

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

## **REDKNEE SOLUTIONS INC.**

Three months and six months ended March 31, 2013 and 2012  
(Unaudited)

# REDKNEE SOLUTIONS INC.

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

	March 31, 2013	September 30, 2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 4)	\$ 20,981,723	\$ 16,878,523
Trade accounts and other receivables	11,801,337	10,394,639
Unbilled revenue (note 3(b))	21,552,280	12,125,089
Prepaid expenses	1,453,307	799,901
Other assets (note 5)	730,605	649,272
Inventory (note 3(b))	4,887,827	580,171
<b>Total current assets</b>	<b>61,407,079</b>	<b>41,427,595</b>
Restricted cash (note 12(a))	859,932	913,270
Property and equipment (note 3(b))	12,486,167	726,818
Deferred income taxes	599,440	659,260
Investment tax credits	532,687	550,000
Other assets (note 5)	4,514,491	3,170,308
Intangible assets (note 3)	41,491,389	3,671,306
Goodwill	7,638,590	7,638,590
<b>Total assets</b>	<b>\$ 129,529,775</b>	<b>\$ 58,757,147</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Trade payables	\$ 1,994,154	\$ 1,756,532
Accrued liabilities (note 3(b))	22,384,629	7,156,844
Provisions (note 3(d))	1,201,050	-
Income taxes payable	2,096,229	2,036,864
Deferred revenue (note 3(b))	15,631,600	7,258,759
<b>Total current liabilities</b>	<b>43,307,662</b>	<b>18,208,999</b>
Deferred revenue	1,260,583	78,002
Other liabilities	899,921	439,398
Contingent consideration (note 3(b))	23,562,232	-
Loans and borrowings (note 7)	5,519,679	5,461,970
Deferred income taxes	309,139	408,156
<b>Total liabilities</b>	<b>74,859,216</b>	<b>24,596,525</b>
Shareholders' equity:		
Share capital, net of employee share purchase loans	66,248,480	46,543,100
Treasury stock (note 9(c))	(174,339)	(264,584)
Contributed surplus	4,875,729	4,787,549
Deficit	(16,292,780)	(16,918,912)
Accumulated other comprehensive income	13,469	13,469
<b>Total shareholders' equity</b>	<b>54,670,559</b>	<b>34,160,622</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 129,529,775</b>	<b>\$ 58,757,147</b>

Commitments, guarantees and contingent liabilities (note 12)

Subsequent events (notes 7(b) and 9(d))

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

# REDKNEE SOLUTIONS INC.

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

	Three months ended March 31,		Six months ended March 31,	
	2013	2012	2013	2012
Revenue:				
Software, services and other	\$ 5,752,813	\$ 8,424,913	\$ 14,027,551	\$ 16,048,705
Support	5,999,964	5,682,723	11,962,189	11,431,843
	11,752,777	14,107,636	25,989,740	27,480,548
Cost of revenue	4,532,850	4,594,319	9,852,258	9,179,555
Gross profit	7,219,927	9,513,317	16,137,482	18,300,993
Operating expenses:				
Sales and marketing	3,693,277	3,706,253	6,646,372	7,099,911
General and administrative	2,421,998	2,137,613	4,818,601	4,021,528
Research and development	3,406,669	2,727,782	6,606,330	5,146,432
Acquisition and related costs (note 3(d))	5,903,503	–	8,181,975	–
	15,425,447	8,571,648	26,253,278	16,267,871
Income (loss) from operations	(8,205,520)	941,669	(10,115,796)	2,033,122
Foreign exchange gain (loss)	(1,012,810)	554,569	(652,447)	(6,846)
Other income (expense) (note 3(c))	11,796,825	(13,938)	11,796,825	(13,938)
Finance income	7,166	22,141	19,347	40,213
Finance costs	(118,865)	(100,808)	(233,027)	(217,947)
Income before income taxes	2,466,796	1,403,633	814,902	1,834,604
Income taxes (recovery):				
Current	121,702	104,770	247,131	224,057
Deferred	(19,870)	(32,988)	(58,361)	(79,448)
	101,832	71,782	188,770	144,609
Net comprehensive income	\$ 2,364,964	\$ 1,331,851	\$ 626,132	\$ 1,689,995
Net income per common share (note 8):				
Basic	0.03	0.02	0.01	0.03
Diluted	0.03	0.02	0.01	0.03
Weighted average number of common shares (note 8):				
Basic	79,840,642	64,410,404	77,660,795	64,316,481
Diluted	83,505,220	65,304,232	80,686,279	65,201,571

