

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

REDKNEE SOLUTIONS INC.

Years ended September 30, 2012 and 2011

MANAGEMENT'S RESPONSIBILITY

The accompanying consolidated financial statements have been prepared by management and approved by the Board of Directors of Redknee Solutions Inc. (the "Company"). Management is responsible for the information and representations contained in these consolidated financial statements.

We maintain appropriate processes to ensure that we produce relevant and reliable financial information. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The significant accounting policies, which management believes are appropriate for the Company, are described in note 2 to the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing management's performance of its financial reporting responsibilities. The Board of Directors appoint an Audit Committee of three non-management Directors to review the consolidated financial statements, as well as the adequacy of its internal controls, audit process and financial reporting with management and with the external auditors. The Audit Committee reports to the Board of Directors prior to the approval of the audited consolidated financial statements for publication.

KPMG LLP, our independent auditors appointed by security holders at the last annual meeting, have audited the consolidated financial statements. Their report is presented below.

/s/ Lucas Skoczowski
Chief Executive Officer

/s/ David Charron
Chief Financial Officer

Toronto, Canada
December 5, 2012



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Redknee Solutions Inc.

We have audited the accompanying consolidated financial statements of Redknee Solutions Inc., which comprise the consolidated statements of financial position as at September 30, 2012, September 30, 2011 and October 1, 2010, the consolidated statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the years ended September 30, 2012 and September 30, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Redknee Solutions Inc. as at September 30, 2012, September 30, 2011 and October 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended September 30, 2012 and September 30, 2011 in accordance with International Financial Reporting Standards.

Chartered Accountants, Licensed Public Accountants

December 5, 2012
Toronto, Canada

REDKNEE SOLUTIONS INC.

Consolidated Statements of Financial Position
(Expressed in U.S. dollars)

	September 30, 2012	September 30, 2011	October 1, 2010
Assets			
Current assets:			
Cash and cash equivalents (note 7)	\$ 16,878,523	\$ 14,879,940	\$ 18,038,121
Short-term investments	-	-	21,356
Trade accounts and other receivables (note 8)	10,394,639	13,471,157	14,400,281
Unbilled revenue	12,125,089	9,253,901	6,927,557
Prepaid expenses	799,901	1,398,145	1,320,649
Other assets (note 11)	649,272	-	-
Inventory	580,171	450,788	247,108
Total current assets	41,427,595	39,453,931	40,955,072
Restricted cash (note 19(b))	913,270	784,820	781,611
Property and equipment (note 9)	726,818	378,013	611,757
Deferred income taxes (note 16(d))	659,260	471,770	284,156
Investment tax credits (note 16(c))	550,000	991,479	481,300
Long-term unbilled revenue	-	1,226,496	-
Other assets (note 11)	3,170,308	464,416	499,257
Intangible assets (note 10)	3,671,306	4,356,521	5,772,034
Goodwill	7,638,590	7,638,590	7,381,368
Total assets	\$ 58,757,147	\$ 55,766,036	\$ 56,766,555
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade payables	\$ 1,756,532	\$ 1,731,397	\$ 2,526,188
Accrued liabilities	7,156,844	6,001,706	3,564,561
Income taxes payable	2,036,864	3,199,295	2,628,543
Contingent consideration (note 12)	-	870,789	-
Deferred revenue	7,258,759	5,740,086	5,697,971
Loans and borrowings (note 14)	-	3,232,857	2,980,289
Total current liabilities	18,208,999	20,776,130	17,397,552
Deferred revenue	78,002	-	-
Other liabilities	439,398	524,520	450,983
Contingent consideration (note 12)	-	-	1,160,816
Loans and borrowings (note 14)	5,461,970	4,804,700	6,859,743
Deferred income taxes (note 16(d))	408,156	815,829	1,217,842
Total liabilities	24,596,525	26,921,179	27,086,936
Shareholders' equity:			
Share capital, net of employee share purchase loans	46,543,100	46,312,920	45,880,359
Treasury stock (note 15(i))	(264,584)	-	-
Contributed surplus	4,787,549	4,739,437	4,428,818
Deficit	(16,918,912)	(22,220,969)	(20,629,558)
Accumulated other comprehensive income	13,469	13,469	-
Total shareholders' equity	34,160,622	28,844,857	29,679,619
Total liabilities and shareholders' equity	\$ 58,757,147	\$ 55,766,036	\$ 56,766,555

Commitments, guarantees and contingent liabilities (note 19)
Subsequent event (note 15(d) and 21)

Approved by the Board of Directors:

/s/ Terry Nickerson Director /s/ Lucas Skoczowski Director

The accompanying notes are an integral part of these consolidated financial statements.

REDKNEE SOLUTIONS INC.

Consolidated Statements of Comprehensive Income (Loss)
(Expressed in U.S. dollars)

Years ended September 30, 2012 and 2011

	2012	2011
Revenue:		
Software, services and other	\$ 33,859,929	\$ 36,757,357
Support	23,004,219	21,552,262
	<u>56,864,148</u>	<u>58,309,619</u>
Cost of revenue	<u>17,865,463</u>	<u>20,775,240</u>
Gross profit	38,998,685	37,534,379
Operating expenditures (note 5):		
Sales and marketing	14,704,054	15,446,624
General and administrative	9,247,155	10,873,407
Research and development	9,382,866	11,759,726
	<u>33,334,075</u>	<u>38,079,757</u>
Income (loss) from operations	5,664,610	(545,378)
Foreign exchange loss	(38,881)	(64,045)
Other income (expenditures)	(13,938)	290,027
Finance income (note 6(b))	99,718	158,557
Finance costs (note 6(a))	<u>(449,753)</u>	<u>(515,988)</u>
Income (loss) before income taxes	5,261,756	(676,827)
Income taxes (recovery) (note 16):		
Current	964,069	1,280,415
Deferred	<u>(1,004,370)</u>	<u>(365,831)</u>
	<u>(40,301)</u>	<u>914,584</u>
Net income (loss)	5,302,057	(1,591,411)
Other comprehensive income:		
Foreign currency translation adjustment	–	13,469
Total comprehensive income (loss)	<u>\$ 5,302,057</u>	<u>\$ (1,577,942)</u>
Net income (loss) per common share (note 15):		
Basic	\$ 0.08	\$ (0.02)
Diluted	0.08	(0.02)
Weighted average number of common shares (note 15):		
Basic	64,178,009	64,165,013
Diluted	65,129,225	64,165,013

The accompanying notes are an integral part of these consolidated financial statements.

REDKNEE SOLUTIONS INC.

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in U.S. dollars)

Years ended September 30, 2012 and 2011

	Share capital		Treasury stock	Employee share purchase loans	Contributed surplus	Deficit	Accumulated other comprehensive income	Total shareholders' equity
	Number	Amount						
Balance, October 1, 2011	64,197,904	\$ 46,312,920	\$ –	\$ –	\$ 4,739,437	\$ (22,220,969)	\$ 13,469	\$ 28,844,857
Net income for the year	–	–	–	–	–	5,302,057	–	5,302,057
Purchase of treasury stock (note 15(i))	–	–	(714,608)	–	–	–	–	(714,608)
Share-based compensation	–	–	450,024	–	110,253	–	–	560,277
Stock options exercised	295,100	230,180	–	–	(62,141)	–	–	168,039
Balance, September 30, 2012	64,493,004	\$ 46,543,100	\$ (264,584)	\$ –	\$ 4,787,549	\$ (16,918,912)	\$ 13,469	\$ 34,160,622
	Share capital		Treasury stock	Employee share purchase loans	Contributed surplus	Deficit	Accumulated other comprehensive income	Total shareholders' equity
	Number	Amount						
Balance, October 1, 2010		63,866,604	\$ 45,885,407	\$ (5,048)	\$ 4,428,818	\$ (20,629,558)	\$ –	\$ 29,679,619
Loss for the year		–	–	–	–	(1,591,411)	–	(1,591,411)
Other comprehensive income		–	–	–	–	–	13,469	13,469
Share-based compensation		–	–	–	580,522	–	–	580,522
Stock options exercised		166,300	230,565	–	(72,955)	–	–	157,610
Proceeds from employee share purchase loans		–	–	5,048	–	–	–	5,048
Restricted share units vested and exercised		165,000	196,948	–	(196,948)	–	–	–
Balance, September 30, 2011		64,197,904	\$ 46,312,920	\$ –	\$ 4,739,437	\$ (22,220,969)	\$ 13,469	\$ 28,844,857

The accompanying notes are an integral part of these consolidated financial statements.

REDKNEE SOLUTIONS INC.

