

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

REDKNEE SOLUTIONS INC.

Three months and six months ended March 31, 2012 and 2011

REDKNEE SOLUTIONS INC.

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

	March 31, 2012	September 30, 2011	October 1, 2010
Assets			
Current assets:			
Cash and cash equivalents (note 3)	\$ 19,179,885	\$ 14,879,940	\$ 18,038,121
Short-term investments	—	—	21,356
Trade accounts and other receivables	12,927,419	12,987,865	14,400,281
Unbilled revenue	8,947,929	9,253,901	6,927,557
Prepaid expenses	1,237,640	1,398,145	1,320,649
Inventory	409,167	450,788	247,108
	42,702,040	38,970,639	40,955,072
Restricted cash	731,762	784,820	781,611
Property and equipment	759,762	378,013	611,757
Deferred income taxes	1,282,280	1,463,249	765,456
Long-term unbilled revenue	1,226,670	1,226,496	—
Other assets	1,119,100	464,416	499,257
Intangible assets	3,643,783	3,976,609	5,642,037
Goodwill	7,638,590	7,638,590	7,381,368
	\$ 59,103,987	\$ 54,902,832	\$ 56,636,558
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable	\$ 1,476,359	\$ 1,731,396	\$ 2,526,188
Accrued liabilities	5,469,831	6,001,706	3,564,561
Income taxes payable	3,540,446	3,199,295	2,628,543
Contingent consideration (note 4)	877,377	870,789	—
Deferred revenue	8,667,985	5,848,086	5,805,971
Loans and borrowings (note 6)	2,141,738	3,232,857	2,980,289
	22,173,736	20,884,129	17,505,552
Deferred revenue	882,549	—	—
Other liabilities	564,768	524,520	450,983
Contingent consideration (note 4)	—	—	1,160,816
Loans and borrowings (note 6)	3,981,327	4,804,700	6,859,743
Deferred income taxes	785,715	815,829	1,217,842
	28,388,095	27,029,178	27,194,936
Shareholders' equity:			
Share capital, net of employee share purchase loans	46,469,720	46,312,920	45,880,359
Contributed surplus	5,143,588	4,739,437	4,428,818
Deficit	(20,910,885)	(23,192,172)	(20,867,555)
Accumulated other comprehensive income	13,469	13,469	—
	30,715,892	27,873,654	29,441,622
Subsequent event (note 4)			
Commitments, guarantees and contingent liabilities (note 11)			
	\$ 59,103,987	\$ 54,902,832	\$ 56,636,558

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 March 31,		Six months ended March 31,	
	2012	2011	2012	2011
Revenue:				
Software, services and other	\$ 8,424,913	\$ 11,037,820	\$ 16,614,624	\$ 19,276,397
Support	5,682,723	4,975,088	11,457,216	10,336,070
	14,107,636	16,012,908	28,071,840	29,612,467
Cost of revenue	4,594,319	5,203,818	9,179,555	10,281,361
Gross profit	9,513,317	10,809,090	18,892,285	19,331,106
Operating expenses:				
Sales and marketing	3,706,253	3,774,120	7,099,911	7,191,429
General and administrative	2,137,613	2,700,698	4,021,528	5,078,051
Research and development	2,727,782	3,428,912	5,146,432	6,418,881
	8,571,648	9,903,730	16,267,871	18,688,361
Income from operations	941,669	905,360	2,624,414	642,745
Foreign exchange gain (loss)	554,569	(346,912)	(6,846)	(872,074)
Other income (expense)	(13,938)	76,966	(13,938)	246,087
Finance income	22,141	43,322	40,213	80,217
Finance costs	(100,808)	(128,392)	(217,947)	(266,995)
Income (loss) before income taxes	1,403,633	550,344	2,425,896	(170,020)
Income taxes (recovery):				
Current	104,770	207,130	224,057	375,352
Deferred	(32,988)	(88,041)	(79,448)	(193,698)
	71,782	119,089	144,609	181,654
Net income (loss)	1,331,851	431,255	2,281,287	(351,674)
Other comprehensive income:				
Foreign currency translation adjustment	–	41,199	–	131,213
Comprehensive income (loss)	\$ 1,331,851	\$ 472,454	2,281,287	\$ (220,461)
Net income (loss) per common share (note 7):				
Basic	0.02	0.01	0.04	(0.01)
Diluted	0.02	0.01	0.03	(0.01)
Weighted average number of common shares (note 7):				
Basic	64,410,404	64,158,363	64,316,481	64,132,813
Diluted	65,304,232	65,799,580	65,201,571	64,132,813

