

Interim Condensed Consolidated Financial Statements  
(Expressed in U.S. dollars (note 2(c)))

## **REDKNEE SOLUTIONS INC.**

Three months ended December 31, 2011

# REDKNEE SOLUTIONS INC.

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

	December 31, 2011	September 30, 2011	October 1, 2010
<b>Assets</b>			
Current assets:			
Cash and cash equivalents (note 4)	\$ 15,800,366	\$ 14,879,940	\$ 18,038,121
Short-term investments	—	—	21,356
Trade accounts and other receivables	14,414,813	12,987,865	14,400,281
Unbilled revenue	8,741,744	9,253,901	6,927,557
Prepaid expenses	1,303,318	1,398,145	1,320,649
Inventory	337,335	450,788	247,108
	<u>40,597,576</u>	<u>38,970,639</u>	<u>40,955,072</u>
Restricted cash	710,976	784,820	781,611
Property and equipment	435,329	378,013	611,757
Deferred income taxes	1,422,326	1,463,249	765,456
Long-term unbilled revenue	1,495,482	1,226,496	—
Other assets	671,718	464,416	499,257
Intangible assets	3,827,633	3,976,609	5,642,037
Goodwill	7,638,590	7,638,590	7,381,368
	<u>\$ 56,799,630</u>	<u>\$ 54,902,832</u>	<u>\$ 56,636,558</u>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable	\$ 1,716,477	\$ 1,731,396	\$ 2,526,188
Accrued liabilities	4,880,470	6,001,706	3,564,561
Income taxes payable	3,733,221	3,199,295	2,628,543
Current portion of contingent consideration (note 5)	839,937	870,789	—
Current portion of deferred revenue	6,513,793	5,848,086	5,805,971
Current portion of loans and borrowings (note 7)	2,970,327	3,232,857	2,980,289
	<u>20,654,225</u>	<u>20,884,129</u>	<u>17,505,552</u>
Long-term deferred revenue	973,795	—	—
Other long-term liabilities	521,240	524,520	450,983
Contingent consideration (note 5)	—	—	1,160,816
Long-term portion of loans and borrowings (note 7)	4,787,901	4,804,700	6,859,743
Deferred income taxes	802,636	815,829	1,217,842
	<u>27,739,797</u>	<u>27,029,178</u>	<u>27,194,936</u>
Shareholders' equity:			
Share capital, net of employee share purchase loans	46,469,720	46,312,920	45,880,359
Contributed surplus	4,433,527	4,353,584	4,336,925
Deficit	(21,856,883)	(22,806,319)	(20,775,662)
Accumulated other comprehensive income	13,469	13,469	—
	<u>29,059,833</u>	<u>27,873,654</u>	<u>29,441,622</u>
Subsequent event (note 5)			
Commitments, guarantees and contingent liabilities (note 11)			
Related party transaction (note 6)			
	<u>\$ 56,799,630</u>	<u>\$ 54,902,832</u>	<u>\$ 56,636,558</u>

See accompanying notes to interim condensed consolidated financial statements.

# REDKNEE SOLUTIONS INC.

Interim Condensed Consolidated Statement of Comprehensive Income (Loss)  
 (Expressed in U.S. dollars)  
 (Unaudited)

	Three months ended December 31,	
	2011	2010
Revenue:		
Software, services and other	\$ 8,189,711	\$ 8,238,577
Support	5,774,493	5,360,982
	<u>13,964,204</u>	<u>13,599,559</u>
Cost of revenue	4,585,236	4,999,051
Gross profit	9,378,968	8,600,508
Operating expenses:		
Sales and marketing	3,393,658	3,411,922
General and administrative	1,883,915	2,369,657
Research and development	2,418,650	2,966,114
	<u>7,696,223</u>	<u>8,747,693</u>
Income (loss) from operations	1,682,745	(147,185)
Foreign exchange loss	(561,415)	(525,162)
Other income	-	169,121
Finance income	18,072	36,895
Finance costs	(117,139)	(138,603)
Income (loss) before income taxes	1,022,263	(604,934)
Income taxes (recovery):		
Current	119,287	168,222
Deferred	(46,460)	(105,657)
	<u>72,827</u>	<u>62,565</u>
Net income (loss)	949,436	(667,499)
Other comprehensive income:		
Foreign currency translation adjustment	-	90,014
Comprehensive income (loss)	<u>\$ 949,436</u>	<u>\$ (577,485)</u>
Net income (loss) per common share (note 8):		
Basic	0.01	(0.01)
Diluted	0.01	(0.01)
Weighted average number of common shares (note 8):		
Basic	64,221,515	63,941,381
Diluted	65,639,559	63,941,381

See accompanying notes to interim condensed consolidated financial statements.

# REDKNEE SOLUTIONS INC.

Interim Condensed Consolidated Statement of Changes in Shareholders' Equity  
(Expressed in U.S. dollars)

Three months ended December 31, 2011  
(Unaudited)

	Share capital		Employee share purchase loans	Contributed surplus	Deficit	Accumulated other comprehensive income	Total shareholders' equity
	Number	Amount					
Balance, September 30, 2011	64,197,904	\$ 46,312,920	\$ –	\$ 4,353,584	\$ (22,806,319)	\$ 13,469	\$ 27,873,654
Net income for the period	–	–	–	–	949,436	–	949,436
Share-based compensation	–	–	–	142,084	–	–	142,084
Stock options exercised	212,500	156,800	–	(62,141)	–	–	94,659
<b>Balance, December 31, 2011</b>	<b>64,410,404</b>	<b>\$ 46,469,720</b>	<b>\$ –</b>	<b>\$ 4,433,527</b>	<b>\$ (21,856,883)</b>	<b>\$ 13,469</b>	<b>\$ 29,059,833</b>
Balance, October 1, 2010	63,866,604	\$ 45,885,407	\$ (5,048)	\$ 4,336,925	\$ (20,775,662)	\$ –	\$ 29,441,622
Loss for the period	–	–	–	–	(667,499)	–	(667,499)
Other comprehensive income	–	–	–	–	–	90,014	90,014
Share-based compensation	–	–	–	100,285	–	–	100,285
Stock options exercised	112,000	121,134	–	–	–	–	121,134
<b>Balance, December 31, 2010</b>	<b>63,978,604</b>	<b>\$ 46,006,541</b>	<b>\$ (5,048)</b>	<b>\$ 4,437,210</b>	<b>\$ (21,443,161)</b>	<b>\$ 90,014</b>	<b>\$ 29,085,556</b>

See accompanying notes to interim condensed consolidated financial statements.