Consolidated Statements of Cash Flows
(Expressed in U.S. dollars)

Years ended September 30, 2012 and 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Net income (loss)	\$ 5,302,057	\$ (1,591,411)
Adjustments for:		
Depreciation of property and equipment	226,606	270,469
Amortization of intangible assets	727,572	1,445,429
Finance income	(99,718)	(158,557)
Finance costs	449,753	515,988
Income tax expense	(40,301)	914,584
Unrealized foreign exchange loss	(93,760)	(398,034)
Share-based compensation	729,160	643,304
Revaluation of contingent consideration	6,588	(290,027)
Changes in non-cash operating working capital (note 17)	1,075,803	(2,014,225)
	8,283,760	(662,480)
Interest paid	(114,081)	(4,895)
Interest received	99,590	146,207
Income taxes paid	(1,293,995)	(521,866)
	6,975,274	(1,043,034)
Financing activities:		
Proceeds from employee share purchase loans	-	5,048
Proceeds from exercise of stock options	168,039	157,610
Purchase of treasury stock	(714,608)	-
Proceeds from loans and borrowings	5,911,319	-
Repayment of loans and borrowings	(8,362,083)	(2,283,654)
Payment of financing costs	(449,523)	-
	(3,446,856)	(2,120,996)
Investing activities:		
Proceeds from short-term investments	-	21,356
Purchase of property and equipment	(575,411)	(36,725)
Purchase of intangible assets	(42,357)	(29,916)
Increase in restricted cash	(128,450)	(3,209)
Acquisition of Nimbus Systems	-	(257,222)
Settlement of Nimbus Systems contingent consideration (note 12)	(877,377)	-
	(1,623,595)	(305,716)
Effect of foreign exchange rate changes on cash and cash equivalents	93,760	311,565
Increase (decrease) in cash and cash equivalents	1,998,583	(3,158,181)
Cash and cash equivalents, beginning of year	14,879,940	18,038,121
Cash and cash equivalents, end of year	\$ 16,878,523	\$ 14,879,940

The accompanying notes are an integral part of these consolidated financial statements.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

Redknee Solutions Inc. (the "Company" or "Redknee") was incorporated under the Ontario Business Corporations Act in Canada on March 29, 1999. The Company's registered head office 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 consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These are the Company's first annual consolidated financial statements prepared in accordance with IFRS. IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1"), has been applied and the Company has elected a transition date of October 1, 2010 (the "Transition Date").

The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian generally accepted accounting principles ("CGAAP"). The impact of the transition from CGAAP to IFRS is explained in note 20.

These consolidated financial statements for the year ended September 30, 2012 were authorized for issuance by the Board of Directors of the Company on December 5, 2012.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

2. Significant accounting policies:

(a) Basis of measurement and presentation:

These 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.

(b) Basis of consolidation:

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

(c) Functional currency and change in functional currency:

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

Up until September 30, 2011, the Company's functional currency was the Canadian dollar ("CAD") 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 CAD 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.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

2. Significant accounting policies (continued):

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

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 statements of comprehensive income (loss).

(d) Critical accounting, judgments and estimates:

The preparation of consolidated financial statements and application of accounting standards often involve management's judgment and the use of estimates and assumptions deemed to be reasonable at the time they are made. However, other results may be derived with different judgments or using different assumptions or estimates and events may occur that could require a material adjustment.

The following are critical accounting policies subject to such judgments and the key sources of estimation uncertainty that the Company believes could have the most significant impact on the reported consolidated results and consolidated financial position.

(i) Revenue recognition:

Key sources of estimation uncertainty:

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 Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended September 30, 2012 and 2011

2. Significant accounting policies (continued):

Critical judgments in applying accounting policies:

A majority of the Company's sales are generated from large, complex customer contracts. Management judgment is applied regarding, among other aspects, the evaluation of multiple elements within these arrangements to assess whether deliverables can be recognized separately for revenue recognition purposes. This includes whether software installation and implementation services have standalone value to the customer. In evaluating whether software are separable from services, the Company's judgments include, among other things, assessing the nature and complexity of the services, whether other vendors could provide the services, and linkage of payments of software to delivery of services.

(ii) Trade receivables:

Key sources of estimation uncertainty:

The Company monitors the financial stability of its customers and the environment which they operate to make estimates regarding the likelihood that the individual trade receivable balances will be paid. Credit risks for outstanding customer finance credits are regularly assessed and allowances are recorded for estimated losses.

(iii) Deferred taxes:

Key sources of estimation uncertainty:

Deferred tax assets and liabilities are recognized for temporary differences and for tax loss carryforwards. The valuation of deferred tax assets is based on management's estimates of future taxable profits in different tax jurisdictions against which the temporary differences and loss carryforwards may be utilized. Refer to note 16 for details.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

2. 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 from 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 expenditures that are contractually reimbursable from customers are recorded as gross revenue and expenditures.

(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 Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended September 30, 2012 and 2011

2. 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. 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. When stated renewal rates do not exist for an arrangement, the Company considers fees charged on standalone PCS renewals in other similar arrangements to establish fair value. 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 its best estimate of selling price that the Company would transact at if the deliverable were sold on a standalone basis. For services, this includes the expected cost of delivery plus an estimated profit margin. 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 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 rateably over the term of the license/subscription.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

2. 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 year end.

(viii) Deferred contract costs:

Upfront direct costs that relate to future activity on a customer contract are recognized as an asset within other assets when it is probable that they will be recovered through future minimum payments specified in contractual agreements. The deferred contract costs are amortized over the period of the related contract revenue.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

2. Significant accounting policies (continued):

(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 diluted net income (loss) per share calculation considers the impact of employee stock options and other potentially dilutive instruments.

(g) Financial instruments:

The Company recognizes financial assets and financial liabilities when the Company becomes a party to the contractual provision on the instrument at fair value. 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 comprehensive income (loss).

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

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

2. Significant accounting policies (continued):

(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.

(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.

Trade accounts and other 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 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.

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

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

2. Significant accounting policies (continued):

(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.

(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 expenditures.

(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:

Computer equipment	Shorter of 3 years or term of lease
Furniture and fixtures	3 years
Leasehold improvements	Shorter of term of lease or estimated useful lives
Automobiles under finance lease	Shorter of term of lease or estimated useful lives

The estimated useful lives, depreciation method and residual values of each asset is evaluated each financial year end, or more frequently if required and are adjusted if appropriate.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

2. Significant accounting policies (continued):

(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 are 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 cost and the reduction of the outstanding liability. The finance cost 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 statements 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.

(l) Intangible assets:

Intangible assets are measured at cost less accumulated amortization and accumulated impairment losses, if any. 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:

Computer software	1 - 3 years
Customer backlog	1 year
Acquired technology	5 - 10 years
Customer relationships	9 - 10 years

The amortization method, estimated useful lives and residual values are reviewed each financial year end or more frequently if required, and are adjusted as appropriate.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

2. Significant accounting policies (continued):

(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 International Accounting Standard 39, Financial Instruments: Recognition and Measurement ("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 at the acquisition date as the excess of the fair value of consideration transferred less the net recognized amount (generally fair value) of identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Goodwill is not subject to amortization and is measured at cost less accumulated impairment losses.

The allocation of the purchase price to the net assets acquired may be adjusted to reflect new information obtained about facts and circumstances that exist 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 CGAAP.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

2. Significant accounting policies (continued):

(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. Goodwill and indefinite-lived intangible assets are tested annually for impairment. 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 profit or loss. Cash-generating units are the smallest identifiable groups of assets that generate cash inflows from the continuing use that are largely independent of the cash inflows of other assets or cash-generating units. For the purposes of assessing for indications of impairment and impairment testing, assets that do not generate largely independent cash inflows are grouped into cash-generating units. The recoverable amount of a cash-generating unit is the higher of fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Cash-generating units to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of cash-generating units that are expected to benefit from the synergies of the combination.

Impairment losses are recognized in profit or loss and allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of cash-generating units), and then reduce the carrying amounts of the other assets in the cash-generating unit (group of cash-generating units) on a pro rata basis.

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.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

2. Significant accounting policies (continued):

(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 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 a 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) 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 carrying amounts of assets and liabilities for financial reporting purposes 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 tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same authority on the same taxable entity, or on different tax entities where these entities intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

2. Significant accounting policies (continued):

(r) Investment tax credits:

The Company is entitled to certain Canadian investment tax credits for qualifying research and development activities performed in Canada. The Company records 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 recorded 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 profit or loss or a reduction of the related asset's cost for items capitalized in the consolidated statements of financial position.

(s) 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 probable 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) Benefits:

Employee benefit obligations are short-term in nature and are measured on an undiscounted basis and are recognized as the related service is provided.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

2. Significant accounting policies (continued):

(iii) 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 reassesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the period.

The Company also 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 and any changes in the fair value of the liability are recognized in profit or loss. 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.

(t) Segment reporting:

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

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

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 adoption 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 consolidated financial statements.