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)

Six months ended March 31, 2012 and 2011
(Unaudited)

	Share capital Number	Share capital Amount	Employee share purchase loans	Contributed surplus	Deficit	Accumulated other comprehensive income	Total shareholders' equity
Balance, September 30, 2011	64,197,904	\$ 46,312,920	\$ –	\$ 4,739,437	\$ (23,192,172)	\$ 13,469	\$ 27,873,654
Net income	–	–	–	–	2,281,287	–	2,281,287
Share-based compensation	–	–	–	466,292	–	–	466,292
Stock options exercised	212,500	156,800	–	(62,141)	–	–	94,659
Balance, March 31, 2012	64,410,404	\$ 46,469,720	\$ –	\$ 5,143,588	\$ (20,910,885)	\$ 13,469	\$ 30,715,892
Balance, October 1, 2010	63,866,604	\$ 45,885,407	\$ (5,048)	\$ 4,428,818	\$ (20,867,555)	\$ –	\$ 29,441,622
Loss for the period	–	–	–	–	(351,674)	–	(351,674)
Other comprehensive income	–	–	–	–	–	131,213	131,213
Share-based compensation	–	–	–	430,666	–	–	430,666
Stock options exercised	163,300	213,677	–	(57,169)	–	–	156,508
Balance, March 31, 2011	64,029,904	\$ 46,099,084	\$ (5,048)	\$ 4,802,315	\$ (21,219,229)	\$ 131,213	\$ 29,808,335

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)

	Six months ended March 31,	
	2012	2011
Cash provided by (used in):		
Operating activities:		
Net income (loss)	\$ 2,281,287	\$ (351,674)
Adjustments for:		
Depreciation of property and equipment	93,199	144,163
Amortization of intangible assets	375,183	755,359
Finance income	(40,213)	(80,217)
Finance costs	217,947	266,995
Income tax expense	144,609	181,654
Unrealized foreign exchange loss	29,846	1,044,761
Share-based compensation	500,491	505,922
Changes in non-cash operating working capital (note 9)	3,682,255	(1,840,916)
	7,284,604	626,047
Interest paid	(31,099)	(152,485)
Interest received	20,654	80,217
Income taxes received (paid)	90,009	(300,323)
	7,364,168	253,456
Financing activities:		
Proceeds from exercise of stock options	94,659	156,505
Repayment of loans and borrowings	(2,010,105)	(2,396,460)
	(1,915,446)	(2,239,955)
Investing activities:		
Proceeds from short-term investments	-	21,356
Purchase of property and equipment	(474,948)	(40,124)
Purchase of intangible assets	(42,357)	(35,874)
Decrease (increase) in other assets	(654,684)	49,187
Decrease (increase) in restricted cash	53,058	(765,014)
Acquisition of Nimbus Systems	-	(257,222)
	(1,118,931)	(1,027,691)
Effect of foreign exchange rate changes on cash and cash equivalents	(29,846)	(348,249)
Increase (decrease) in cash and cash equivalents	4,299,945	(3,362,439)
Cash and cash equivalents, beginning of period	14,879,940	18,038,121
Cash and cash equivalents, end of period	\$ 19,179,885	\$ 14,675,682

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 and six months ended March 31, 2012 and 2011
(Unaudited)

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 network operators globally. 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").

The policies applied to these interim condensed consolidated financial statements have been selected to be consistent with IFRSs expected to be effective on September 30, 2012, the Company's first annual IFRS reporting date. These accounting policies are disclosed in note 2 of the Company's 2012 first quarter interim condensed consolidated financial statements for the three months ended December 31, 2011.

The Company's transition date to IFRS is October 1, 2010 (the "Transition Date"). The impact of the transition from Canadian generally accepted accounting principles ("GAAP") to IFRS is explained in note 12.

