

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

## **REDKNEE SOLUTIONS INC.**

Three months and nine months ended June 30, 2012 and 2011  
(Unaudited)

# REDKNEE SOLUTIONS INC.

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

	June 30, 2012	September 30, 2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 3)	\$ 19,626,880	\$ 14,879,940
Trade accounts and other receivables	11,010,238	12,987,865
Unbilled revenue	10,526,941	9,253,901
Prepaid expenses	1,531,094	1,398,145
Inventory	543,161	450,788
	<u>43,238,314</u>	<u>38,970,639</u>
Restricted cash	718,260	784,820
Property and equipment	791,790	378,013
Deferred income taxes	1,431,228	1,463,249
Long-term unbilled revenue	350,073	1,226,496
Other assets	2,840,586	464,416
Intangible assets	3,465,845	3,976,609
Goodwill	7,638,590	7,638,590
	<u>\$ 60,474,686</u>	<u>\$ 54,902,832</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 1,752,569	\$ 1,731,396
Accrued liabilities	5,982,501	6,001,706
Income taxes payable	3,719,843	3,199,295
Contingent consideration (note 4)	—	870,789
Deferred revenue	9,512,456	5,848,086
Loans and borrowings (note 6)	1,767,356	3,232,857
	<u>22,734,725</u>	<u>20,884,129</u>
Deferred revenue	556,865	—
Other liabilities	616,463	524,520
Loans and borrowings (note 6)	3,981,474	4,804,700
Deferred income taxes	739,655	815,829
	<u>28,629,182</u>	<u>27,029,178</u>
Shareholders' equity:		
Share capital, net of Employee share purchase loans	46,482,504	46,312,920
Treasury stock (note 8)	(714,608)	—
Contributed surplus	5,236,430	4,739,437
Deficit	(19,172,291)	(23,192,172)
Accumulated other comprehensive income	13,469	13,469
	<u>31,845,504</u>	<u>27,873,654</u>
Commitments, guarantees and contingent liabilities (note 11)		
	<u>\$ 60,474,686</u>	<u>\$ 54,902,832</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 June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
Revenue:				
Software, services and other	\$ 8,975,327	\$ 8,702,956	\$ 25,589,951	\$ 27,979,353
Support	5,871,850	5,476,797	17,329,066	15,812,867
	14,847,177	14,179,753	42,919,017	43,792,220
Cost of revenue	4,245,441	5,482,594	13,424,996	15,763,955
Gross profit	10,601,736	8,697,159	29,494,021	28,028,265
Operating expenses:				
Sales and marketing	4,068,675	4,027,724	11,168,586	11,219,153
General and administrative	2,469,876	3,466,962	6,491,404	8,545,013
Research and development	1,997,506	3,451,192	7,143,938	9,870,073
	8,536,057	10,945,878	24,803,928	29,634,239
Income (loss) from operations	2,065,679	(2,248,719)	4,690,093	(1,605,974)
Foreign exchange gain (loss)	(209,836)	251,093	(216,682)	(620,981)
Other income (expense)	–	289,538	(13,938)	535,625
Finance income	31,444	36,414	71,657	116,631
Finance costs	(79,226)	(167,527)	(297,173)	(434,522)
Income (loss) before income taxes	1,808,061	(1,839,201)	4,233,957	(2,009,221)
Income taxes (recovery):				
Current	289,153	151,635	513,210	526,987
Deferred	(219,686)	(88,041)	(299,134)	(281,739)
	69,467	63,594	214,076	245,248
Net income (loss)	1,738,594	(1,902,795)	4,019,881	(2,254,469)
Other comprehensive income:				
Foreign currency translation adjustment	–	21,534	–	152,747
Comprehensive income (loss)	\$ 1,738,594	\$ (1,881,261)	\$ 4,019,881	\$ (2,101,722)
Net income (loss) per common share (note 7):				
Basic	0.03	(0.03)	0.06	(0.04)
Diluted	0.03	(0.03)	0.06	(0.04)
Weighted average number of common shares (note 7):				
Basic	64,142,461	64,194,871	64,252,923	64,154,532
Diluted	65,103,596	64,194,871	65,120,420	64,154,532

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)

Nine months ended June 30, 2012 and 2011  
(Unaudited)