(b) IFRS 10, Consolidated Financial Statements ("IFRS 10"), and Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12) (the "Amendments"):

In May 2011 the IASB issued IFRS 10, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. In June 2012, the IASB issued the Amendments which are effective with the adoption of the applicable standard to which the Amendments relate to, i.e., IFRS 10, IFRS 11 and IFRS 12.

The Company intends to adopt IFRS 10, including the Amendments issued in June 2012, in its financial statements for the annual period beginning on October 1, 2013. Management has not yet determined the potential impact the adoption of IFRS 10 will have on the Company's consolidated financial statements.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

3. Recent accounting pronouncements (continued):

(c) IFRS 11, Joint Arrangements ("IFRS 11"), and the Amendments:

In May 2011, the IASB issued IFRS 11 which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. In June 2012, the IASB issued Amendments which are effective with the adoption of the applicable standard to which the Amendments relate to, i.e., IFRS 10, IFRS 11 and IFRS 12.

The Company intends to adopt IFRS 11, including the Amendments issued in June 2012, in its financial statements for the annual period beginning on October 1, 2013. The Company does not expect IFRS 11 to have a material impact on the consolidated financial statements.

(d) IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"), and the Amendments:

In May 2011, the IASB issued IFRS 12 which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. In June 2012, the IASB issued the Amendments which are effective with the adoption of the applicable standard to which the Amendments relate to, i.e., IFRS 10, IFRS 11 and IFRS 12.

The Company intends to adopt IFRS 12, including the Amendments issued in June 2012, in its financial statements for the annual period beginning on October 1, 2013. Management has not yet determined the potential impact the adoption of IFRS 12 will have on the Company's consolidated financial statements.

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

In May 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 adoption 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 consolidated financial statements.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

3. Recent accounting pronouncements (continued):

- (f) Amendments to IAS 28, Investments in Associates and Joint Ventures ("IAS 28"):

In May 2011, the IASB issued amendments to IAS 28 which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company intends to adopt the amendments in its consolidated financial statements for the annual period beginning on October 1, 2013. The Company does not expect the amendments to IAS 28 to have a material impact on the consolidated financial statements.

- (g) Amendments to International Accounting Standard 1, Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income ("IAS 1"):

In June 2011, the IASB published amendments to IAS 1 which are effective for annual periods beginning on or after July 1, 2012 and are to be applied retrospectively. Early adoption is permitted.

The Company intends to adopt the amendments in its consolidated financial statements for the annual period beginning on October 1, 2013. The Company does not believe the changes resulting from these amendments will have a significant impact on its consolidated financial statements.

- (h) Amendments to IAS 19, Employee Benefits ("IAS 19"):

In June 2011, the IASB published an amended version of IAS 19. Adoption of the amendment is required for annual periods beginning on or after January 1, 2013, with early adoption permitted.

The Company intends to adopt the amendments in its consolidated financial statements for the annual period beginning on October 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

- (i) Amendments to IAS 32, Financial Instruments: Disclosures ("IAS 32"), and IFRS 7, Offsetting Financial Assets and Liabilities ("IFRS 7"):

In December 2011, the IASB published IFRS 7 and issued new disclosure requirements in IAS 32. The effective date for the amendments to IAS 32 is annual periods beginning on or after January 1, 2014. The effective date for the amendments to IFRS 7 is annual periods beginning on or after January 1, 2013. These amendments are to be applied retrospectively.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

3. Recent accounting pronouncements (continued):

The Company intends to adopt the amendments to IFRS 7 in its consolidated financial statements for the annual period beginning on January 1, 2013, and the amendments to IAS 32 in its financial statements for the annual period beginning January 1, 2014. The Company does not expect the amendments to have a material impact on the financial statements.

4. Financial instruments and capital management:

(a) Accounting classifications and fair values:

The Company adopts a three-level fair value hierarchy that reflects the significance of the inputs used to measure fair value. The three levels of the fair value hierarchy based on the reliability of inputs are as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical financial assets or financial liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the financial asset or financial liability, either directly (i.e., prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the financial asset or financial liability that are not based on observable market data (i.e., unobservable inputs that represent the Company's own judgments about what assumptions market place participants would use in pricing the asset or liability developed, based on the best information available in the circumstances).

In the table below, the Company has segregated all financial assets and financial liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy, based on the inputs used to determine the fair value at the measurement date. The Company has no financial assets or financial liabilities measured using Level 2 or Level 3 inputs.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

4. Financial instruments and capital management (continued):

Financial assets and liabilities measured at fair value in the consolidated financial statements are summarized below:

	September 30, 2012		September 30, 2011		October 1, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$ 16,878,523	\$ 16,878,523	\$ 14,879,940	\$ 14,879,940	\$ 18,038,121	\$ 18,038,121
Short-term investments	–	–	–	–	21,356	21,356
Restricted cash	913,270	913,270	784,820	784,820	781,611	781,611
Contingent consideration	–	–	(870,789)	(870,789)	(1,160,816)	(1,160,816)
	<u>\$ 17,791,793</u>	<u>\$ 17,791,793</u>	<u>\$ 14,793,971</u>	<u>\$ 14,793,971</u>	<u>\$ 17,680,272</u>	<u>\$ 17,680,272</u>

There were no transfers of financial assets between levels during the years ended September 30, 2012 and 2011.

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

	September 30, 2012	September 30, 2011	October 1, 2010
Held-for-trading ^(a)	\$ 17,791,793	\$ 15,664,760	\$ 18,841,088
Loans and receivables ^(b)	10,394,639	13,471,157	14,400,281
Other financial liabilities ^(c)	14,814,744	17,165,969	17,542,580

^(a) Includes cash and cash equivalents, restricted cash and short-term investments;

^(b) Includes trade accounts and other receivables; and

^(c) Includes trade payables, accrued liabilities, contingent consideration, other long-term liabilities and current and long-term portions of loans and borrowings.

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

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

4. Financial instruments and capital management (continued):

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

The carrying value of loans and borrowings with floating interest rates approximate fair value because the interest rates are market rates.

(b) Financial risk management:

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk and the Company's management of capital.

(i) Risk management framework:

The Board of Directors has the overall responsibility and oversight of the Company's risk management practices. The Company does not follow a specific risk model, but rather includes risk management analysis in all levels of strategic and operational planning. The Company's management, specifically the Senior Leadership Team, is responsible for developing and monitoring the Company's risk strategy. The Company's management reports regularly to the Board of Directors on its activities.

The Company's management identifies and analyzes the risks faced by the Company. Risk management strategy and risk limits are reviewed regularly to reflect changes in the market conditions and Company's activities. The Company's management aims to develop and implement a risk strategy that is consistent with the Company's corporate objectives.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

4. Financial instruments and capital management (continued):

The Company's Audit Committee is assisted in its oversight role by the Internal Audit group. The Internal Audit group, under the supervision of the Audit Committee and management, performs reviews and testing of internal controls over financial reporting, disclosure controls and procedures, entity level controls, and information technology general controls. The results are regularly reported to the Audit Committee and management.

(ii) Credit risk:

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

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

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

	September 30, 2012	September 30, 2011	October 1, 2010
Europe, Middle East and Africa	72%	60%	21%
North America, Latin America and Caribbean	25%	37%	73%
Asia and Pacific Rim	3%	3%	6%
	100%	100%	100%

As at September 30, 2012, the Company's two largest customers accounted for 19% (2011 - 15%) of sales. In order to minimize the risk of loss for trade receivables, the Company's extension of credit to customers involves review and approval by senior management, as well as progress payments as contracts are performed.

Credit reviews take into account the counterparty's financial position, past experience and other factors. Management regularly monitors customer credit limits. The Company believes that the concentration of credit risk from trade receivables is limited, as they are widely distributed among customers in various countries.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

4. Financial instruments and capital management (continued):

While the Company's credit controls and processes have been effective in mitigating credit risk, these controls cannot eliminate credit risk and there can be no assurance that these controls will continue to be effective or that the Company's low credit loss experience will continue. Most sales are invoiced with payment terms in the range of 30 to 60 days.

The Company reviews its trade receivable accounts regularly and reduces amounts to their expected realizable values by making an allowance for doubtful accounts, as soon as the account is perceived not to be fully collectible.