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 condensed consolidated financial statements will be finalized only when the first annual IFRS financial statements are prepared for the year ending September 30, 2012.

REDKNEE SOLUTIONS INC.

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

Three months and six months ended March 31, 2012 and 2011
(Unaudited)

1. Statement of compliance (continued):

These interim condensed consolidated financial statements should be read in conjunction with the Company's 2011 annual consolidated financial statements prepared in accordance with Canadian GAAP and with the IFRS accounting policies and transition disclosures as described in notes 2 and 12 of the Company's 2012 first quarter interim condensed consolidated financial statements.

These interim consolidated financial statements for the three months and six months ended March 31, 2012 were authorized for issuance by the Board of Directors of the Company on May 9, 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)
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2. Summary of significant accounting policies (continued):

(c) 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 those 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.

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Notes to Interim Condensed Consolidated Financial Statements (continued)
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3. Cash and cash equivalents:

	March 31, 2012	September 30, 2011
Cash	\$ 18,343,044	\$ 13,765,320
Cash equivalents	836,841	1,114,620
	<u>\$ 19,179,885</u>	<u>\$ 14,879,940</u>

4. Contingent consideration:

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 was due January 1, 2012, and the maximum amount to be paid was €1,050,000.

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)
Balance, September 30, 2011 (€647,500)	870,789
Change in estimate of consideration to be paid	13,938
Impact of foreign exchange	(7,350)
<u>Balance, March 31, 2012 (€658,000)</u>	<u>\$ 877,377</u>

Subsequent to March 31, 2012, the amount of contingent consideration was finalized and paid at €658,000.

5. Related party transactions:

In August 2011, the Company entered into a consulting agreement with a member of the Board of Directors. For the three months and six months ended March 31, 2012, the Company has incurred \$15,000 and \$30,000 (2011 - nil and nil), respectively, in consulting expense.

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Notes to Interim Condensed Consolidated Financial Statements (continued)
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6. Loans and borrowings:

	March 31, 2012	September 30, 2011
Term loan, bearing interest at LIBOR plus 4.00%, due in August 2015 (a)	\$ 5,607,554	\$ 6,409,740
Term loan, denominated in Euros, bearing interest at 4.95%, due in December 2012	–	69,319
Bank indebtedness, denominated in Euros, face value discount of 2.00% to 4.00%, due on demand (b)	515,511	1,527,512
Obligation under capital lease	–	30,986
Total loans and borrowings	6,123,065	8,037,557
Less current portion of loans payable	2,141,738	3,232,857
Long-term portion of loans and borrowings	\$ 3,981,327	\$ 4,804,700

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

As at March 31, 2012, 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 March 31, 2012, \$5,607,554 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 March 31, 2012.

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Notes to Interim Condensed Consolidated Financial Statements (continued)
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Three months and six months ended March 31, 2012 and 2011
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6. Loans and borrowing (continued):

(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 \$74,846 and \$166,728 in connection with loans payable has been recognized in the interim consolidated statement of comprehensive income (loss) for the three months and six months ended March 31, 2012 (2011 - \$105,364 and \$223,403), respectively.

7. Net income (loss) per common share:

For the three months and six months ended March 31, 2012, the diluted weighted average shares outstanding include unvested restricted share units and dilutive outstanding stock options. For the three months and six months ended March 31, 2012, shares relating to the remaining outstanding options in the amount of 4,233,184 (2011 - 4,807,101) and 4,241,922 (2011 - 6,448,318), respectively, 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 (loss) per common share for the three months and six months ended March 31 is as follows:

	Three months ended March 31,		Six months ended March 31,	
	2012	2011	2012	2011
Basic weighted average number of common shares outstanding	64,410,404	64,158,363	64,316,481	64,132,813
Add dilutive stock options outstanding	893,828	1,641,217	885,090	—
Diluted weighted average number of common shares outstanding	65,304,232	65,799,580	65,201,571	64,132,813

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Notes to Interim Condensed Consolidated Financial Statements (continued)
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8. Normal course issuer bid:

On March 8, 2012, the Company announced a normal course issuer bid ("NCIB") under which it may purchase up to 4,701,696 of its common shares. The purchases may commence on March 12, 2012 and will terminate on March 11, 2013 or on such earlier date as the Company may complete its purchases pursuant to the notice of intention to make a NCIB filed with the Toronto Stock Exchange ("TSX"). Purchases will be made on the open market by the Company through the facilities of the TSX in accordance with TSX requirements. The prices that the Company will pay for any purchased common shares will be the market price of such shares on the TSX at the time of acquisition. As of March 31, 2012, the Company has not purchased any common shares under this NCIB.