	Share capital Number	Share capital Amount	Treasury stock	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	–	–	–	–	–	4,019,881	–	4,019,881
Share-based compensation	–	–	–	–	559,134	–	–	559,134
Stock options exercised	245,500	169,584	–	–	(62,141)	–	–	107,443
Purchase of treasury stock (note 8)	–	–	(714,608)	–	–	–	–	(714,608)
<b>Balance, June 30, 2012</b>	<b>64,443,404</b>	<b>\$ 46,482,504</b>	<b>\$ (714,608)</b>	<b>\$ –</b>	<b>\$ 5,236,430</b>	<b>\$ (19,172,291)</b>	<b>\$ 13,469</b>	<b>\$ 31,845,504</b>
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	–	–	–	–	–	(2,254,469)	–	(2,254,469)
Other comprehensive income	–	–	–	–	–	–	152,747	152,747
Share-based compensation	–	–	–	–	547,440	–	–	547,440
Stock options exercised	166,300	214,781	–	–	(57,169)	–	–	157,612
Collection of employee share purchase loans	–	–	–	5,048	–	–	–	5,048
<b>Balance, June 30, 2011</b>	<b>64,032,904</b>	<b>\$ 46,100,188</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 4,919,089</b>	<b>\$ (23,122,024)</b>	<b>\$ 152,747</b>	<b>\$ 28,050,000</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)

	Nine months ended June 30,	
	2012	2011
Cash provided by (used in):		
Operating activities:		
Net income (loss)	\$ 4,019,881	\$ (2,254,469)
Adjustments for:		
Depreciation of property and equipment	147,250	211,872
Amortization of intangible assets	553,121	1,128,707
Finance income	(71,657)	(116,631)
Finance costs	297,173	434,522
Income tax expense	214,076	245,248
Unrealized foreign exchange loss	(84,376)	921,515
Share-based compensation	654,566	640,512
Revaluation of contingent consideration	6,588	(535,624)
Changes in non-cash operating working capital (note 9)	3,465,497	(3,819,537)
	9,202,119	(3,143,885)
Interest paid	(35,974)	(18,904)
Interest received	62,001	116,631
Income taxes paid	(78,672)	(301,979)
	9,149,474	(3,348,137)
Financing activities:		
Proceeds from Employee share purchase loans	–	5,048
Proceeds from exercise of stock options	107,443	157,612
Purchase of treasury stock	(714,608)	–
Repayment of loans and borrowings	(2,465,544)	(1,626,331)
	(3,072,709)	(1,463,671)
Investing activities:		
Proceeds from short-term investments	–	21,356
Purchase of property and equipment	(561,027)	(39,722)
Purchase of intangible assets	(42,357)	(29,916)
Decrease in restricted cash	66,560	35,816
Acquisition of Nimbus Systems	–	(257,222)
Settlement of Nimbus Systems contingent consideration (note 4)	(877,377)	–
	(1,414,201)	(269,688)
Effect of foreign exchange rate changes on cash and cash equivalents	84,376	(178,490)
Increase (decrease) in cash and cash equivalents	4,746,940	(5,259,986)
Cash and cash equivalents, beginning of period	14,879,940	18,038,121
Cash and cash equivalents, end of period	\$ 19,626,880	\$ 12,778,135

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 nine months ended June 30, 2012 and 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 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.

The policies applied to these interim condensed consolidated financial statements have been selected to be consistent with IFRS 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 of the Company's 2012 first quarter interim condensed consolidated financial statements.

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 nine months ended June 30, 2012 and 2011  
(Unaudited)

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## 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 nine months ended June 30, 2012 were authorized for issuance by the Board of Directors of the Company on August 8, 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 at fair value through profit and loss or available for sale, contingent consideration for business combinations and cash-settled share-based payments, which are all measured at fair value.

The interim condensed consolidated financial statements are being presented using the function classification for expenses.

### (b) Principles 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 and nine months ended June 30, 2012 and 2011  
(Unaudited)

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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 interim condensed 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, revenue 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.