The Company's trade receivables had a carrying value of \$11,217,538 as at September 30, 2012 (2011 - \$13,967,873, 2010 - \$14,165,670), representing the maximum exposure to credit risk of those financial assets, exclusive of the allowance for doubtful accounts. Normal credit terms for amounts due from customers call for payment within 30 to 60 days. At September 30, 2012, approximately 21% of trade receivables, or \$2,304,792 was outstanding for more than 120 days (2011 - 28% in the amount of \$3,920,450, 2010 - 24% in the amount of \$3,447,515). The activity of the allowance for doubtful accounts for the year ended September 30 is as follows:

	September 30, 2012	September 30, 2011	October 1, 2010
Allowance for doubtful accounts, beginning of year	\$ 1,149,960	\$ 695,908	\$ 225,248
Bad debt expense	362,498	1,540,566	533,997
Write-off bad debts	(53,129)	(1,086,514)	(63,337)
	<u>\$ 1,459,329</u>	<u>\$ 1,149,960</u>	<u>\$ 695,908</u>

Bad debt is charged to general and administrative expense. Estimates for allowance for doubtful accounts are determined by a customer-by-customer evaluation of collectability at each consolidated statements of financial position reporting date, taking into account the amounts that are past due and any available relevant information on the customers' liquidity and ability to pay.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

4. Financial instruments and capital management (continued):

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

	September 30, 2012	September 30, 2011	October 1, 2010
Europe, Middle East and Africa	43%	38%	59%
North America, Latin America and Caribbean	41%	36%	22%
Asia and Pacific Rim	16%	26%	19%
	100%	100%	100%

(iii) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's financial liabilities as at September 30, 2012 will mature as follows:

	Less than 1 year	1 to 2 years	2 years and thereafter
Trade payables	\$ 1,756,532	\$ —	\$ —
Accrued liabilities	7,156,844	—	—
Loans and borrowings	—	—	5,461,970
Other long-term liabilities	—	175,845	263,553
	\$ 8,913,376	\$ 175,845	\$ 5,725,523

The Company also has contractual obligations in the form of operating leases (note 19(a)).

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

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

4. Financial instruments and capital management (continued):

(iv) Market risk:

Market risk is the risk that the value of the Company's financial instruments will fluctuate due to changes in the market risk factors. The market risk factors which affect the Company are foreign currency and interest rates.

Foreign currency risk:

The Company conducts a significant portion of its business activities in foreign countries. Foreign currency risk arises because of fluctuations in foreign currency exchange rates. The Company's objective in managing its foreign currency risk is to minimize its net exposures to foreign currency cash flows by converting foreign-denominated cash balances into U.S. dollars to the extent practical to match U.S. dollar obligations. The monetary assets and liabilities that are denominated in foreign currencies are affected by changes in the exchange rate between the U.S. dollar and these foreign currencies. The Company recognized a foreign currency exchange loss in 2012 of \$38,881 (2011 - \$64,045).

The following is the Company's exposure to foreign currency risk:

2012	Currency of exposure in U.S. dollars		
	CAD	Euro	British Pound
Cash and cash equivalents	\$ 2,348,418	\$ 2,659,904	\$ 1,792,074
Trade accounts and other receivables	1,784,384	1,785,921	1,049,130
Restricted cash	—	—	913,270
Trade payables	(596,447)	(439,298)	(119,985)
Gross exposure	\$ 3,536,355	\$ 4,006,527	\$ 3,634,489

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

4. Financial instruments and capital management (continued):

2011	Currency of exposure in U.S. dollars		
	CAD	Euro	British Pound
Cash and cash equivalents	\$ 1,519,767	\$ 3,066,201	\$ 311,887
Trade accounts and other receivables	11,631	2,130,765	1,589,479
Restricted cash	—	—	664,815
Trade payables	(787,638)	(370,603)	—
Loans and borrowings	—	(1,595,552)	—
Gross exposure	\$ 743,760	\$ 3,230,811	\$ 2,566,181

If a shift in foreign currency exchange rates of 10% were to occur, the foreign currency exchange gain or loss on the Company's net monetary assets could change by approximately \$1,100,000 (2011 - \$2,100,000) due to the fluctuation and this would be recorded in the consolidated statements of comprehensive income (loss).

Interest rate risk:

Interest rate risk arises because of the fluctuation in interest rates. The Company is subject to interest rate risk on its cash and cash equivalents, restricted cash and certain loans and borrowings. If a shift in interest rates of 10% were to occur, the impact on cash and cash equivalents and restricted cash and the related income for the year ended September 30, 2012 would not be material. On the loans and borrowings, an incremental increase or decrease in the LIBOR rate by 10% will not have a material impact on interest expense.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

4. Financial instruments and capital management (continued):

(c) Management of capital:

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its growth strategy, fund research and development and undertake selective acquisitions, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company's capital is composed of share capital and credit used plus credit available under certain credit facilities, which assist in financing (i) acquisitions and/or (ii) working capital requirements. The Company's primary uses of capital are financing its operations, increases in non-cash working capital, capital expenditures, debt repayments and acquisitions. The Company currently funds these requirements from cash flows from operating activities, cash raised through past share issuances, and a senior secured credit facility. The Company's objectives when managing capital are to ensure that the Company will continue to have enough liquidity so it can provide services to its customers and increase shareholder value. Management monitors its compliance with financial and non-financial covenants imposed by loan agreements on a quarterly basis. The Company has complied with all externally imposed capital requirements.

5. Operating expenditures:

The Company presents functional consolidated statements of comprehensive income in which expenditures are aggregated according to the function to which they relate. The Company has identified the major functions as sales and marketing, general and administrative and research and development activities.

2012	Sales and marketing	General and administrative	Research and development	Total
Personnel expenditures	\$ 10,809,474	\$ 3,767,492	\$ 8,530,396	\$ 23,107,362
Other operating expenditures	3,790,419	4,769,080	798,641	9,358,140
Depreciation and amortization	104,161	710,583	53,829	868,573
	<u>\$ 14,704,054</u>	<u>\$ 9,247,155</u>	<u>\$ 9,382,866</u>	<u>\$ 33,334,075</u>

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

5. Operating expenditures (continued):

2011	Sales and marketing	General and administrative	Research and development	Total
Personnel expenditures	\$ 11,130,655	\$ 4,167,130	\$ 10,314,438	\$ 25,612,223
Other operating expenditures	4,207,916	5,223,884	1,391,010	10,822,810
Depreciation and amortization	108,053	1,482,393	54,278	1,644,724
	\$ 15,446,624	\$ 10,873,407	\$ 11,759,726	\$ 38,079,757

6. Finance costs and finance income:

(a) Finance costs:

	2012	2011
Interest expense on loans and borrowings (note 14)	\$ 332,478	\$ 467,055
Interest expense related to other payables	116,016	48,933
Amortization of deferred financing costs	1,259	—
	\$ 449,753	\$ 515,988

(b) Finance income:

Finance income includes interest income on bank accounts, term deposits and some receivables.

7. Cash and cash equivalents:

	September 30, 2012	September 30, 2011	October 1, 2010
Cash	\$ 16,567,900	\$ 13,765,320	\$ 17,173,385
Cash equivalents	310,623	1,114,620	864,736
	\$ 16,878,523	\$ 14,879,940	\$ 18,038,121

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

8. Trade accounts and other receivables:

Trade accounts and other receivables comprise the following:

	September 30, 2012	September 30, 2011	October 1, 2010
Trade receivables, net of allowance for doubtful accounts (note 4(b)(ii))	\$ 9,758,209	\$ 12,817,913	\$ 13,469,762
Employee receivables	160,337	103,594	131,827
Other receivables	476,093	549,650	798,692
	\$ 10,394,639	\$ 13,471,157	\$ 14,400,281

9. Property and equipment:

	Computer equipment	Furniture and fixtures	Leasehold improvements	Automobiles	Total
Cost					
Balance, October 1, 2010	\$ 1,530,000	\$ 1,291,191	\$ 265,183	\$ 82,114	\$ 3,168,488
Additions	23,529	10,603	2,593	–	36,725
Balance, September 30, 2011	\$ 1,553,529	\$ 1,301,794	\$ 267,776	\$ 82,114	\$ 3,205,213
Balance, October 1, 2011	\$ 1,553,529	\$ 1,301,794	\$ 267,776	\$ 82,114	\$ 3,205,213
Additions	171,132	113,157	291,122	–	575,411
Disposals	–	–	–	(82,114)	(82,114)
Balance, September 30, 2012	\$ 1,724,661	\$ 1,414,951	\$ 558,898	\$ –	\$ 3,698,510
Accumulated depreciation					
Balance, October 1, 2010	\$ 1,260,731	\$ 1,104,705	\$ 191,295	\$ –	\$ 2,556,731
Depreciation	111,099	93,131	38,329	27,910	270,469
Balance, September 30, 2011	\$ 1,371,830	\$ 1,197,836	\$ 229,624	\$ 27,910	\$ 2,827,200
Balance, October 1, 2011	\$ 1,371,830	\$ 1,197,836	\$ 229,624	\$ 27,910	\$ 2,827,200
Depreciation	97,422	33,718	60,536	34,930	226,606
Disposals	–	–	(19,274)	(62,840)	(82,114)
Balance, September 30, 2012	\$ 1,469,252	\$ 1,231,554	\$ 270,886	\$ –	\$ 2,971,692
Carrying amounts					
October 1, 2010	\$ 269,269	\$ 186,486	\$ 73,888	\$ 82,114	\$ 611,757
September 30, 2011	181,699	103,958	38,152	54,204	378,013
September 30, 2012	255,409	183,397	288,012	–	726,818