9. Changes in non-cash operating working capital:

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

	Six months ended March 31,	
	2012	2011
Trade accounts and other receivables	\$ 80,005	\$ 161,518
Unbilled revenue	305,798	(3,052,710)
Prepaid expenses	160,505	(121,652)
Accounts payable	(255,037)	723,010
Accrued liabilities	(617,061)	64,179
Contingent consideration	6,588	(246,087)
Deferred revenue	3,702,448	1,004,298
Income taxes payable	257,388	(220,081)
Inventory	41,621	(153,391)
	<u>\$ 3,682,255</u>	<u>\$ (1,840,916)</u>

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.

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Notes to Interim Condensed Consolidated Financial Statements (continued)
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10. Segment reporting (continued):

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

	Three months ended March 31,		Six months ended March 31,	
	2012	2011	2012	2011
Europe, Middle East and Africa	\$ 6,688,620	\$ 6,603,569	\$ 11,321,834	\$ 12,594,802
North America, Latin America and Caribbean	5,267,001	4,109,516	11,852,288	8,973,569
Asia and Pacific Rim	2,152,015	5,299,823	4,897,718	8,044,096
	<u>\$ 14,107,636</u>	<u>\$ 16,012,908</u>	<u>\$ 28,071,840</u>	<u>\$ 29,612,467</u>

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

	Three months ended March 31,		Six months ended March 31,	
	2012	2011	2012	2011
Revenue by type:				
Software and services	\$ 7,913,750	\$ 10,154,977	\$ 15,406,452	\$ 16,676,136
Support	5,682,723	4,975,088	11,457,216	10,336,070
Third party software and hardware	511,163	882,843	1,208,172	2,600,261
	<u>\$ 14,107,636</u>	<u>\$ 16,012,908</u>	<u>\$ 28,071,840</u>	<u>\$ 29,612,467</u>

11. Commitments, guarantees and contingent liabilities:

(a) Letters of credit:

As at March 31, 2012, the Company had \$731,762 (September 30, 2011 - \$784,820) 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.

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Notes to Interim Condensed Consolidated Financial Statements (continued)
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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.

12. Transition to IFRS:

As stated in note 1, these interim condensed consolidated financial statements are prepared in accordance with IAS 34.

The accounting policies set out in note 2 of the Company's 2012 first quarter interim condensed consolidated financial statements have been applied in preparing the interim condensed consolidated financial statements for the three months and six months ended March 31, 2012, the comparative information presented in the interim condensed consolidated financial statements for the three months and six months ended March 31, 2011 and the year ended September 30, 2011.

(a) First-time adoption of IFRS:

The adoption of IFRS requires the application of IFRS 1, First-time Adoption of International Financial Reporting Standards ("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.

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

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12. Transition to IFRS (continued):

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, 2010, 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.
- To not reassess whether arrangements contain a lease under IFRS where the same determination that would be made under International Financial Reporting Interpretations Committee 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.

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Notes to Interim Condensed Consolidated Financial Statements (continued)
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12. Transition to IFRS (continued):

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.