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

# REDKNEE SOLUTIONS INC.

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

Six months ended March 31, 2013 and 2012  
(Unaudited)

	Number outstanding	Share capital Amount	Treasury stock (note 9(c))	Contributed surplus	Deficit	Accumulated other comprehensive income	Total shareholders' equity
Balance, September 30, 2012	64,493,004	\$ 46,543,100	\$ (264,584)	\$ 4,787,549	\$ (16,918,912)	\$ 13,469	\$ 34,160,622
Net income	–	–	–	–	626,132	–	626,132
Share-based compensation	–	–	–	425,148	–	–	425,148
Treasury stock issued	–	–	90,245	(90,245)	–	–	–
Stock options exercised	613,667	973,990	–	(246,723)	–	–	727,267
Issuance of share capital (note 9(b))	14,950,000	18,731,390	–	–	–	–	18,731,390
<b>Balance, March 31, 2013</b>	<b>80,056,671</b>	<b>\$ 66,248,480</b>	<b>\$ (174,339)</b>	<b>\$ 4,875,729</b>	<b>\$ (16,292,780)</b>	<b>\$ 13,469</b>	<b>\$ 54,670,559</b>
Balance, September 30, 2011	64,197,904	\$ 46,312,920	\$ –	\$ 4,739,437	\$ (22,220,969)	\$ 13,469	\$ 28,844,857
Net income	–	–	–	–	1,689,995	–	1,689,995
Share-based compensation	–	–	–	466,292	–	–	466,292
Stock options exercised	212,500	156,800	–	(62,141)	–	–	94,659
<b>Balance, March 31, 2012</b>	<b>64,410,404</b>	<b>\$ 46,469,720</b>	<b>\$ –</b>	<b>\$ 5,143,588</b>	<b>\$ (20,530,974)</b>	<b>\$ 13,469</b>	<b>\$ 31,095,803</b>

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

# REDKNEE SOLUTIONS INC.

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

	Six months ended March 31,	
	2013	2012
Cash provided by (used in):		
Operating activities:		
Net income	\$ 626,132	\$ 1,689,995
Adjustments for:		
Depreciation of property and equipment	161,109	93,199
Amortization of intangible assets	346,307	375,183
Finance income	(19,347)	(40,213)
Finance costs	233,027	217,947
Income tax expense	188,770	144,609
Unrealized foreign exchange loss	555,298	29,846
Share-based compensation	914,989	500,491
Bargain purchase gain from acquisition (note 3(c))	(11,796,825)	–
Other	–	6,588
Changes in non-cash operating working capital (note 10)	(280,927)	3,612,275
	(9,071,467)	6,629,920
Interest paid	(180,514)	(31,099)
Interest received	29,593	20,654
Income taxes (paid) received	(269,998)	90,009
	(9,492,386)	6,709,484
Financing activities:		
Issuance of share capital (note 9(b))	18,731,390	–
Proceeds from exercise of stock options	727,267	94,659
Repayment of loans and borrowings	–	(2,010,105)
	19,458,657	(1,915,446)
Investing activities:		
Purchase of property and equipment	(633,084)	(474,948)
Purchase of intangible assets	(156,576)	(42,357)
Increase in restricted cash	53,338	53,058
Acquisition of business (note 3)	(4,571,451)	–
	(5,307,773)	(464,247)
Effect of foreign exchange rate changes on cash and cash equivalents	(555,298)	(29,846)
Increase in cash and cash equivalents	4,103,200	4,299,945
Cash and cash equivalents, beginning of period	16,878,523	14,879,940
Cash and cash equivalents, end of period	\$ 20,981,723	\$ 19,179,885

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

# REDKNEE SOLUTIONS INC.

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

Three months and six months ended March 31, 2013 and 2012  
(Unaudited)

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

The Company 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. The Company 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 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 condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, and do not include all of the information required for full annual consolidated financial statements.

These condensed consolidated interim financial statements for the three and six months ended March 31, 2013 were authorized for issuance by the Board of Directors of the Company on May 13, 2013.

# REDKNEE SOLUTIONS INC.

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

Three months and six months ended March 31, 2013 and 2012  
(Unaudited)

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## 2. Summary of significant accounting policies:

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

The notes presented in these unaudited condensed consolidated interim financial statements include in general only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual audited consolidated financial statements, including the notes thereto, for the year ended September 30, 2012 (the "2012 financial statements"). These unaudited condensed consolidated interim financial statements follow the same accounting policies and methods of application as the 2012 financial statements.