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

10. Intangible assets:

	Computer software	Customer backlog	Acquired technology	Customer relationships	Total
Cost					
Balance, October 1, 2010	\$ 2,290,731	\$ 772,669	\$ 1,972,048	\$ 3,499,329	\$ 8,534,777
Additions	29,916	–	–	–	29,916
Balance, September 30, 2011	\$ 2,320,647	\$ 772,669	\$ 1,972,048	\$ 3,499,329	\$ 8,564,693
Balance, October 1, 2011	\$ 2,320,647	\$ 772,669	\$ 1,972,048	\$ 3,499,329	\$ 8,564,693
Additions	42,357	–	–	–	42,357
Balance, September 30, 2012	\$ 2,363,004	\$ 772,669	\$ 1,972,048	\$ 3,499,329	\$ 8,607,050
Accumulated amortization					
Balance, October 1, 2010	\$ 2,064,951	\$ 52,462	\$ 410,228	\$ 235,102	\$ 2,762,743
Amortization	95,274	720,207	279,750	350,198	1,445,429
Balance, September 30, 2011	\$ 2,160,225	\$ 772,669	\$ 689,978	\$ 585,300	\$ 4,208,172
Balance, October 1, 2011	\$ 2,160,225	\$ 772,669	\$ 689,978	\$ 585,300	\$ 4,208,172
Amortization	97,626	–	279,750	350,196	727,572
Balance, September 30, 2012	\$ 2,257,851	\$ 772,669	\$ 969,728	\$ 935,496	\$ 4,935,744
Carrying amounts					
Balance, October 1, 2010	\$ 225,780	\$ 720,207	\$ 1,561,820	\$ 3,264,227	\$ 5,772,034
Balance, September 30, 2011	160,422	–	1,282,070	2,914,029	4,356,521
Balance, September 30, 2012	105,153	–	1,002,320	2,563,833	3,671,306

11. Other assets:

Other assets comprise the following:

	September 30, 2012	September 30, 2011	October 1, 2010
Deferred contract costs - current (a)	\$ 649,272	\$ –	\$ –
Deferred contract costs - non-current (a)	2,760,814	12,786	16,673
Lease deposits - non-current	409,494	451,630	482,584
	\$ 3,819,580	\$ 464,416	\$ 499,257

(a) During the year, the Company recognized upfront direct costs related to two contracts as it is probable that these assets will be recovered through future minimum contractual payment terms.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

12. 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)
Cash paid in 2012 (€658,000)	(877,377)
Balance, September 30, 2012	\$ —

13. Related party transactions:

(a) Consulting agreement:

In August 2011, the Company entered into a consulting agreement with a member of the board of directors. For the year ended September 30, 2012, the Company has incurred \$60,000 (2011 - \$10,000) in consulting expenditure, at exchange amount.

(b) Compensation of key management personnel:

Key management personnel are comprised of the Company's directors and executive officers.

The remuneration of directors and other members identified as key management personnel during the years ended September 30, 2012 and 2011 were as follows:

	2012	2011
Salaries and employee benefits	\$ 2,609,923	\$ 1,958,511
Share-based payments ⁽ⁱ⁾	155,140	127,764
	\$ 2,765,063	\$ 2,086,275

⁽ⁱ⁾ Share-based payments include cash-settled and equity-settled awards as described in note 2(s)(iii).

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

14. Loans and borrowings:

	September 30, 2012	September 30, 2011	October 1, 2010
Line of credit, bearing interest at LIBOR floor of 1.25% plus applicable margin, due September 25, 2017 (a)	\$ 5,911,493	\$ —	\$ —
Term loan, bearing interest at LIBOR plus 4%, due in August 2015 (b)	—	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%, matured in December 2012	—	69,319	129,761
Term loan, denominated in Euros, bearing interest at 1.89%, matured in October 2011	—	—	18,725
Term loan, denominated in Euros, bearing interest at nil, matured 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%, matured 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	—	1,527,512	1,241,469
Obligation under capital lease	—	30,986	54,267
Total loans and borrowings	5,911,493	8,037,557	9,840,032
Less:			
Unamortized deferred financing costs	449,523	—	—
Current portion of loans and borrowings	—	3,232,857	2,980,289
Long-term loans and borrowings	\$ 5,461,970	\$ 4,804,700	\$ 6,859,743

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

14. Loans and borrowings (continued):

(a) Wells Fargo Credit Facility:

The Company has entered into a senior secured credit facility with Wells Fargo Capital Finance, part of Wells Fargo & Company, for a revolving line of credit for up to \$20,000,000.

The Company will use the credit facility for working capital, general corporate purposes and potential acquisitions. A portion of the credit facility with Wells Fargo & Company has been used to repay the full outstanding credit facility the Company had with Export Development Canada. The credit facility is secured by Redknee Inc. and Redknee Solutions (UK) Limited's assets ("Redknee UK"). The Company and Redknee UK have guaranteed the obligations of Redknee Inc. The Company's guarantee is secured by a pledge of all of its shares in Redknee Inc.

As at September 30, 2012, \$5,911,493 is outstanding and interest is payable monthly over the term of five years. The Company incurred \$449,523 of transaction costs and has recorded these costs as a deferred cost that will be amortized over the expected term of the loan, which management has estimated to be two years, using the effective interest rate method.

Interest is at LIBOR plus an applicable margin which was 3.50% at September 30, 2012. LIBOR is defined to have a floor of no less than 1.25% which has been determined to be an embedded derivative. The fair value of the embedded derivative liability is estimated at \$107,400 at September 30, 2012, using the assumption that the expected repayment of this loan will be on September 25, 2014. This embedded derivative liability is not separately presented in the consolidated statement of financial position as at September 30, 2012, as it is not significant.

The prepayment option is determined to be an embedded derivative known as the call option for the Company. The fair value of the embedded derivative asset is estimated to be insignificant and, consequently, it is not separately presented in the consolidated statement of financial position as at September 30, 2012.

Certain financial and 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 their debt covenants as at September 30, 2012 and determined they are in compliance.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

14. Loans and borrowings (continued):

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

Effective September 25, 2012, the Company's credit facility with EDC was discharged and extinguished by the repayment of the outstanding credit amount of \$5,618,436.

The Company had borrowed against this credit facility for the Nimbus acquisition. The interest on this credit facility was LIBOR plus 4% and was payable semi-annually.

Interest expense of \$332,478 in connection with loans and borrowings has been recognized in the consolidated statements of comprehensive income (loss) for the year ended September 30, 2012 (2011 - \$467,055).

15. Capital stock:

(a) Authorized:

Unlimited voting common shares
Unlimited preferred shares

(b) Net income (loss) per common share:

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

	2012	2011
Basic weighted average number of common shares outstanding	64,178,009	64,165,013
Add dilutive stock options outstanding	951,216	—
Diluted weighted average number of common shares outstanding	65,129,225	64,165,013

The total number of anti-dilutive options that were out of money and therefore excluded from the calculation for the year ended September 30, 2012 are 5,403,371 (2011 - 4,134,236).

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

15. Capital stock (continued):

(c) 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 September 30, 2012, the Company has not purchased any common shares under this NCIB.

(d) Bought deal:

Subsequent to year end, on October 23, 2012, the Company completed an offering of 13,000,000 common shares (the "Common Shares") of the Company at price of CAD \$1.35 per Common Share (the "Offering Price") for aggregate gross proceeds of CAD \$17,550,000 (the "Offering").

The Offering was completed on a bought deal basis and was underwritten by a syndicate of underwriters led by GMP Securities L.P., and including Canaccord Genuity Corp. and TD Securities Inc. (collectively, the "Underwriters").

The Common Shares were offered by way of a short form prospectus filed in all provinces of Canada (except Québec).

On November 14, 2012, the Underwriters also exercised an over-allotment option to purchase an additional 1,950,000 Common Shares at the Offering Price. With this option now exercised in full, an additional CAD \$2,632,500 was raised pursuant to the Offering and the aggregate gross proceeds of the Offering is CAD \$20,182,500.

The Company plans to use the net proceeds from the Offering for working capital, or to expand its current business through strategic acquisitions, if such opportunities arise.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

15. Capital stock (continued):

(e) Restricted share plan:

Under the restricted share plan ("RSP"), established November 10, 2006, the Company may grant restricted share units to eligible employees or directors of the Company. The number of common shares which may be issued under the RSP is limited to 1,125,000.