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Notes to Interim Condensed Consolidated Financial Statements (continued)
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12. Transition to IFRS (continued):

Reconciliation of net income (loss) for the three months ended March 31, 2011:

	Note	Canadian dollars		U.S. dollar	
		Canadian GAAP (Recast (e))	IFRS Adjustments	IFRS	IFRS
Revenue:					
Software, services and other		\$ 11,466,674	\$ –	\$ 11,466,674	\$ 11,037,820
Support		5,168,386	–	5,168,386	4,975,088
		16,635,060	–	16,635,060	16,012,908
Cost of revenue	b, d	5,376,635	29,367	5,406,002	5,203,818
Gross profit		11,258,425	(29,367)	11,229,058	10,809,090
Operating expenses:					
Sales and marketing	b, d	3,903,255	17,501	3,920,756	3,774,120
General and administrative	b, d	2,413,774	391,855	2,805,629	2,700,698
Research and development	b, d	3,567,676	(5,540)	3,562,136	3,428,912
Amortization	d	456,298	(456,298)	–	–
		10,341,003	(52,482)	10,288,521	9,903,730
Income from operations		917,422	23,115	940,537	905,360
Foreign exchange loss		(360,391)	–	(360,391)	(346,912)
Other income	a	–	79,956	79,956	76,966
Interest income		45,005	–	45,005	43,322
Interest expense		(133,380)	–	(133,380)	(128,392)
Income before income taxes		468,656	103,071	571,727	550,344
Income taxes (recovery):					
Current		215,178	–	215,178	207,130
Deferred		(91,462)	–	(91,462)	(88,041)
		123,716	–	123,716	119,089
Net income		\$ 344,940	\$ 103,071	\$ 448,011	\$ 431,255

REDKNEE SOLUTIONS INC.

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

Three months and six months ended March 31, 2012 and 2011
(Unaudited)

12. Transition to IFRS (continued):

Reconciliation of net income (loss) for the six months ended March 31, 2011:

	Note	Canadian dollars		U.S. dollar	
		Canadian GAAP (Recast (e))	IFRS Adjustments	IFRS	IFRS
Revenue:					
Software, services and other		\$ 20,025,345	\$ –	\$ 20,025,345	\$ 19,276,397
Support		10,737,659	–	10,737,659	10,336,070
		30,763,004	–	30,763,004	29,612,467
Cost of revenue	b, d	10,656,778	24,045	10,680,823	10,281,361
Gross profit		20,106,226	(24,045)	20,082,181	19,331,106
Operating expenses:					
Sales and marketing	b, d	7,428,108	42,730	7,470,838	7,191,429
General and administrative	b, d	4,497,768	777,582	5,275,350	5,078,051
Research and development	b, d	6,636,753	31,522	6,668,275	6,418,881
Amortization	d	934,471	(934,471)	–	–
		19,497,100	(82,637)	19,414,463	18,688,361
Income from operations		609,126	58,592	667,718	642,745
Foreign exchange loss		(905,957)	–	(905,957)	(872,074)
Other income	a	–	255,648	255,648	246,087
Interest income		83,333	–	83,333	80,217
Interest expense		(277,368)	–	(277,368)	(266,995)
Loss (income) before income taxes		(490,866)	314,240	(176,626)	(170,020)
Income taxes (recovery):					
Current		389,936	–	389,936	375,352
Deferred		(201,224)	–	(201,224)	(193,698)
		188,712	–	188,712	181,654
Net income (loss)		\$ (679,578)	\$ 314,240	\$ (365,338)	\$ (351,674)

REDKNEE SOLUTIONS INC.

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

Three months and six months ended March 31, 2012 and 2011
(Unaudited)

12. Transition to IFRS (continued):

Reconciliation of interim condensed consolidated statement of financial position at March 31, 2011:

