date; 25% of the common shares granted will be vested on the third anniversary of the grant date; and 25% of the common shares granted will vest on the fourth anniversary of the grant date.

(expressed in Canadian dollars, except as otherwise indicated)

On November 10, 2006, in addition to establishing the RSP, the board of directors approved and the Company granted 966,250 restricted share units 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 restricted share units are placed in a trust until the restricted share units vest, at which time, they are issued to the beneficiary. The associated stock-based compensation expense of $1,198,150 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 2010, the Company expensed approximately $204,600 (2009 - $204,600) relating to these restricted share units.

	2010 **$**	**2009** **$**
Outstanding - Beginning of year	330,000	860,000
Exercised	(165,000)	(430,000)
Forfeited	-	(100,000)
Outstanding - End of year	165,000	330,000

e) 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).

(expressed in Canadian dollars, except as otherwise indicated)

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.

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 2010, the Company issued 87,592 DSUs (all of which were outstanding as at September 30, 2010) and recorded compensation expense of $123,505 (2009 - $nil), which has been included in general and administrative expenses in the consolidated statements of operations and other long-term liabilities in the consolidated balance sheets.

11 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, 2010 consists 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, USD or CAD.

(expressed in Canadian dollars, except as otherwise indicated)

USD stock options	**Number of stock options**	**Weighted average exercise price per share US$**
Outstanding - September 30, 2008	117,500	0.39
Forfeited	(50,000)	0.14
Outstanding - September 30, 2009	67,500	0.73
Exercised	(67,500)	0.73
Outstanding - September 30, 2010	-	-

CAD stock options	**Number of stock options**	**Weighted average exercise price per share CA$**
Outstanding - September 30, 2008	4,271,388	1.22
Granted	3,139,500	0.51
Forfeited	(231,676)	1.23
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

GBP stock options	**Number of stock options**	**Weighted average exercise price per share GB₤**
Outstanding - September 30, 2008	1,518,000	0.52
Forfeited	(357,500)	0.65
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

Summary information about stock options outstanding and exercisable as at September 30 is as follows (the stock options with exercise prices denominated in foreign currency were converted into Canadian dollars using the foreign exchange rate in effect as at September 30, 2010).

(expressed in Canadian dollars, except as otherwise indicated)

2010

		Stock options outstanding		Stock options exercisable	
		Number outstanding	**Weighted average remaining contractual life (years)**	**Number exercisable**	**Weighted average remaining contractual life (years)**
CAD0.23	CAD0.23	70,000	8.20	27,500	8.20
CAD0.36	CAD0.36	1,574,250	8.45	330,750	8.45
GBP0.41	CAD0.66	217,500	7.74	117,500	7.74
GBP0.44	CAD0.70	345,000	7.28	171,500	7.28
GBP0.59	CAD0.95	75,000	6.95	56,250	6.95
CAD1.21	CAD1.21	2,862,241	4.24	2,862,241	4.24
CAD1.24	CAD1.24	13,125	5.80	12,029	5.80
CAD1.25	CAD1.25	368,000	8.87	92,000	8.87
CAD1.37	CAD1.37	115,000	9.89	28,750	9.89
CAD1.40	CAD1.40	175,000	9.67	-	-
CAD1.44	CAD1.44	130,000	9.62	-	-
GBP0.93	CAD1.50	74,625	6.74	62,530	6.74
CAD2.16	CAD2.16	20,625	6.28	15,471	6.28
		6,040,366	6.42	3,776,521	5.14

The common share price of the Company as at September 30, 2010 was $1.41 per share (2009 - $1.07).

2009

Stock options outstanding		Stock options exercisable	
Number outstanding	**Weighted average remaining contractual life (years)**	**Number exercisable**	**Weighted average remaining contractual life (years)**
8,407,212	6.83	4,600,686	5.12

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% (2009 - between 2.9% and 3.2%); dividend yield of nil (2009 - nil); volatility of 66.8% (2009 - 71.9%); and expected lives of stock options of seven years (2008 - seven years). The fair value of the stock options is expensed over the vesting period of the stock options using the straight-line method.

(expressed in Canadian dollars, except as otherwise indicated)

Stock options granted during the year ended September 30, 2010 had a weighted average grant date fair value of $1.40 (2009 - $0.40) per share. During 2010, the Company recorded a stock-based compensation expense of $226,286 (2009 - $504,127) related to stock options granted under this plan.

12 Research and development expenses

	2010 $	2009 $
Gross research and development expenses	10,996,338	12,129,925
Less: Investment tax credits recognized	1,046,286	200,000
	9,950,052	11,929,925

In 2010 and 2009, the Company continued to earn investment tax credits related to research and development expenses.