# REDKNEE SOLUTIONS INC.

Interim Condensed Consolidated Statement of Cash Flows  
(Expressed in U.S. dollars)  
(Unaudited)

	Three months ended December 31,	
	2011	2010
Cash provided by (used in):		
Operating activities:		
Net income (loss)	\$ 949,436	\$ (667,499)
Adjustments for:		
Depreciation of property and equipment	43,138	109,631
Amortization of intangible assets	191,333	350,659
Finance income	(18,072)	(36,895)
Finance costs	117,139	138,603
Income tax expense	72,827	62,565
Unrealized foreign exchange loss	42,923	392,016
Share-based compensation	129,325	100,285
Deferred income taxes	27,730	(292,346)
Changes in non-cash operating working capital (note 9)	(36,767)	(277,773)
	1,519,012	(120,754)
Interest paid	(22,096)	(10,770)
Interest received	8,398	36,895
Income taxes paid	(6,102)	(132,134)
	1,499,212	(226,763)
Financing activities:		
Proceeds from exercise of stock options	94,659	121,135
Repayment of loans and borrowings	(354,253)	(439,540)
	(259,594)	(318,405)
Investing activities:		
Proceeds from short-term investments	–	21,356
Purchase of property and equipment	(100,454)	(14,478)
Purchase of software	(42,357)	–
Decrease (increase) in other assets	(207,302)	38,524
Decrease (increase) in restricted cash	73,844	(1,033,723)
Acquisition of Nimbus Systems	–	(180,716)
	(276,269)	(1,169,037)
Effect of foreign exchange rate changes on cash and cash equivalents	(42,923)	(319,509)
Increase (decrease) in cash and cash equivalents	920,426	(2,033,714)
Cash and cash equivalents, beginning of period	14,879,940	18,038,121
Cash and cash equivalents, end of period	\$ 15,800,366	\$ 16,004,407

See accompanying notes to interim condensed consolidated financial statements.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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Redknee Solutions Inc. (the "Company" or "Redknee") was incorporated under the Ontario Business Corporations Act in Canada on March 29, 1999. The Company's principal place of business is located at 2560 Matheson Blvd East, Suite 500, Mississauga, Ontario, Canada.

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. **Statement of compliance:**

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These are the Company's first interim condensed consolidated financial statements prepared in accordance with IAS 34. The accounting policies have been selected to be consistent with IFRS as is expected to be effective on September 30, 2012, the Company's first annual IFRS reporting date. Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP ("GAAP").

The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies set out below have been consistently applied to all periods presented unless otherwise noted. They also have been applied in the preparation of an opening IFRS statement of financial position as at October 1, 2010, as required by IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"). The impact of the transition from Canadian GAAP to IFRS is explained in note 12.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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## 1. Statement of compliance (continued):

The standards and interpretations within IFRS are subject to change and accordingly, the accounting policies for the annual period that are relevant to these interim consolidated financial statements will be finalized only when the first annual IFRS financial statements are prepared for the year ending September 30, 2012.

These interim consolidated financial statements for the period ended December 31, 2011 were authorized for issuance by the Board of Directors of the Company on March 7, 2012.

## 2. Summary of significant accounting policies:

### (a) Basis of measurement and presentation:

These interim condensed consolidated financial statements have been prepared on a historical cost basis, except for financial assets classified as at fair value through profit and loss or available for sale, contingent consideration for business combinations and share-based payments, which are all measured at fair value.

Presentation of the interim condensed consolidated financial statements differentiated between current and non-current assets and liabilities. The interim condensed consolidated financial statements are being presented using the function classification for expenses.

### (b) Principle of consolidation:

The interim condensed 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"). All significant intercompany balances and transactions have been eliminated on consolidation.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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## 2. Summary of significant accounting policies (continued):

### (c) Functional currency and change in functional currency:

The interim condensed consolidated financial statements are presented in U.S. dollars, which is the Company's functional currency.

Until September 30, 2011, the Company's functional currency was the Canadian dollar and was the U.S. dollar for certain subsidiaries. Effective October 1, 2011, the functional currency of the Company and certain subsidiaries was changed from the Canadian dollar to the U.S. dollar. Effective October 1, 2011, the parent company and all subsidiaries have a functional currency of U.S. dollars. The change in functional currency was a result of the increased influence of the U.S. dollar on the economic environment in which the companies operate and the increased reliance on U.S. dollar financing.

Unless otherwise stated, all comparative information in these consolidated financial statements for periods prior to October 1, 2011 have been translated from Canadian dollars to U.S. dollars at the October 1, 2011 spot rate.

### (d) Critical accounting estimates and judgments:

The preparation of these interim condensed consolidated financial statements requires the Company to apply judgment when making estimates and assumptions that affect the reported amounts recognized in the assets, liabilities, income and expenses. Actual results could differ from estimates. Estimates are reviewed on an ongoing basis, with any related revisions recorded in the period in which they are adjusted.

Key areas of estimation and judgment, where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, include revenue recognition, the valuation of accounts receivable, estimation of useful lives of property and equipment, valuation of investment tax credits receivable, inputs used in the computation of share-based compensation, including volatility and expected lives of the awards, valuation of deferred tax assets, valuation of identifiable intangible assets and contingent consideration on business combinations, impairment assessments of definite-lived intangibles and goodwill. In its determination of the amount and timing of revenue to be recognized, management relies on assumptions and estimates supporting its revenue recognition policy. Estimates of the percentage of completion for customer projects are based upon current actual and forecasted information and contractual items.