In 2006, the Company granted 966,250 RSUs under the RSP at a price of \$1.24 per unit, with 81,250 of these being granted to directors and the remaining 885,000 being granted to other participants. The remaining RSUs vested and were settled in the year ended September 30, 2011. In 2012, the Company recognized compensation cost of nil (2011 - \$16,445) relating to these RSUs.

	2012	2011
Outstanding, beginning of year	–	165,000
Exercised	–	(165,000)
Outstanding, end of year	–	–

(f) Share unit plan:

On July 29, 2010, the Company established a share unit plan for the purpose of providing additional compensation for certain employees, officers or consultants. Units granted under the share unit plan may be PSUs or RSUs.

PSUs granted are equity settled and subject to vesting contingent on the achievement of performance conditions based on certain Company performance metrics. The related compensation cost is recognized over the related service period, which is based on management's best estimate of the outcome of the performance conditions.

During 2012, the Company granted 990,645 PSUs (2011 - 353,174) under the share unit plan to employees at a weighted average grant date fair value of CAD \$1.10 (2011 - CAD \$1.26) per unit. During the year, 89,286 (2011 - 263,888) were forfeited. As at September 30, 2012, 990,645 (2011 - 89,286) PSUs were outstanding under the share unit plan. During the year, \$39,890 (2011 - nil) in compensation cost was recognized relating to the PSUs.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

15. Capital stock (continued):

RSUs granted are equity settled and are subject to a vesting term at the compensation committee's discretion provided that the vesting term does not exceed three years from the grant date.

During 2012, the Company granted 170,209 (2011 - 220,428) RSUs to non-directors under the share unit plan at a weighted average grant date fair value of CAD \$1.00 per unit. The associated stock-based compensation is measured at fair value and is amortized over the appropriate vesting period using the straight-line method. In 2012, the Company recognized compensation cost of \$148,334 (2011 - \$15,768) relating to these RSUs.

In addition, the Company incurred additional compensation costs of \$106,038 (2011 - \$293,958) with respect to RSUs granted to Nimbus employees in prior periods.

Details of outstanding RSUs as at September 30 are as follows:

	2012	2011
Outstanding, beginning of year	220,428	–
Granted	170,209	220,428
Outstanding, end of year	390,637	220,428

The fair value of RSUs and PSUs granted during the year are established based on the fair value of the underlying stock on the grant date.

(g) Deferred share unit plan:

Under the DSU plan, established August 11, 2010, the Company may grant DSUs to eligible members of the Board of Directors. DSUs are granted at the discretion of the Board of Directors. Vesting conditions are established by the Board of Directors at the time of grant. An eligible director may elect to receive their annual cash remuneration in the form of DSUs, cash or any combination thereof.

As the DSUs can be cash-settled at the option of the holder, DSUs are classified as cash-settled share-based compensation and are remeasured to fair value at each reporting period.

An eligible director, who redeems DSUs, is entitled to receive a cash payment equal to the fair value of the DSUs at the date of redemption.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

15. Capital stock (continued):

During 2012, the Company issued 59,055 (2011 - 97,500) DSUs. As at September 30, 2012, 244,147 (2011 - 185,092) DSUs were outstanding under the DSU plan. During 2012, the Company recorded compensation cost of \$129,569 (2011 - \$73,537). The value of the liability related to the DSUs as at September 30, 2012 was \$321,991 (2011 - \$192,423) and is included in other long-term liabilities.

(h) Employee stock option plan:

The Company's stock option plan (the "plan") was implemented to encourage ownership of the Company by directors, officers, employees and consultants of the Company. The total stock options outstanding as at September 30, 2012 consist of stock options granted under a stock option plan in place prior to the Company's initial public offering in February 2007 and stock options granted under the current plan. The maximum number of common shares that may be issued under the current plan is 5,250,000 shares. The total number of stock options outstanding under the current plan does not exceed the maximum allowable set out above.

(i) Stock options:

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

	Number of stock options	Weighted average exercise price per share
<hr/>		
CAD stock options		
Outstanding, October 1, 2010	5,328,241	\$ 1.01
Granted	1,003,125	1.39
Exercised	(139,300)	1.06
Forfeited	(1,144,552)	1.13
<hr/>		
Outstanding, September 30, 2011	5,047,514	1.01
Granted	1,625,000	1.10
Exercised	(212,100)	0.55
Forfeited	(335,627)	1.15
<hr/>		
Outstanding, September 30, 2012	6,124,787	1.05

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

15. Capital stock (continued):

	Number of stock options	Weighted average exercise price per share
GBP stock options		
Outstanding, October 1, 2010	712,125	£ 0.69
Exercised	(27,000)	0.57
Forfeited	(220,625)	0.51
Outstanding, September 30, 2011	464,500	0.48
Exercised	(83,000)	0.41
Forfeited	(151,500)	0.44
Outstanding, September 30, 2012	230,000	0.54

Summary information about stock options outstanding and exercisable as at September 30, 2012 is as follows (the stock options with exercise prices denominated in foreign currency were converted into CAD using the foreign currency exchange rate in effect as at September 30, 2012):

Exercise price (original currency)	Exercise price (CAD)	Stock options outstanding		Stock options exercisable	
		Number outstanding	Weighted average remaining contractual life (years)	Number exercisable	Weighted average remaining contractual life (years)
CAD \$0.23	\$ 0.23	40,000	6.20	35,000	6.20
CAD \$0.36	0.36	1,144,250	6.45	841,000	6.45
GBP £0.41	0.64	40,000	5.75	32,000	5.74
GBP £0.44	0.69	88,500	5.29	39,500	5.29
GBP £0.59	0.93	75,000	4.95	75,000	4.95
CAD \$1.10	1.10	1,625,000	6.86	–	6.86
CAD \$1.18	1.18	125,000	5.84	31,250	5.84
CAD \$1.21	1.21	2,181,287	1.66	2,068,684	1.72
CAD \$1.24	1.24	11,875	4.12	7,489	4.12
CAD \$1.25	1.25	318,000	6.87	238,500	6.87
CAD \$1.35	1.30	30,000	5.36	7,500	5.36
GBP £0.93	1.47	26,500	4.74	25,563	4.74
CAD \$1.37	1.37	80,000	7.87	40,000	7.87
CAD \$1.40	1.40	175,000	7.67	87,500	7.67
CAD \$1.44	1.44	50,000	7.62	25,000	7.62
CAD \$1.50	1.50	330,000	5.17	82,500	5.17
CAD \$2.16	2.16	14,375	4.28	14,371	4.28
		6,354,787	4.85	3,650,857	3.74

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

15. Capital stock (continued):

The common share price of the Company as at September 30, 2012 was CAD \$1.35 (2011 - CAD \$1.08) per share.

(ii) Fair values and stock-based compensation:

The fair value of stock option grants made to employees and directors is estimated using the Black-Scholes option pricing model, with the following weighted average assumptions: risk-free interest rate of 1.2% (2011 - 3.4%); dividend yield of nil (2011 - nil); volatility of 57.5% (2011 - 66.8%); and expected lives of stock options of five years (2011 - seven years). The fair value of the stock options is expensed over the vesting period of the stock options using the straight-line method.

During 2012, the Company recorded a stock-based compensation of \$305,329 (2011 - \$243,596) related to stock options granted under this plan.

(i) Treasury stock:

During 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. As of September 30, 2012, 358,268 shares (with a cost of \$450,024) have been issued and the remaining number of treasury shares is 210,638, with a cost of \$264,584.

16. Income taxes (recovery):

(a) Tax recognized in net income (loss):

	2012	2011
Current income tax expense:		
Current year	\$ 964,069	\$ 1,280,415
Deferred income tax recovery:		
Origination and reversal of temporary differences	(122,960)	(353,884)
Recognition of previously unrecognized tax assets	(881,410)	(11,947)
	(1,004,370)	(365,831)
Total income tax expense (recovery)	\$ (40,301)	\$ 914,584

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

16. Income taxes (continued):

(b) Reconciliation of effective tax rate:

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

	2012	2011
Income (loss) before income taxes	\$ 5,261,756	\$ (676,827)
Statutory income tax rate	26.88%	28.75%
Expected income taxes based on income (loss) before income taxes	\$ 1,414,360	\$ (194,588)
Increase (decrease) in income taxes resulting from:		
Non-taxable/deductible items	(352,306)	402,684
Differences due to different income tax rates for foreign subsidiaries	101,420	100,658
Impact of changes to income tax rates	(217,005)	43,113
Changes to unrecorded income tax assets/liabilities	(63,711)	55,325
Impact of changes to prior years' ITCs claimed, withholding tax and other items	(923,059)	507,392
Income tax expense (recovery)	\$ (40,301)	\$ 914,584
	2012	2011
Current	\$ 964,069	\$ 1,280,415
Deferred	(1,004,370)	(365,831)
Income tax expense (recovery)	\$ (40,301)	\$ 914,584

The change in statutory tax rate year over year is due to a scheduled reduction in the basic federal rate.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

16. Income taxes (continued):

(c) Unrecognized deferred tax assets:

Deferred tax assets have not been recognized in respect of the following items:

	2012	2011
Unclaimed scientific research and experimental development ("SR&ED") expenditures/non-capital loss carryforwards	\$ 39,700,000	\$ 42,700,000
Property and equipment	1,600,000	1,400,000
Financing costs and long-term debt	1,200,000	1,200,000
Corporate minimum taxes and other	1,500,000	500,000
	<u>\$ 44,000,000</u>	<u>\$ 45,800,000</u>

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

The Company has approximately \$32,700,000 (2011 - \$35,900,000) of Canadian unclaimed SR&ED expenditures and federal non-capital losses which are available to reduce future years' income for Canadian income tax purposes. In addition, the Company has approximately \$7,000,000 (2011 - \$6,800,000) of non-capital losses from a foreign subsidiary with an indefinite life.