# REDKNEE SOLUTIONS INC.

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

Three months and nine months ended June 30, 2012 and 2011  
(Unaudited)

### 3. Cash and cash equivalents:

	June 30, 2012	September 30, 2011
Cash	\$ 19,327,169	\$ 13,765,320
Cash equivalents	299,711	1,114,620
	<u>\$ 19,626,880</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)
Balance, March 31, 2012 (€658,000)	877,377
Cash paid (€658,000)	(877,377)
Balance, June 30, 2012	\$ —

### 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 nine months ended June 30, 2012, the Company has incurred \$15,000 and \$45,000 (2011 - nil and nil), respectively, in consulting expense.

# REDKNEE SOLUTIONS INC.

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

Three months and nine months ended June 30, 2012 and 2011  
(Unaudited)

## 6. Loans and borrowings:

	June 30, 2012	September 30, 2011
Term loan, bearing interest at LIBOR plus 4.00%, due in August 2015 (a)	\$ 5,672,517	\$ 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)	76,313	1,527,512
Obligation under capital lease	–	30,986
Total loans and borrowings	5,748,830	8,037,557
Less current portion of loans payable	1,767,356	3,232,857
Long-term portion of loans and borrowings	\$ 3,981,474	\$ 4,804,700

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

As at June 30, 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 June 30, 2012, \$5,672,517 remains outstanding. 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 June 30, 2012.

# REDKNEE SOLUTIONS INC.

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

Three months and nine months ended June 30, 2012 and 2011  
(Unaudited)

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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 \$75,693 and \$242,421 in connection with loans payable has been recognized in the interim condensed consolidated statement of comprehensive income (loss) for the three months and nine months ended June 30, 2012 (2011 - \$163,525 and \$403,294), respectively.

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

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 nine months ended June 30 is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2012	2011	2012	2011
Basic weighted average number of common shares outstanding	64,142,461	64,194,871	64,252,923	64,154,532
Add dilutive stock options outstanding	961,135	—	867,497	—
Diluted weighted average number of common shares outstanding	65,103,596	64,194,871	65,120,420	64,154,532

The total number of anti-dilutive options that were out of the money and therefore excluded from the calculation for the three months and nine months ended June 30, 2012 are 3,918,252 (2011 - 5,678,141) and 4,011,890 (2011 - 5,678,141), respectively.

# REDKNEE SOLUTIONS INC.

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

Three months and nine months ended June 30, 2012 and 2011  
(Unaudited)

## 8. Capital stock:

### (a) 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 June 30, 2012, the Company has not purchased any common shares under this NCIB.

### (b) Treasury stock:

During the quarter ended June 30, 2012, the Company paid \$714,608 to the trustee to purchase 568,906 of the Company's common shares in the open market to satisfy the delivery of common shares under the equity-based compensation plans. The Company classified these shares as treasury stock until they are delivered pursuant to the awards.

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

The changes in non-cash working capital for the nine months ended June 30 are as follows:

	Nine months ended June 30,	
	2012	2011
Trade accounts and other receivables	\$ 1,987,283	\$ (1,056,429)
Unbilled revenue	(396,617)	(2,934,731)
Prepaid expenses	(132,949)	(321,488)
Other assets	(2,376,170)	49,547
Accounts payable	21,173	517,987
Accrued liabilities	(107,076)	110,390
Deferred revenue	4,221,235	215,533
Income taxes payable	340,991	(104,886)
Inventory	(92,373)	(295,460)
	<u>\$ 3,465,497</u>	<u>\$ (3,819,537)</u>

# REDKNEE SOLUTIONS INC.

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

Three months and nine months ended June 30, 2012 and 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 is as follows:

	Three months ended		Nine months ended	
	2012	June 30, 2011	2012	June 30, 2011
Europe, Middle East and Africa	\$ 5,131,462	\$ 6,772,906	\$ 16,453,296	\$ 19,367,708
North America, Latin America and Caribbean	6,033,494	4,771,457	17,885,782	13,745,026
Asia and Pacific Rim	3,682,221	2,635,390	8,579,939	10,679,486
	<u>\$ 14,847,177</u>	<u>\$ 14,179,753</u>	<u>\$ 42,919,017</u>	<u>\$ 43,792,220</u>

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

	Three months ended		Nine months ended	
	2012	June 30, 2011	2012	June 30, 2011
Revenue by type:				
Software and services	\$ 8,753,277	\$ 8,173,518	\$ 24,159,729	\$ 24,849,655
Support	5,871,850	5,476,797	17,329,066	15,812,867
Third party software and hardware	222,050	529,438	1,430,222	3,129,698
	<u>\$ 14,847,177</u>	<u>\$ 14,179,753</u>	<u>\$ 42,919,017</u>	<u>\$ 43,792,220</u>

# REDKNEE SOLUTIONS INC.

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

Three months and nine months ended June 30, 2012 and 2011  
(Unaudited)

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## 11. Commitments, guarantees and contingent liabilities:

### (a) Letters of credit:

As at June 30, 2012, the Company had \$718,260 (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.