# REDKNEE SOLUTIONS INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)  
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Three months ended December 31, 2011  
(Unaudited)

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## 2. Summary of significant accounting policies (continued):

(e) Revenue recognition:

(i) 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.

Revenue comprises the fair value of consideration received or receivable for the sale or license of products or the provision of services in the ordinary course of business, net of discounts and sales taxes. Out-of-pocket expenses that are contractually reimbursable from customers are recorded as gross revenue and expenses.

(ii) Arrangements with multiple components:

The Company enters into arrangements that contain separately identifiable components, which may include any combination of software, services, PCS and/or hardware.

Where multiple transactions or contracts are linked, such that the individual transactions have no commercial effect on their own, the transactions are evaluated as a combined customer arrangement for purposes of revenue recognition. When two or more revenue-generating activities or deliverables are sold under an arrangement, each deliverable that is considered a separate component is accounted for separately. A deliverable is separately accounted for when a delivered item has standalone value from undelivered items based on the substance of the arrangement. When services are essential to the functionality of the software, the software does not have standalone value and is combined with the essential services as a single component.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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## 2. Summary of significant accounting policies (continued):

Where an arrangement includes multiple components, revenue is allocated to the different components based on their relative fair values or the residual method, as applicable. Under the residual method, revenue is allocated to undelivered components of the arrangement based on their fair values and the residual amount of the arrangement revenue is allocated to delivered components. The Company generally uses optional stated renewal rates to evidence fair value of undelivered term-license/PCS services when the renewal fees and term are substantive. The Company typically evidences fair value for other products and services based on the pricing when those deliverables are sold separately. Where reasonable vendor-specific or third party inputs do not exist to reliably establish fair value, the Company allocates revenue based on the expected cost of delivery plus an estimated profit margin.

The revenue policies below are applied to each separately identifiable component. Revenue associated with each component is deferred until the criteria required to recognize revenue have been met.

The Company recognizes revenue once persuasive evidence exists, generally in the form of an executed agreement, it is probable the economic benefits of the transaction will flow to the Company and revenue and costs can be measured reliably. If collection is not considered probable, revenue is recognized only once fees are collected.

### (iii) Software licenses:

Revenues for combined licensed software and essential services are recognized using contract accounting, following the percentage-of-completion method. The Company uses either the ratio of hours to estimated total hours or the completion of applicable milestones, as appropriate, as the measure of its progress to completion on each contract. If a loss on a contract is considered probable, the loss is recognized at the date determinable.

Perpetual software licenses, when not combined with services for accounting purposes, are recognized upon delivery and commencement of the license term. Term licenses and software subscriptions are generally recognized ratably over the term of the subscription license.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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## 2. Summary of significant accounting policies (continued):

### (iv) Other services:

Revenue for installation, implementation, training and other services, where not essential to the functionality of the software is recognized as the services are delivered to the customer. Fixed fee services arrangements are recognized using the percentage of completion method based on labour input measures.

### (v) PCS:

PCS revenue is recognized rateably over the term of the PCS agreement.

### (vi) Hardware:

Hardware revenue is recognized when delivery has occurred and risks and rewards have transferred to the customer.

### (vii) 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 period end.

### (f) Net income (loss) per common share:

Basic net income (loss) per common share is computed by dividing net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is determined by adjusting the income or loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares. The Company uses the treasury stock method for calculating diluted net income (loss) per share. The diluted net income (loss) per share calculation considers the impact of employee stock options and other potentially dilutive instruments.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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## 2. Summary of significant accounting policies (continued):

### (g) Financial instruments:

The Company recognizes financial assets and financial liabilities when the Company becomes a party to a contract. Financial assets and financial liabilities, with the exception of financial assets classified as at fair value through profit or loss, are measured at fair value plus transaction costs on initial recognition. Financial assets at fair value through profit or loss are measured at fair value on initial recognition and transaction costs are expensed when incurred.

Measurement in subsequent periods depends on the classification of the financial instrument:

#### (i) Financial assets at fair value through profit or loss ("FVTPL"):

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management, or if they are derivative assets. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the consolidated statements of income.

Cash and cash equivalents and restricted cash are classified as FVTPL. The Company does not currently hold any derivative assets.

#### (ii) Available for sale financial assets:

Available for sale financial assets are non-derivative financial assets that are either designated as such by management or not classified in any of the other categories. Available-for-sale financial assets are measured at fair value with subsequent changes in fair value, other than impairment losses, recognized in other comprehensive income. Upon sale, the accumulated fair value adjustments recognized in other comprehensive income are transferred to profit or loss.

Short-term investments are classified as available for sale.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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## 2. Summary of significant accounting policies (continued):

### (iii) Loans and receivables:

Loans and receivables are non-derivative financial assets that have fixed or determinable payments and are not quoted in an active market. Subsequent to initial recognition, loans and receivables are carried at amortized cost using the effective interest method. Loans and receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Accounts receivables are classified as loans and receivables.

### (iv) Other financial liabilities:

Other financial liabilities are financial liabilities that are not derivative liabilities or classified as FVTPL. Subsequent to initial recognition, other financial liabilities are measured at amortized cost using the effective interest method.

The Company's other financial liabilities include accounts payable, accrued liabilities, loans payable and contingent consideration in a business combination. The Company does not currently hold any derivative liabilities.

The effective interest method is a method of calculating the amortized cost of an instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all transaction costs and other premiums or discounts) through the expected life of the debt instrument to the net carrying amount on initial recognition.

### (h) Cash and cash equivalents:

Cash and cash equivalents include balances with banks and highly liquid instruments with an original maturity of less than 90 days at issuance.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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## 2. Summary of significant accounting policies (continued):

(i) Inventory:

Inventory is recorded at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(j) Property and equipment:

Property and equipment are measured at cost, net of accumulated depreciation and accumulated impairment losses, if any. Cost includes expenditures that are directly attributable to the acquisition of the asset. Property and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

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

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(k) Leased assets:

Leases in terms of which the Company assumes substantially all of the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased assets is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset. Minimum lease payments made under finance leases are apportioned between finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining liability.