The Company's Canadian unclaimed SR&ED expenditures do not expire, while the Canadian federal non-capital losses available for carry-forward expire as follows:

2025	\$ 2,000,000
2026	3,100,000
2027	2,400,000
2028	300,000
2029	300,000
2030	100,000
2031	1,200,000
2032	100,000
	<u>\$ 9,500,000</u>

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

16. Income taxes (continued):

In 2012, the Company recognized 1,900,000 of previously unrecognized Canadian non-capital losses and 1,200,000 of previously unrecognized non-capital losses from a foreign subsidiary (which will not begin to expire until 2026), as management considered it probable that future taxable profits would be available against which they can be utilized. Management revised its estimates following the strong performance of the current year after having suffered a loss in the prior year. Management has assumed that the recoverability of the balance of unclaimed SR&ED expenditures and non-capital loss carryforwards of \$39,700,000 is still in doubt because a trend of profitable growth is not assured as the Company is transitioning from a perpetual-revenue model to a term-revenue model. If profitable growth continues, then management will continue to monitor the situation and revise its estimates as appropriate. Should the remaining unrecognized deferred asset be recognized, it would result in an additional income tax recovery of approximately \$10,800,000.

The Company has approximately \$9,300,000 (2011 - \$9,600,000) of Canadian investment tax credits, which can also be used to reduce future federal income taxes. These credits have a life of 20 years and will not begin to expire until 2024. The Company has recorded \$550,000 (2011 - \$991,748) of these credits as it is probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

16. Income taxes (continued):

(d) Recognized deferred income tax assets and deferred income tax liability:

Deferred income tax assets and liabilities are attributable to the following:

	Corporate minimum taxes and other deductions	Non-capital losses	Intangible assets	Set-off of tax	Total
Deferred income taxes:					
Balance, October 1, 2011	\$ 723,010	\$ —	\$ —	\$ (251,240)	\$ 471,770
Applied to income taxes payable	(167,498)	—	—	—	(167,498)
Credited (charged) to income (loss) before income taxes (recovery)	(187,753)	1,752	—	—	(186,001)
Credited to income taxes (recovery)	31,527	849,883	—	—	881,410
Other	—	—	—	(340,421)	(340,421)
Balance, September 30, 2012	\$ 399,286	\$ 851,635	\$ —	\$ (591,661)	\$ 659,260
Deferred income tax liability:					
Balance, October 1, 2011	\$ —	\$ —	\$ (1,067,069)	\$ 251,240	\$ (815,829)
Charged to income (loss) before income taxes (recovery)	—	—	(55,708)	—	(55,708)
Credited to income taxes (recovery)	—	—	122,960	—	122,960
Other	—	—	—	340,421	340,421
Balance, September 30, 2012	\$ —	\$ —	\$ (999,817)	\$ 591,661	\$ (408,156)

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

16. Income taxes (continued):

	Corporate minimum taxes and other deductions	Non-capital losses	Intangible assets	Set-off of tax	Total
Deferred income taxes:					
Balance, October 1, 2010	\$ 386,192	\$ —	\$ —	\$ (102,036)	\$ 284,156
Applied to income taxes payable	232,331	—	—	—	232,331
Credited to income (loss) before income taxes (recovery)	92,540	—	—	—	92,540
Credited to income taxes (recovery)	11,947	—	—	—	11,947
Other	—	—	—	(149,204)	(149,204)
Balance, September 30, 2011	\$ 723,010	\$ —	\$ —	\$ (251,240)	\$ 471,770
Deferred income tax liability:					
Balance, October 1, 2010	\$ —	\$ —	\$ (1,319,878)	\$ 102,036	\$ (1,217,842)
Increase due to change in underlying intangible asset	—	—	(101,075)	—	(101,075)
Credited to income (loss) before income taxes (recovery)	—	—	—	—	—
Credited to income taxes (recovery)	—	—	353,884	—	353,884
Other	—	—	—	149,204	149,204
Balance, September 30, 2011	\$ —	\$ —	\$ (1,067,069)	\$ 251,240	\$ (815,829)

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

17. Changes in non-cash operating working capital:

The changes in non-cash operating working capital for the year ended September 30 are as follows:

	2012	2011
Trade accounts and other receivables	\$ 3,076,646	\$ 1,235,181
Unbilled revenue	(1,644,692)	(3,660,901)
Prepaid expenses	598,244	(80,750)
Other assets	(3,355,164)	69,118
Accounts payable	25,135	(969,104)
Accrued liabilities and other liabilities	890,161	2,418,488
Deferred revenue	1,596,675	24,782
Income taxes payable	18,181	(847,359)
Inventory	(129,383)	(203,680)
	<u>\$ 1,075,803</u>	<u>\$ (2,014,225)</u>

18. 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, and is managed on a worldwide basis, but operated in offices around the world. The Company's Chief Executive Officer, the chief operating decision maker, reviews internal management financial information on a monthly basis, including revenue and property and equipment.

The Company's revenue by geographic area for the year ended September 30 is as follows:

	2012	2011
Europe, Middle East and Africa	\$ 22,112,840	\$ 25,146,925
North America, Latin America and Caribbean	22,887,669	18,741,946
Asia and Pacific Rim	11,863,639	14,420,748
	<u>\$ 56,864,148</u>	<u>\$ 58,309,619</u>

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

18. Segment reporting (continued):

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

	2012	2011
Revenue by type:		
Software and services	\$ 32,308,922	\$ 32,567,338
Third party software and hardware	1,551,007	4,190,019
Support	23,004,219	21,552,262
	<u>\$ 56,864,148</u>	<u>\$ 58,309,619</u>

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

	2012	2011
Canada	\$ 560,826	\$ 38,911
India	5,090	202
Lebanon	19,044	43,230
Spain	135,096	289,015
Other	6,762	6,655
	<u>\$ 726,818</u>	<u>\$ 378,013</u>

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

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

19. Commitments, guarantees and contingent liabilities:

(a) Lease commitments:

The Company leases certain property and equipment under operating leases. Operating lease payments are expensed on a straight-line basis over the term of the relevant lease agreements. Lease inducements received upon entry into an operating lease are recognized on a straight-line basis over the lease term. Operating lease payments for the years ended September 30, 2012 and 2011 were \$2,253,343 and \$1,820,064, respectively. The Company is obligated to make future annual lease payments under operating leases for office equipment and premises.

Future minimum lease payments under non-cancellable operating leases as at September 30, 2012 are as follows:

Less than 1 year	\$ 1,853,896
Between 1 and 3 years	4,497,724
More than 3 years	1,560,278
	<hr/>
	\$ 7,911,898

(b) Letters of credit:

As at September 30, 2012, the Company had \$913,270 (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 consolidated statements of financial position.

(c) Guarantees:

The Company has provided routine indemnifications to its customers against liability if the Company's products infringe on a third party's intellectual property rights. The maximum exposure from these indemnifications cannot be reasonably estimated. In some cases, the Company has recourse against other parties to mitigate its risk of loss from these guarantees. The Company has never been called to perform its obligations under these indemnifications and the Company is not subject to any pending litigation in these matters.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

20. Transition to IFRS:

As stated in note 1, these are the Company's first consolidated financial statements prepared in accordance with IFRS as issued by the IASB.

The accounting policies set out in note 2 have been applied in preparing the consolidated financial statements for year ended September 30, 2012, the comparative information presented in the consolidated financial statements for the year ended September 30, 2011 and in the preparation of the opening IFRS consolidated statement of financial position on the Transition Date.

(i) 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 consolidated statement of financial position as at October 1, 2010, the Company's Transition Date:

- To apply IFRS 2, Share-based Payment, 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 Transition Date. Under this alternative, the accumulated CTA balance of CAD \$166,341 at that date has been transferred to deficit from accumulated other comprehensive loss at October 1, 2010.
- To apply IFRS 3, Business Combinations, prospectively from the Transition Date, therefore not restating business combinations that took place prior to the Transition Date.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

20. Transition to IFRS (continued):

- 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 IFRIC 4, Determining Whether an Arrangement Contains a Lease ("IFRIC 4"), was made previously in accordance with CGAAP.