### (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:

The purpose of this note is to explain the impact of the transition to IFRS on our comparative interim financial statements for the three and nine-months ended June 30, 2011.

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 nine months ended June 30, 2012, the comparative information presented in the interim condensed consolidated financial statements for the three months and nine months ended June 30, 2011 and the year ended September 30, 2011.

# REDKNEE SOLUTIONS INC.

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

Three months and nine months ended June 30, 2012 and 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, 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.

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 income (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 and nine months ended June 30, 2012 and 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 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.

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 shareholders' equity and comprehensive income (loss) from Canadian GAAP to IFRS and the translation to U.S. dollar functional and presentation currency for the respective periods. For reconciliation of interim condensed consolidated statements of financial position at October 1, 2010 and September 30, 2011, refer to note 12 of the Company's 2012 second quarter interim condensed consolidated financial statements for the six months ended March 31, 2012.

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 and nine months ended June 30, 2012 and 2011  
(Unaudited)

## 12. Transition to IFRS (continued):

Reconciliation of net income (loss) for the three months ended June 30, 2011:

	Note	Canadian dollars		U.S. dollar	
		Canadian GAAP (Recast (e))	IFRS adjustments	IFRS	IFRS
Revenue:					
Software, services and other		\$ 9,041,093	\$ –	\$ 9,041,093	\$ 8,702,956
Support		5,689,588	–	5,689,588	5,476,797
		14,730,681	–	14,730,681	14,179,753
Cost of revenue	b, d	5,676,706	18,903	5,695,609	5,482,594
Gross profit		9,053,975	(18,903)	9,035,072	8,697,159
Operating expenses:					
Sales and marketing	b, d	4,164,480	19,734	4,184,214	4,027,724
General and administrative	b, d	3,213,665	387,999	3,601,664	3,466,962
Research and development	b, d	3,577,733	7,549	3,585,282	3,451,192
Amortization	d	458,194	(458,194)	–	–
		11,414,072	(42,912)	11,371,160	10,945,878
Income (loss) from operations		(2,360,097)	24,009	(2,336,088)	(2,248,719)
Foreign exchange gain		260,849	–	260,849	251,093
Other income	a	–	300,787	300,787	289,538
Finance income		37,829	–	37,829	36,414
Finance costs		(174,036)	–	(174,036)	(167,527)
Income (loss) before income taxes		(2,235,455)	324,796	(1,910,659)	(1,839,201)
Income taxes (recovery):					
Current		157,527	–	157,527	151,635
Deferred		(91,462)	–	(91,462)	(88,041)
		66,065	–	66,065	63,594
Net income (loss)		\$ (2,301,520)	\$ 324,796	\$ (1,976,724)	\$ (1,902,795)

# REDKNEE SOLUTIONS INC.

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

Three months and nine months ended June 30, 2012 and 2011  
(Unaudited)

## 12. Transition to IFRS (continued):

Reconciliation of net income (loss) for the nine months ended June 30, 2011:

	Note	Canadian dollars		U.S. dollar	
		Canadian GAAP (Recast (e))	IFRS adjustments	IFRS	IFRS
Revenue:					
Software, services and other		\$ 29,066,438	\$ –	\$ 29,066,438	\$ 27,979,353
Support		16,427,247	–	16,427,247	15,812,867
		45,493,685	–	45,493,685	43,792,220
Cost of revenue	b, d	16,333,484	42,948	16,376,432	15,763,955
Gross profit		29,160,201	(42,948)	29,117,253	28,028,265
Operating expenses:					
Sales and marketing	b, d	11,592,588	62,464	11,655,052	11,219,153
General and administrative	b, d	7,711,433	1,165,581	8,877,014	8,545,013
Research and development	b, d	10,214,486	39,071	10,253,557	9,870,073
Amortization	d	1,392,665	(1,392,665)	–	–
		30,911,172	(125,549)	30,785,623	29,634,239
Income (loss) from operations		(1,750,971)	82,601	(1,668,370)	(1,605,974)
Foreign exchange loss		(645,108)	–	(645,108)	(620,981)
Other income	a	–	556,435	556,435	535,625
Finance income		121,162	–	121,162	116,631
Finance costs		(451,404)	–	(451,404)	(434,522)
Income (loss) before income taxes		(2,726,321)	639,036	(2,087,285)	(2,009,221)
Income taxes (recovery):					
Current		547,463	–	547,463	526,987
Deferred		(292,686)	–	(292,686)	(281,739)
		254,777	–	254,777	245,248
Net income (loss)		\$ (2,981,098)	\$ 639,036	\$ (2,342,062)	\$ (2,254,469)

# REDKNEE SOLUTIONS INC.

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

Three months and nine months ended June 30, 2012 and 2011  
(Unaudited)

## 12. Transition to IFRS (continued):

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

	Note	Canadian dollars		U.S. dollar	
		Canadian GAAP (Recast (e))	IFRS adjustments	IFRS	IFRS
<b>Assets</b>					
Current assets:					
Cash and cash equivalents		\$ 13,274,605	\$ –	\$ 13,274,605	\$ 12,778,135
Trade accounts and other receivables		15,975,897	–	15,975,897	15,378,398
Unbilled revenue		10,202,301	–	10,202,301	9,820,735
Prepaid expenses		1,685,749	–	1,685,749	1,622,702
Inventory		563,649	–	563,649	542,569
		41,702,201	–	41,702,201	40,142,539
Restricted cash		774,771	–	774,771	745,795
Property and equipment		455,695	–	455,695	438,652
Deferred income taxes		1,166,684	–	1,166,684	1,123,050
Other assets		495,326	–	495,326	476,801
Intangible assets		4,719,765	–	4,719,765	4,543,246
Goodwill		7,935,373	–	7,935,373	7,638,590
		\$ 57,249,815	\$ –	\$ 57,249,815	\$ 55,108,673
<b>Liabilities and Shareholders' Equity</b>					
Current liabilities:					
Accounts payable		\$ 3,067,433	\$ –	\$ 3,067,433	\$ 2,952,713
Accrued liabilities		3,792,436	–	3,792,436	3,650,599
Income taxes payable		3,203,564	–	3,203,564	3,083,751
Current portion of contingent consideration	a	–	649,482	649,482	625,191
Deferred revenue		6,363,025	–	6,363,025	6,125,048
Current portion of loans payable		3,985,456	–	3,985,456	3,836,400
Current portion of obligations under capital leases		10,016	–	10,016	9,641
		20,421,930	649,482	21,071,412	20,283,343
Other long-term liabilities		576,365	–	576,365	554,809
Long-term portion of loans payable		5,432,514	–	5,432,514	5,229,338
Obligations under capital leases		27,220	–	27,220	26,202
Deferred income taxes		1,002,473	–	1,002,473	964,981
		27,460,502	649,482	28,109,984	27,058,673
Shareholders' equity:					
Share capital, net of employee share purchase loans		47,891,324	–	47,891,324	46,100,188
Contributed surplus	b	5,032,512	77,699	5,110,211	4,919,089
Deficit		(23,126,864)	(893,522)	(24,020,386)	(23,122,024)
Accumulated other comprehensive income (loss)	c	(7,659)	166,341	158,682	152,747
		29,789,313	(649,482)	29,139,831	28,050,000
		\$ 57,249,815	\$ –	\$ 57,249,815	\$ 55,108,673

# REDKNEE SOLUTIONS INC.

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

Three months and nine months ended June 30, 2012 and 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 as 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 (loss).
- (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 nine months ended June 30, 2012 and 2011  
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## 12. Transition to IFRS (continued):

- (e) During the quarter ended March 31, 2012, 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, June 30, 2011 and September 30, 2011 by \$91,895, \$227,809 and \$385,853, respectively; decrease operating expenses by \$40,434 for the three months ended June 30, 2011 and increase operating expenses by \$135,914 and \$293,958 for the nine months ended June 30, 2011 and the 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.