Other leases are operating leases and the leased assets are not recognized in the Company's statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives are recognized as an integral part of the total lease expense, over the term of the lease.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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## 2. Summary of significant accounting policies (continued):

### (l) Intangible assets:

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses. 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 as follows.

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

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### (m) Business combinations and goodwill:

#### (i) Acquisitions on or after October 1, 2010:

Acquisitions of businesses are accounted for using the acquisition method. The acquiree's identifiable assets and liabilities are generally recognized at their fair values at the date of acquisition. Acquisition related transaction costs are expensed as incurred. The fair value of contingent consideration that is considered part of consideration transferred is included in the total purchase price on the acquisition date. Contingent consideration classified as equity is not re-measured subsequent to the acquisition date (other than for measurement period adjustments) and its subsequent settlement is accounted for within equity. Contingent consideration that is liability classified and falls within the scope of IAS 39 is re-measured to fair value at each reporting date until the contingency is resolved, with changes in fair value recorded in Other Income.

Goodwill is recognized as the excess of purchase price over fair value of the net identifiable assets of acquired businesses. Goodwill is not subject to amortization and is measured at cost less accumulated impairment losses.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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## 2. Summary of significant accounting policies (continued):

The allocation of the purchase price to the net assets acquired may be adjusted to reflect new information obtained about facts and circumstances that existed at the acquisition date, up to a maximum of twelve months following the date of acquisition. Changes to the allocation of the purchase price during this measurement period are recognized retrospectively.

### (ii) Acquisitions prior to October 1, 2010:

As part of the transition to IFRS, the Company elected to restate only those business combinations that occurred on or after October 1, 2010. In respect of acquisitions prior to October 1, 2010, goodwill represents the amount recognized under Canadian GAAP.

### (n) Impairment:

At each reporting date the Company's non-financial assets, other than inventory and deferred tax assets, are reviewed to determine whether there is an indication that those assets are impaired. If such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of operations. For the purposes of assessing for indications of impairment and impairment testing, assets that do not have largely independent cash inflows are grouped into cash-generating units. Cash-generating units are the smallest identifiable groups of assets having independent cash inflows. The recoverable amount of goodwill is estimated and compared to the carrying value on an annual basis at September 30 whether or not there is an indication the goodwill is impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted at a rate that reflects current market assessments of the time value of money and the risks specific to the asset.



# REDKNEE SOLUTIONS INC.

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

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## 2. Summary of significant accounting policies (continued):

An impairment loss is reversed if there is a change in the estimates used to determine the recoverable amount, with the exception of impairment losses on goodwill, which are not reversed. When an impairment loss is reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount so that the increased carrying amount does not exceed what the carrying amount would have been had no impairment losses been recognized for the asset in prior years.

### (o) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits that will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

### (p) Research and development costs:

Internally generated Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as an expense in the period in which they are incurred. Internally generated Development costs are capitalized when the costs are expected to provide future benefits with reasonable certainty and the costs meet all the criteria for capitalization. To date, no development costs have been capitalized.

### (q) Share-based compensation:

The Company issues stock options, restricted share units ("RSUs") and performance share units ("PSUs") pursuant to several share-based compensation plans. Stock options, RSUs and PSUs are settled with common shares of the Company. Compensation cost is measured based on the grant date fair value of the award and recognized, net of estimated forfeitures over the vesting period with a corresponding credit to contributed surplus. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. At the end of each reporting period, the Company re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the period.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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## 2. Summary of significant accounting policies (continued):

The Company has a deferred share unit ("DSUs") plan. The plan allows for settlement of DSUs by cash or other assets. The fair value of the Company's DSUs is recognized using the graded vesting method. Since the DSUs will be settled in cash or other assets, the fair value of the vested DSUs is revalued each quarter until the settlement date. The Company has recognized a liability in the consolidated statements of financial position for the total fair value of the vested DSUs included in other long-term liabilities.

### (r) Income taxes:

Income taxes comprise current and deferred tax. Current tax represents the expected tax payable on taxable income for the year using enacted or substantively enacted tax rates at the end of the reporting period, and any adjustments to tax payable related to prior years. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred income tax assets are recognized to the extent that realization is considered probable. The ultimate realization of deferred 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 income tax planning strategies in making this assessment. Deferred income tax assets and liabilities are offset when they are from the same jurisdiction.

### (s) 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 income tax liabilities and are subject to a 20-year carry-forward period or, in some cases, are refundable. Accrued investment tax credits are accounted for as a reduction of the related expenditures for items expensed in the interim condensed consolidated statements of comprehensive income (loss) or a reduction of the related asset's cost for items capitalized in the interim condensed consolidated statement of financial position.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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## 2. Summary of significant accounting policies (continued):

### (t) Employee benefits:

#### (i) Termination benefits:

Termination benefits are recognized when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized if the Company has made an offer of voluntary redundancy, it is possible that the offer will be accepted and the number of acceptances can be estimated reliably. If recognized termination benefits are payable more than 12 months after the reporting date, the liability is discounted to its present value.

#### (ii) Short-term benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are recognized as the related service is provided.

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities not denominated in the functional currency are translated at the period end rates of exchange. Foreign exchange gains and losses are recognized in the statement of operations.

### (u) Segment reporting:

The Company has one reportable segment, the telecommunications software market. The single reportable operating segment drives its revenues from the sale of software products and hardware.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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### 3. Recent accounting pronouncements:

The following accounting pronouncements have been released but have not yet been adopted by the Company.

(a) IFRS 9, Financial Instruments ("IFRS 9"):

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is currently proposed to be effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities. Management has not yet determined the potential impact the adoption of IFRS 9 will have on the Company's interim condensed consolidated financial statements.