To apply the transitional provisions of IFRIC 4 to leases where the same determination as IFRIC 4 was not made previously in accordance with CGAAP. 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 consolidated statement of financial position, and other comparative information restated to comply with IFRS, are consistent with those made previously under CGAAP.

(ii) Reconciliation of CGAAP to IFRS:

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

Also included are reconciliations of the consolidated statements of financial position and statement of comprehensive income (loss) from CGAAP 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 consolidated statement of cash flows.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

20. Transition to IFRS (continued):

Reconciliation of consolidated statement of comprehensive income (loss) for the year ended September 30, 2011:

	Note	CAD		U.S. dollars	
		CGAAP (Recast (e))	IFRS adjustments	IFRS	IFRS
Revenue:					
Software, services and other		\$ 38,185,495	\$ –	\$ 38,185,495	\$ 36,757,357
Support		22,389,635	–	22,389,635	21,552,262
		60,575,130	–	60,575,130	58,309,619
Cost of revenue	(b), (d)	21,524,856	57,566	21,582,422	20,775,240
Gross profit		39,050,274	(57,566)	38,992,708	37,534,379
Operating expenditures:					
Sales and marketing	(b), (d)	15,973,696	73,077	16,046,773	15,446,624
General and administrative	(b), (d)	9,809,747	1,486,126	11,295,873	10,873,407
Research and development	(b), (d)	12,171,258	45,371	12,216,629	11,759,726
Amortization	(d)	1,784,565	(1,784,565)	–	–
		39,739,266	(179,991)	39,559,275	38,079,757
Loss from operations		(688,992)	122,425	(566,567)	(545,378)
Foreign exchange loss		(66,533)	–	(66,533)	(64,045)
Other income	(a)	–	301,295	301,295	290,027
Finance income		164,717	–	164,717	158,557
Finance costs		(536,035)	–	(536,035)	(515,988)
Loss before income taxes		(1,126,843)	423,720	(703,123)	(676,827)
Income taxes (recovery):					
Current		1,330,164	–	1,330,164	1,280,415
Deferred	(f)	(120,421)	(259,625)	(380,046)	(365,831)
		1,209,743	(259,625)	950,118	914,584
Net loss		(2,336,586)	683,345	(1,653,241)	(1,591,411)
Other comprehensive income:					
Foreign currency translation adjustment		13,992	–	13,992	13,469
Total comprehensive loss		\$ (2,322,594)	\$ 683,345	\$ (1,639,249)	\$ (1,577,942)

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

20. Transition to IFRS (continued):

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

	Note	CAD		U.S. dollars	
		CGAAP (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		13,994,553	–	13,994,553	13,471,157
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
Total current assets		40,986,839	–	40,986,839	39,453,931
Restricted cash		815,313	–	815,313	784,820
Property and equipment		392,700	–	392,700	378,013
Deferred income tax and investment tax credits		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	(f)	4,131,113	394,672	4,525,785	4,356,521
Goodwill		7,935,373	–	7,935,373	7,638,590
Total assets		\$ 57,538,048	\$ 394,672	\$ 57,932,720	\$ 55,766,036
Liabilities and Shareholders' Equity					
Current liabilities:					
Trade payables		\$ 1,798,668	\$ –	\$ 1,798,668	\$ 1,731,397
Accrued liabilities		6,234,891	–	6,234,891	6,001,706
Income taxes payable		3,323,598	–	3,323,598	3,199,295
Contingent consideration	(a)	–	904,622	904,622	870,789
Deferred revenue		5,963,105	–	5,963,105	5,740,086
Loans and borrowings		3,358,464	–	3,358,464	3,232,857
Total current liabilities		20,678,726	904,622	21,583,348	20,776,130
Other liabilities		544,899	–	544,899	524,520
Loans and borrowings		4,991,377	–	4,991,377	4,804,700
Deferred income taxes		847,526	–	847,526	815,829
Total liabilities		27,062,528	904,622	27,967,150	26,921,179
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		(22,370,158)	(714,164)	(23,084,322)	(22,220,969)
Accumulated other comprehensive income (loss)	(c)	(152,349)	166,341	13,992	13,469
Total shareholders' equity		30,475,520	(509,950)	29,965,570	28,844,857
Total liabilities and shareholders' equity		\$ 57,538,048	\$ 394,672	\$ 57,932,720	\$ 55,766,036

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

20. Transition to IFRS (continued):

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

	Note	CAD		U.S. dollars	
		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
Total current assets		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 tax and investment tax credits		795,196	–	795,196	765,456
Other assets		518,655	–	518,655	499,257
Intangible assets	(f)	5,861,248	135,047	5,996,295	5,772,034
Goodwill		7,668,157	–	7,668,157	7,381,368
Total assets		\$ 58,837,065	\$ 135,047	\$ 58,972,112	\$ 56,766,555
Liabilities and Shareholders' Equity					
Current liabilities:					
Trade payables		\$ 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		5,919,355	–	5,919,355	5,697,971
Loans and borrowings		3,096,082	–	3,096,082	2,980,289
Total current liabilities		18,073,501	–	18,073,501	17,397,552
Other liabilities		468,505	–	468,505	450,983
Contingent consideration	(a)	–	1,205,917	1,205,917	1,160,816
Loans and borrowings		7,126,265	–	7,126,265	6,859,743
Deferred income taxes		1,265,159	–	1,265,159	1,217,842
Total liabilities		26,933,430	1,205,917	28,139,347	27,086,936
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		(20,033,570)	(1,397,511)	(21,431,081)	(20,629,558)
Accumulated other comprehensive loss	(c)	(166,341)	166,341	–	–
Total shareholders' equity		31,903,635	(1,070,870)	30,832,765	29,679,619
Total liabilities and shareholders' equity		\$ 58,837,065	\$ 135,047	\$ 58,972,112	\$ 56,766,555

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

20. 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 CGAAP, 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 CGAAP, 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 CAD \$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 consolidated statement of comprehensive income (loss). The amount of liability at September 30, 2011 was CAD \$904,622.

- (b) Under CGAAP, 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.

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 CAD \$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. As a result, CAD \$166,341 was transferred from accumulated other comprehensive loss. The election had no impact on total equity or comprehensive income or impact as at and for the year ended September 30, 2011.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

20. Transition to IFRS (continued):

- (d) The effect of the change to the presentation of expenditures to a functional basis. Amortization was reclassified to the functional line items within the consolidated statement of comprehensive income (loss). Total amortization of CAD \$1,784,565 was allocated to cost of revenue, sales and marketing, general and administrative and research and development. This change had no impact on total equity or comprehensive income.
- (e) As part of finalizing the contingent consideration payment relating to the Nimbus acquisition, the Company determined that it had not recorded certain 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 and September 30, 2011 by \$91,895 and \$385,853, respectively; increase operating expenditures by \$293,958 for the full year ended September 30, 2011. These adjustments were not as a result of the transition to IFRS.

As part of the revenue cut off procedures, the Company determined that fiscal 2011 revenues were understated by \$483,292 and revenues for earlier periods were understated by \$108,000. The 2011 comparative amounts and the consolidated statement of financial position as at October 1, 2010 have been recast to adjust for the correction of this immaterial error. This adjustment was not as a result of the transition to IFRS

- (f) Under CGAAP, the subsequent utilization of pre-acquisition non-capital losses that were not recognized on the acquisition date first reduces the related intangible assets, then any amounts in excess of this are included in net income (loss) in the appropriate reporting period. The Company used CAD \$259,625 in 2011 and CAD \$135,047 in periods prior to 2011 of losses in its Australian subsidiary which reduced the intangible assets. Under IFRS, these losses are not applied against the intangible assets. Under IFRS, the utilization of these losses is recognized as a component of income tax expense.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2012 and 2011

20. Transition to IFRS (continued):

(iii) 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 consolidated statement of cash flows presented under IFRS and the consolidated statement of cash flows presented under CGAAP.

21. Subsequent event:

On December 5, 2012, the Company announced that it reached a definitive agreement to acquire Nokia Siemens Network's Business Systems ("BSS") business. The total consideration to be paid by Redknee for the BSS business will include €15 million in cash at closing, plus a maximum of €25 million for certain performance-based cash earn-outs expected to be paid over 12 to 36 months post-closing. Redknee expects to finance the transaction through a combination of cash and debt facilities. Such debt facilities are subject to conditions and will be entered into and subject to closing of the acquisition. The acquisition is anticipated to close in the first half of calendar year 2013. The acquisition is subject to applicable regulatory, exchange and third-party approvals, along with other customary terms and conditions.