	Note	Canadian dollars		U.S. dollar	
		Canadian GAAP (Recast (e))	IFRS Adjustments	IFRS	IFRS
Assets					
Current assets:					
Cash and cash equivalents		\$ 15,245,878	\$ –	\$ 15,245,878	\$ 14,675,682
Trade accounts and other receivables		14,744,861	–	14,744,861	14,193,403
Unbilled revenue		10,340,954	–	10,340,954	9,954,202
Prepaid expenses		1,481,051	–	1,481,051	1,425,660
Inventory		416,060	–	416,060	400,499
		42,228,804	–	42,228,804	40,649,446
Restricted cash		1,606,716	–	1,606,716	1,546,625
Property and equipment		525,201	–	525,201	505,558
Deferred income taxes		1,090,739	–	1,090,739	1,049,945
Other assets		491,954	–	491,954	473,555
Intangible assets		5,076,854	–	5,076,854	4,886,980
Goodwill		7,935,373	–	7,935,373	7,638,590
		\$ 58,955,641	\$ –	\$ 58,955,641	\$ 56,750,699
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable		\$ 3,312,846	\$ –	\$ 3,312,846	\$ 3,188,944
Accrued liabilities		3,746,462	–	3,746,462	3,606,344
Income taxes payable		2,834,333	–	2,834,333	2,728,329
Current portion of contingent consideration	a	–	950,269	950,269	914,729
Deferred revenue		7,166,977	–	7,166,977	6,898,932
Current portion of loans payable		2,520,797	–	2,520,797	2,426,519
Current portion of obligations under capital leases		14,690	–	14,690	14,141
		19,596,105	950,269	20,546,374	19,777,938
Other long-term liabilities		557,856	–	557,856	536,992
Long-term portion of loans payable		5,764,208	–	5,764,208	5,548,627
Obligations under capital leases		26,787	–	26,787	25,785
Deferred income taxes		1,093,935	–	1,093,935	1,053,022
		27,038,891	950,269	27,989,160	26,942,364
Shareholders' equity:					
Share capital, net of employee share purchase loans		47,884,932	–	47,884,932	46,094,036
Contributed surplus	b	4,887,192	101,708	4,988,900	4,802,315
Deficit		(20,825,344)	(1,218,318)	(22,043,662)	(21,219,229)
Accumulated other comprehensive income (loss)	c	(30,030)	166,341	136,311	131,213
		31,916,750	(950,269)	30,966,481	29,808,335
		\$ 58,955,641	\$ –	\$ 58,955,641	\$ 56,750,699

REDKNEE SOLUTIONS INC.

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

Three months and six months ended March 31, 2012 and 2011
(Unaudited)

12. Transition to IFRS (continued):

Reconciliation of interim condensed consolidated statement of financial position at September 30, 2011:

	Note	Canadian dollars		U.S. dollar	
		Canadian GAAP (Recast (e))	IFRS Adjustments	IFRS	IFRS
Assets					
Current assets:					
Cash and cash equivalents	\$	15,458,072	\$ -	\$ 15,458,072	\$ 14,879,940
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
Liabilities and Shareholders' Equity					
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
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	4,885,706	37,873	4,923,579	4,739,437
Deficit		(22,984,424)	(1,108,836)	(24,093,260)	(23,192,172)
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 and six months ended March 31, 2012 and 2011
(Unaudited)

12. Transition to IFRS (continued):

Reconciliation of interim condensed consolidated statement of financial position at October 1, 2010:

	Note	Canadian dollars		U.S. dollar	
		CGAAP (Recast (e))	IFRS Adjustments	IFRS	IFRS
Assets					
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
Liabilities and Shareholders' Equity					
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
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	4,440,593	160,300	4,600,893	4,428,818
Deficit		(20,145,766)	(1,532,558)	(21,678,324)	(20,867,555)
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 and six months ended March 31, 2012 and 2011
(Unaudited)

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 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.

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.

- (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 (loss).

REDKNEE SOLUTIONS INC.

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

Three months and six months ended March 31, 2012 and 2011
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12. Transition to IFRS (continued):

- (e) As part of finalizing the contingent consideration payment relating to the Nimbus acquisition, the Company determined that it had not recorded certain restricted share units ("RSUs") granted to Nimbus employees at the acquisition date. These RSUs were contingently issuable on certain non-market performance criteria and were linked to continuing employment. Comparative amounts have been recast for this immaterial correction as follows: increase contributed surplus and deficit at October 1, 2010, March 31, 2011 and September 30, 2011 by \$91,895, \$268,243 and \$385,853, respectively; increase operating expenses by \$60,919, \$176,348 and \$293,958 for the three months and six months ended March 31, 2011 and full year ended September 30, 2011, respectively. These adjustments were not as a result of the transition to IFRS.

- (f) Material adjustments to the interim condensed 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 interim condensed consolidated statement of cash flows presented under IFRS and the interim condensed consolidated statement of cash flows presented under Canadian GAAP.