(b) IFRS 13, Fair Value Measurement ("IFRS 13"):

On May 12, 2011, the IASB issued IFRS 13. IFRS 13, which is to be applied prospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 13 defines fair value, provides a framework for measuring fair value and includes disclosure requirements for fair value measurements. IFRS 13 will be applied in most cases when another IFRS requires (or permits) fair value measurement. Management has not yet determined the potential impact that the adoption of IFRS 13 will have on the Company's interim condensed consolidated financial statements.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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### 3. Recent accounting pronouncements (continued):

(c) Other:

In June 2011, the IASB issued amendments to IFRS 7, Financial Instruments - Disclosures ("IFRS 7"). The Company does not believe the changes resulting from these amendments are relevant to its interim condensed consolidated financial statements.

In May 2011, the IASB issued IFRS 10, Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12, Disclosure of Interests in Other Entities. The Company does not believe the changes resulting from these new standards will have a significant impact on its interim condensed consolidated financial statements.

In June 2011, the IASB issued amendments to IAS 1, Presentation of Financial Statements, and IAS 19, Employee Benefits. The Company does not believe the changes resulting from these amendments will have a significant impact on its interim condensed consolidated financial statements.

In December 2011, the IASB issued amendments to IAS 32, Financial Instruments - Presentation, and IFRS 7 related to offsetting of financial assets and financial liabilities. The Company does not believe the changes resulting from these amendments will have a significant impact on its interim condensed consolidated financial statements.

### 4. Cash and cash equivalents:

	December 31, 2011	September 30, 2011	October 1, 2010
Cash	\$ 14,855,001	\$ 13,765,320	\$ 17,173,385
Cash equivalents	945,365	1,114,620	864,736
	<u>\$ 15,800,366</u>	<u>\$ 14,879,940</u>	<u>\$ 18,038,121</u>

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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## 5. Business combination:

On August 12, 2010, the Company acquired 100% of the common shares of Nimbus. The purchase consideration for the acquisition of Nimbus included amounts contingent on certain future criteria not linked to continuing employment being met. The contingent consideration is due January 1, 2012, and the maximum amount to be paid is €1,050,000.

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Balance, October 1, 2010 (€861,000)	\$ 1,160,816
Change in estimate of consideration to be paid	(277,440)
Impact of foreign exchange	(12,587)
<hr/>	
Balance, September 30, 2011 (€647,500)	870,789
Impact of foreign exchange	(30,852)
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Balance, December 31, 2011 (€647,500)	\$ 839,937

Subsequent to December 31, 2011, the amount of contingent consideration was finalized at €658,000.

## 6. Related party transactions:

In Augusts 2011, the Company entered into a consulting agreement with a member of the board of directors. For the period ended December 31, 2011, the Company has incurred \$15,000 (2010 - nil) in consulting expense.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

## 7. Loans and borrowing:

	December 31, 2011	September 30, 2011	October 1, 2010
Term loan, bearing interest at LIBOR plus 4%, due in August 2015	\$ 6,486,912	\$ 6,409,740	\$ 7,938,978
Term loan, denominated in Euros, bearing interest at Euribor six months plus 0.65%, due in April 2013	—	—	71,725
Term loan, denominated in Euros, bearing interest at 4.95%, due in December 2012	55,349	69,319	129,761
Term loan, denominated in Euros, bearing interest at 1.89%, due in October 2011	—	—	18,725
Term loan, denominated in Euros, bearing interest at nil, due in October 2011	—	—	21,088
Term loan, denominated in Euros, bearing interest at 3.99%, due in February 2013	—	—	202,233
Term loan, denominated in Euros, bearing interest at 6.41%, due in June 2012	—	—	134,822
Term loan, denominated in Euros, bearing interest at Euribor three months plus 3%, renewable on a six-month cycle	—	—	26,964
Bank indebtedness, denominated in Euros, face value discount of 2% to 4%, due on demand	1,190,740	1,527,512	1,241,469
Obligation under capital lease	25,227	30,986	54,267
Total loans and borrowings	7,758,228	8,037,557	9,840,032
Less current portion of loans payable	2,970,327	3,232,857	2,980,289
<b>Long-term loans and borrowings</b>	<b>\$ 4,787,901</b>	<b>\$ 4,804,700</b>	<b>\$ 6,859,743</b>

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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## 7. Loans and borrowing (continued):

### (a) Export Development Canada ("EDC") Facility:

As at December 31, 2011, the Company has a credit facility with EDC for up to an aggregate principal amount of \$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 December 31, 2011, \$6,486,912 remains outstanding and principal and interest is payable semi-annually over four years. 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 has assessed it is in compliance with its debt covenants as at December 31, 2011.

### (b) Bank loans:

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 expense of \$91,882 in connection with loans payable has been recognized in the interim consolidated statements of operations for the three month period ended December 31, 2011 (2010 - \$118,039).



# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

## 8. Net income (loss) per common share:

For the three months ended December 31, 2011, the diluted weighted average shares outstanding include unvested restricted share units and dilutive outstanding stock options. Shares relating to remainder outstanding options in the amount of 3,708,968 have been excluded because the impact would be anti-dilutive.

For the three months ended December 31, 2010, all potentially dilutive instruments in the amount of 2,057,486 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 three months ended December 31 is as follows:

	2011	2010
Basic weighted average number of common shares outstanding	64,221,515	63,941,381
Add dilutive stock options outstanding	1,418,044	–
Diluted weighted average number of common shares outstanding	65,639,559	63,941,381

## 9. Changes in non-cash operating working capital:

The changes in non-cash working capital for the three months ended December 31 are as follows:

	2011	2010
Trade accounts and other receivables	\$ (1,417,274)	\$ 8,687
Unbilled revenue	243,171	680,908
Prepaid expenses	94,827	(167,264)
Accounts payable	(14,919)	531,200
Accrued liabilities	(1,131,876)	130,961
Contingent consideration	(30,852)	(169,121)
Deferred revenue	1,639,502	(1,471,926)
Income taxes payable	467,201	115,454
Inventory	113,453	63,328
	\$ (36,767)	\$ (277,773)

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

## 10. Segment reporting:

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

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

	2011	2010
Europe, Middle East and Africa	\$ 4,633,214	\$ 5,991,232
North America, Latin America and Caribbean	6,585,287	4,864,055
Asia and Pacific Rim	2,745,703	2,744,272
	<u>\$ 13,964,204</u>	<u>\$ 13,599,559</u>

Revenue is attributed to geographic locations, based on the location of the external customer.