13 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 (income) before income taxes. These differences result from the following items:

	2010 $	2009 $
Income before income taxes	3,156,160	4,289,346
Effective income tax rate	31.75%	33.13%
Expected income taxes based on income before income taxes	1,002,081	1,421,060
Increase (decrease) in income taxes resulting from		
Non-deductible items	234,499	209,463
Differences due to different income tax rates for foreign subsidiaries	(305,359)	(286,173)
Impact of income tax rates on temporary differences	1,402,400	(57,592)
Change in valuation allowance	(2,000,270)	1,154,767
Change in income tax reserve	146,071	246,246
Benefit of previously unrecorded income tax assets/liabilities	385,016	(1,750,297)
Filing adjustments relating to prior years' ITCs claimed and other items	1,197,468	24,441
Income tax expense	2,061,906	961,915

(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:

	2010 **$**	**2009** **$**
Future income tax assets		
SRED / non-capital loss carry-forwards	11,150,882	13,417,652
Property and equipment	313,558	61,322
Financing costs and long-term debt	631,635	765,300
Investment tax credits	620,705	200,000
Corporate minimum taxes	631,546	518,030
Other	501,768	230,808
	13,850,094	15,193,112
Less: Valuation allowance	12,718,921	14,516,766
Net future income tax asset	1,131,173	676,346
Future income tax liability	(1,601,136)	(341,833)
Net future income tax liability	(469,963)	334,513

Future income taxes have been classified on the consolidated balance sheets as follows:

	2010 **$**	**2009** **$**
Future income tax asset	795,196	334,513
Future income tax liability	1,265,159	-

As at September 30, 2010, the Company has approximately $34,179,000 (2009 - $37,626,000) of federal non-capital losses and scientific research and experimental development (SRED) pools for income tax purposes that will begin to expire in 2014, which are available to reduce future years' income for income tax purposes. In addition, the Company has approximately $8,800,000 (2009 - $8,400,000) and $542,000 (2009 - $nil) 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 reduce intangible assets.

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
	10,000,000

(expressed in Canadian dollars, except as otherwise indicated)

The Company has $9,371,000 (2009 - $10,113,000) of unrecorded income tax credits, which can be also used to reduce future federal income taxes. These credits have a life of ten to 20 years and will not begin to expire until 2024.

14 Other assets

The Company has included $501,334 (2009 - $444,833) 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 $17,321 (2009 - $19,470) in support costs related to software used by the Company, which are amortized over the year to which the support is applicable.

15 Change in non-cash operating working capital

The changes in non-cash working capital, after removing the impact of the acquisition of Nimbus Systems, are as follows:

	2010 $	2009 $
Trade accounts and other receivables	(2,982,574)	2,509,741
Unbilled revenue	(2,842,838)	3,896,087
Prepaid expenses	(242,563)	39,529
Accounts payable	663,082	(1,302,674)
Accrued liabilities	(3,141,304)	(2,879,537)
Deferred revenue	(2,198,993)	2,909,389
Goods in transit	(14,610)	83,617
Income taxes payable	211,109	133,249
	(10,548,691)	5,389,401

16 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:

	2010 $	2009 $
Europe, Middle East and Africa	21,488,364	20,900,343
North America, Latin America and Caribbean	16,125,196	22,008,167
Asia and Pacific Rim	11,256,829	10,341,622
	48,870,389	53,250,132

(expressed in Canadian dollars, except as otherwise indicated)

Revenue is attributed to geographic locations, based on the location of the external customer. Sales related to Canadian customers were $402,810 and $562,321 for each of 2010 and 2009, respectively.

	2010 **$**	**2009** **$**
Revenue by type		
Software and services	27,360,570	29,945,172
Third party software and hardware	2,453,891	2,151,437
Support	19,055,928	21,153,523
	48,870,389	53,250,132

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

	2010 **$**	**2009** **$**
Lebanon	64,088	-
Canada	126,091	216,821
United Kingdom	8,931	42,639
Spain	418,019	-
India	12,544	10,641
Other	5,853	5,230
	635,526	275,331

The Company’s goodwill resides in Canada.

In 2010, one customer accounted for 13% of revenue and, in 2009, one customer accounted for 18.5% of revenue.

17 Commitments, guarantees and contingencies

a) Lease commitments

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

	$
2011	2,420,926
2012	1,968,643
2013	1,761,279
2014	934,582
2015 and thereafter	2,631,087
	9,716,517

Rent expense for the year ended September 30, 2010 was $1,163,110 (2009 - $1,496,776).

b) Letters of credit

As at September 30, 2010, the Company had $811,979 in outstanding letters of credit (2009 - $322,722) relating to customer contracts, which are secured by restricted cash 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.

The Company is currently involved in a legal dispute with one of its customers. The Company has expensed $240,000 of costs to date. The remaining exposure is $360,000 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.

18 Comparative figures

The Company has reclassified certain of the prior year's information to conform with the current year's consolidated financial statement presentation. Subscription revenue has been grouped with support revenue for the current year and the prior year's figures have been adjusted accordingly.