	2011	2010
Revenue by type:		
Software and services	\$ 7,492,702	\$ 6,521,159
Support	5,774,493	5,360,982
Third party software and hardware	697,009	1,717,418
	<u>\$ 13,964,204</u>	<u>\$ 13,599,559</u>

## 11. Commitments, guarantees and contingent liabilities:

(a) Letters of credit:

As at December 31, 2011, the Company had \$710,976 (September 30, 2011 - \$784,820, October 1, 2010 - \$781,611) in outstanding letters of credit relating to customer contracts, which are secured by restricted cash, shown separately in the interim condensed consolidated statement of financial position.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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## 11. Commitments, guarantees and contingent liabilities (continued):

### (b) 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.

### (c) 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 probable to result in a loss and, a liability for loss are made based on management estimates. 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.

## 12. Transition to IFRS:

As stated in note 1, these are the Company's first interim condensed consolidated financial statements prepared in accordance with IAS 34.

The accounting policies set out in note 2 have been applied in preparing the interim condensed consolidated financial statements for the three months ended December 31, 2011, the comparative information presented in the interim condensed consolidated financial statements for the three months ended December 31, 2010 and the year ended September 30, 2011 and in the preparation of the opening IFRS interim condensed consolidated statement of financial position on October 1, 2010 (the "Transition Date").

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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## 12. Transition to IFRS (continued):

### (a) First-time adoption of IFRS:

The adoption of IFRS requires the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS effective at the end of an entity's first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The Company has elected to apply the following optional exemptions in its preparation of its opening IFRS interim condensed consolidated statement of financial position as at October 1, 2011, the Company's Transition Date:

- To apply IFRS 2, Share-based Payments, only to equity instruments that had not vested by the Transition Date.
- To elect to designate certain existing financial instruments as available-for-sale at the Transition Date.
- To apply the transitional provisions of IFRS 1 and deem cumulative translation differences ("CTA") for all foreign operations to be zero at the date of transition (October 1, 2010). Under this alternative, the accumulated CTA balance of Cdn. \$166,341 at that date has been transferred to deficit from accumulated other comprehensive loss.
- To apply IFRS 3, Business Combinations, prospectively from the Transition Date, therefore not restating business combinations that took place prior to the Transition Date.
- To apply IAS 23, Borrowing Costs ("IAS 23"), prospectively from the Transition Date. IAS 23 requires the capitalization of borrowing costs directly attributable to the acquisition, production or construction of certain assets.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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## 12. Transition to IFRS (continued):

- To not reassess whether arrangements contain a lease under IFRS where the same determination that would be made under IFRIC 4, Determining Whether an Arrangement Contains a Lease ("IFRIC 4"), was made previously in accordance with Canadian GAAP.
- To apply the transitional provisions of IFRIC 4 to leases which the same determination as IFRIC 4 was not made previously in accordance with Canadian GAAP. Therefore, the determination of whether these arrangements contain a lease is based on the circumstances existing at the Transition Date.

IFRS 1 does not permit changes to estimates that have been made previously. Estimates used in the preparation of the Company's opening IFRS interim condensed consolidated statement of financial position, and other comparative information restated to comply with IFRS, are consistent with those made previously under current Canadian GAAP.

### (b) Reconciliation of Canadian GAAP to IFRS:

The following provides reconciliations of the shareholders' equity and the comprehensive loss from Canadian GAAP to IFRS and the translation to U.S. dollar functional and presentation currency for the respective periods.

Also included are reconciliations of the interim condensed consolidated statements of financial position and statement of comprehensive income (loss) from Canadian GAAP to IFRS and the translation to U.S. dollar functional and presentation currency. Explanatory notes follow the reconciliations. The adoption of IFRS did not have a material impact on the interim condensed consolidated statement of cash flows.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

## 12. Transition to IFRS (continued):

Reconciliation of net income (loss) for the year ended September 30, 2011:

	Note	Canadian dollars		U.S. dollar	
		CGAAP	IFRS Adjustments	IFRS	IFRS
Revenue:					
Software, services and other		\$ 37,709,784	\$ –	\$ 37,709,784	\$ 36,299,438
Support		22,363,276	–	22,363,276	21,526,889
		60,073,060	–	60,073,060	57,826,327
Cost of revenue	b, d	21,317,198	57,566	21,374,764	20,575,347
Gross profit		38,755,862	(57,566)	38,698,296	37,250,980
Operating expenses:					
Sales and marketing	b, d	15,959,445	73,077	16,032,522	15,432,905
General and administrative	b, d	9,789,388	1,486,126	11,275,514	10,853,809
Research and development	b, d	12,108,147	45,371	12,153,518	11,698,976
Amortization	d	1,784,565	(1,784,565)	–	–
		39,641,545	(179,991)	39,461,554	37,985,690
Loss from operations		(885,683)	122,425	(763,258)	(734,710)
Foreign exchange loss		(66,533)	–	(66,533)	(64,045)
Other income	a	–	301,295	301,295	290,027
Interest income		164,717	–	164,717	158,557
Interest expense		(536,035)	–	(536,035)	(515,988)
Loss before income taxes		(1,323,534)	423,720	(899,814)	(866,159)
Income taxes (recovery):					
Current		1,330,164	–	1,330,164	1,280,415
Deferred		(120,421)	–	(120,421)	(115,917)
		1,209,743	–	1,209,743	1,164,498
Net income (loss)		\$ (2,533,277)	\$ 423,720	\$ (2,109,557)	\$ (2,030,657)

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

## 12. Transition to IFRS (continued):

Reconciliation of net income (loss) for the period ended December 31, 2010:

	Note	Canadian dollars		U.S. dollar	
		CGAAP	IFRS Adjustments	IFRS	IFRS
Revenue:					
Software, services and other		\$ 8,558,671	\$ –	\$ 8,558,671	\$ 8,238,577
Support		5,569,273	–	5,569,273	5,360,982
		14,127,944	–	14,127,944	13,599,559
Cost of revenue	b, d	5,198,602	(5,322)	5,193,280	4,999,051
Gross profit		8,929,342	5,322	8,934,664	8,600,508
Operating expenses:					
Sales and marketing	b, d	3,519,257	25,229	3,544,486	3,411,922
General and administrative	b, d	2,075,999	385,727	2,461,726	2,369,657
Research and development	b, d	3,044,295	37,062	3,081,357	2,966,114
Amortization	d	478,173	(478,173)	–	–
		9,117,724	(30,155)	9,087,569	8,747,693
Loss from operations		(188,382)	35,477	(152,905)	(147,185)
Foreign exchange loss		(545,566)	–	(545,566)	(525,162)
Other income	a	–	175,692	175,692	169,121
Interest income		38,328	–	38,328	36,895
Interest expense		(143,988)	–	(143,988)	(138,603)
Loss before income taxes		(839,608)	211,169	(628,439)	(604,934)
Income taxes (recovery):					
Current		174,758	–	174,758	168,222
Deferred		(109,762)	–	(109,762)	(105,657)
		64,996	–	64,996	62,565
Net income (loss)		\$ (904,604)	\$ 211,169	\$ (693,435)	\$ (667,499)

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

## 12. Transition to IFRS (continued):

Reconciliation of statement of financial position at September 30, 2011:

	Note	Canadian dollars		U.S. dollar	
		CGAAP	IFRS Adjustments	IFRS	IFRS
<b>Assets</b>					
Current assets:					
Cash and cash equivalents		\$ 15,458,072	\$ –	\$ 15,458,072	\$ 14,879,940
Short-term investments		–	–	–	–
Trade accounts and other receivables		13,492,484	–	13,492,484	12,987,865
Unbilled revenue		9,613,444	–	9,613,444	9,253,901
Prepaid expenses		1,452,467	–	1,452,467	1,398,145
Inventory		468,303	–	468,303	450,788
		40,484,770	–	40,484,770	38,970,639
Restricted cash		815,313	–	815,313	784,820
Property and equipment		392,700	–	392,700	378,013
Deferred income taxes		1,520,101	–	1,520,101	1,463,249
Long-term unbilled revenue		1,274,149	–	1,274,149	1,226,496
Other assets		482,460	–	482,460	464,416
Intangible assets		4,131,113	–	4,131,113	3,976,609
Goodwill		7,935,373	–	7,935,373	7,638,590
		\$ 57,035,979	\$ –	\$ 57,035,979	\$ 54,902,832
<b>Liabilities and Shareholders' Equity</b>					
Current liabilities:					
Accounts payable		\$ 1,798,668	\$ –	\$ 1,798,668	\$ 1,731,396
Accrued liabilities		6,234,891	–	6,234,891	6,001,706
Income taxes payable		3,323,598	–	3,323,598	3,199,295
Current portion of contingent consideration	a	–	904,622	904,622	870,789
Deferred revenue		6,075,302	–	6,075,302	5,848,086
Current portion of loans payable		3,339,064	–	3,339,064	3,214,183
Current portion of obligations under capital leases		19,400	–	19,400	18,674
		20,790,923	904,622	21,695,545	20,884,129
Other long-term liabilities		544,899	–	544,899	524,520
Contingent consideration		–	–	–	–
Long-term portion of loans payable		4,978,587	–	4,978,587	4,792,388
Obligations under capital leases		12,790	–	12,790	12,312
Deferred income taxes		847,526	–	847,526	815,829
		27,174,725	904,622	28,079,347	27,029,178
Shareholders' equity:					
Share capital, net of employee share purchase loans		48,112,321	–	48,112,321	46,312,920
Contributed surplus	b	4,484,861	37,873	4,522,734	4,353,584
Deficit		(22,583,579)	(1,108,836)	(23,692,415)	(22,806,314)
Accumulated other comprehensive income (loss)	c	(152,349)	166,341	13,992	13,469
		29,861,254	(904,622)	28,956,632	27,873,654
		\$ 57,035,979	\$ –	\$ 57,035,979	\$ 54,902,832



# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

## 12. Transition to IFRS (continued):

Reconciliation of statement of financial position at December 31, 2010:

	Note	Canadian dollars		U.S. dollar	
		CGAAP	IFRS Adjustments	IFRS	IFRS
<b>Assets</b>					
Current assets:					
Cash and cash equivalents		\$ 16,626,228	\$ –	\$ 16,626,228	\$ 16,004,407
Short-term investments		–	–	–	–
Trade accounts and other receivables		14,752,041	–	14,752,041	14,200,315
Unbilled revenue		6,408,867	–	6,408,867	6,169,175
Prepaid expenses		1,533,809	–	1,533,809	1,476,445
Inventory		190,920	–	190,920	183,780
		39,511,865	–	39,511,865	38,034,122
Restricted cash		1,885,865	–	1,885,865	1,815,334
Property and equipment		573,219	–	573,219	551,781
Deferred income taxes		1,019,139	–	1,019,139	981,023
Other assets		498,560	–	498,560	479,914
Intangible assets		5,447,495	–	5,447,495	5,243,759
Goodwill		7,854,531	–	7,854,531	7,560,772
		\$ 56,790,674	\$ –	\$ 56,790,674	\$ 54,666,705
<b>Liabilities and Shareholders' Equity</b>					
Current liabilities:					
Accounts payable		\$ 3,141,782	\$ –	\$ 3,141,782	\$ 3,024,281
Accrued liabilities		3,819,600	–	3,819,600	3,676,747
Income taxes payable		2,736,502	–	2,736,502	2,634,157
Current portion of contingent consideration		–	–	–	–
Deferred revenue		4,565,910	–	4,565,910	4,395,145
Current portion of loans payable		2,957,436	–	2,957,436	2,846,828
Current portion of obligations under capital leases		18,811	–	18,811	18,107
		17,240,041	–	17,240,041	16,595,265
Other long-term liabilities		479,677	–	479,677	461,737
Contingent consideration	a	–	1,030,225	1,030,225	991,695
Long-term portion of loans payable		6,613,827	–	6,613,827	6,366,470
Obligations under capital leases		25,887	–	25,887	24,919
Deferred income taxes		1,185,397	–	1,185,397	1,141,063
		25,544,829	1,030,225	26,575,054	25,581,149
Shareholders' equity:					
Share capital, net of employee share purchase loans	b	47,788,794	–	47,788,794	46,001,493
Contributed surplus		4,484,787	124,822	4,609,609	4,437,210
Deficit		(20,954,906)	(1,321,388)	(22,276,294)	(21,443,161)
Accumulated other comprehensive income (loss)	c	(72,830)	166,341	93,511	90,014
		31,245,845	(1,030,225)	30,215,620	29,085,556
		\$ 56,790,674	\$ –	\$ 56,790,674	\$ 54,666,705

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

## 12. Transition to IFRS and change in functional currency (continued):

Reconciliation of statement of financial position at October 1, 2010:

	Note	Canadian dollars		U.S. dollar	
		CGAAP	IFRS Adjustments	IFRS	IFRS
<b>Assets</b>					
Current assets:					
Cash and cash equivalents		\$ 18,738,958	\$ –	\$ 18,738,958	\$ 18,038,121
Short-term investments		22,186	–	22,186	21,356
Trade accounts and other receivables		14,959,777	–	14,959,777	14,400,281
Unbilled revenue		7,196,714	–	7,196,714	6,927,557
Prepaid expenses		1,371,960	–	1,371,960	1,320,649
Inventory		256,709	–	256,709	247,108
		42,546,304	–	42,546,304	40,955,072
Restricted cash		811,979	–	811,979	781,611
Property and equipment		635,526	–	635,526	611,757
Deferred income taxes		795,196	–	795,196	765,456
Other assets		518,655	–	518,655	499,257
Intangible assets		5,861,248	–	5,861,248	5,642,037
Goodwill		7,668,157	–	7,668,157	7,381,368
		\$ 58,837,065	\$ –	\$ 58,837,065	\$ 56,636,558
<b>Liabilities and Shareholders' Equity</b>					
Current liabilities:					
Accounts payable		\$ 2,624,339	\$ –	\$ 2,624,339	\$ 2,526,188
Accrued liabilities		3,703,055	–	3,703,055	3,564,561
Income taxes payable		2,730,670	–	2,730,670	2,628,543
Current portion of contingent consideration		–	–	–	–
Deferred revenue		6,031,551	–	6,031,551	5,805,971
Current portion of loans payable		3,071,885	–	3,071,885	2,956,997
Current portion of obligations under capital leases		24,197	–	24,197	23,292
		18,185,697	–	18,185,697	17,505,552
Other long-term liabilities		468,505	–	468,505	450,983
Contingent consideration	a	–	1,205,917	1,205,917	1,160,816
Long-term portion of loans payable		7,094,087	–	7,094,087	6,828,768
Obligations under capital leases		32,178	–	32,178	30,975
Deferred income taxes		1,265,159	–	1,265,159	1,217,842
		27,045,626	1,205,917	28,251,543	27,194,936
Shareholders' equity:					
Share capital, net of employee share purchase loans		47,662,953	–	47,662,953	45,880,359
Contributed surplus	b	4,345,128	160,300	4,505,428	4,336,925
Deficit		(20,050,301)	(1,532,558)	(21,582,859)	(20,775,662)
Accumulated other comprehensive loss	c	(166,341)	166,341	–	–
		31,791,439	(1,205,917)	30,585,522	29,441,622
		\$ 58,837,065	\$ –	\$ 58,837,065	\$ 56,636,558

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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## 12. Transition to IFRS (continued):

The following explanatory notes refer to the reconciliations provided above.

- (a) Under IFRS, a liability is recognized on the acquisition date for the fair value of contingent consideration related to business combinations. Under Canadian GAAP, contingent consideration is recognized only when the amount can be determined beyond reasonable doubt. As such, no contingent consideration related to the fiscal 2010 acquisition of Nimbus was recognized on the acquisition date under Canadian GAAP, as the amount was not payable by the Company until January 1, 2012.

The effect of applying this change in accounting policy prospectively from the Transition Date was the recognition of a contingent consideration liability of Cdn. \$1,205,917 and a corresponding increase in the deficit at October 1, 2010. After October 1, 2010, changes in the estimated amount of liability classified contingent consideration to be paid have been recognized in the interim condensed consolidated statement of comprehensive income (loss).

- (b) Under Canadian GAAP, the Company recognized share-based compensation expense on a straight-line basis over the vesting period and recognized forfeitures as they occurred. IFRS requires that for awards with graded vesting be accounted for as separate awards for the purpose of measurement and cost recognition. In addition, an estimate of forfeitures is included in the determination of the ongoing costs recognized associated with share-based payments with estimates adjusted to actual as known.

Material adjustments to the consolidated statements of cash flows consistent with the Company's accounting policy choice under IAS 7, statement of cash flows, interest paid and income taxes paid have moved into the body of the statements of cash flows, whereas they were previously disclosed as supplementary information. There are no material differences between the statements of cash flows presented under IFRS and the statements of cash flows presented under Canadian GAAP.

The effect of applying these changes in accounting policy to all share-based payments which had not vested at October 1, 2010 was an increase in contributed surplus of Cdn. \$160,300 and a corresponding increase in the deficit at October 1, 2010.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2011  
(Unaudited)

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## 12. Transition to IFRS (continued):

- (c) The effect of electing to deem cumulative translation differences for all foreign operations to be zero at the date of transition. The election had no impact on total equity or comprehensive income.
- (d) The effect of the change to the presentation of expenses to a functional basis. Amortization was reclassified to the functional line items within the interim condensed consolidated statement of comprehensive income (loss). This change had no impact on total equity or comprehensive income.