As disclosed in the 2012 financial statements, as part of the revenue cut off procedures, the Company determined that revenue for the six months ended March 31, 2012 were overstated by \$591,292. The 2012 comparative amounts have been recast to adjust for the correction of this immaterial error.

### (b) Principles of consolidation:

The condensed consolidated interim financial statements include the financial statements of Redknee and its wholly owned subsidiary companies. All significant intercompany balances and transactions have been eliminated on consolidation.

### (c) Functional currency:

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

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 condensed consolidated interim statements of comprehensive income.

# REDKNEE SOLUTIONS INC.

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

Three months and six months ended March 31, 2013 and 2012  
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### 3. Business acquisition:

On March 29, 2013, the Company acquired the Nokia Siemens Networks' Business Support Systems ("BSS") business. Nokia Siemens Networks' BSS business provides real-time charging, rating, policy and customer care solutions to more than 130 communication service providers. The completion of this acquisition marks a significant milestone in Redknee's long-term growth strategy by adding strong long-standing relationships with multiple Tier-1 operators from across the globe. Redknee will now deliver comprehensive portfolio of highly scalable and agile converged billing, charging, customer care, and payments solutions for mobile network operators, mobile virtual network operators/enablers and other communications service providers.

The acquisition involved an asset purchase, which included Nokia Siemens Networks' BSS customer and supplier contracts, intellectual property rights, tangible assets and associated liabilities, along with the transfer of BSS employees. The acquisition was accounted for by the purchase method and the results of operations of the BSS business since the date of acquisition have been consolidated.

#### (a) Consideration transferred:

Redknee expects to finance the transaction through a combination of cash on its condensed consolidated interim statements of financial position and debt facilities. The consideration for the BSS business is €15,000,000 base amount; plus the net working capital balance; less the non-German pension liabilities adjustment. The parties agreed that if the amount so calculated is negative, BSS shall owe and pay an amount equal to the shortfall to the Company.

Furthermore, in addition to the purchase price, the Company has agreed to pay additional consideration of up to a maximum of €25,000,000 for certain performance-based cash earn-outs over the next 12 to 36 months post-closing.

Consideration paid on closing by the Company was €3,549,000 (\$4,571,451). The Company has included €18,349,000 (\$26,532,232) as the estimated fair value of the contingent consideration relating to the performed-based cash earn-outs as at March 29, 2013. The fair value of the contingent consideration was calculated by using probabilities-based outcomes. Any changes in the estimated fair values will be recorded in the statement of income on a quarterly basis.

# REDKNEE SOLUTIONS INC.

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

Three months and six months ended March 31, 2013 and 2012  
(Unaudited)

## 3. Business acquisition (continued):

### (b) Identifiable assets acquired and liabilities assumed:

The preliminary estimate of the fair values of the assets acquired and liabilities assumed in the acquisition are as follows:

	Preliminary allocation (Euros)	(U.S. dollars)
Net assets acquired:		
Unbilled revenue	\$ 6,462,542	\$ 8,312,774
Property and equipment	8,790,000	11,287,374
Inventory	3,525,894	4,527,655
Contingent consideration	(18,349,000)	(23,562,232)
Accrued liabilities	(10,037,703)	(12,889,568)
Deferred revenue	(7,256,000)	(9,317,541)
	(16,864,267)	(21,641,538)
Customer relationships	13,000,000	16,693,500
Technology	16,600,000	21,316,314
Bargain purchase gain	(9,186,733)	(11,796,825)
	20,413,267	26,212,989
<b>Total purchase consideration</b>	<b>\$ 3,549,000</b>	<b>\$ 4,571,451</b>

The Company applied significant estimates and assumptions in accounting for the acquisition of Nokia Siemens Networks' BSS business relating to the allocation of the purchase price, valuation of intangible assets, valuation of contingent consideration and other valuations used in the business acquisition, such as deferred revenue.

The following fair values have been determined on a provisional basis and are not yet final:

- The fair value of the net assets acquired, intangible assets and bargain purchase gain has been determined provisionally pending completion of an independent valuation.

# REDKNEE SOLUTIONS INC.

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

Three months and six months ended March 31, 2013 and 2012  
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### 3. Business acquisition (continued):

The Company allocated €29,600,000 (\$38,009,814) to intangible assets, including customer relationships and developed technology based on their fair values at the date of purchase. These intangible assets will be amortized over their estimated useful lives, expected to be in the range of five to 10 years. Management will complete the assessment upon finalization of the purchase price. The useful lives of the intangible assets are to be determined as the period of time over which the assets are anticipated to contribute to the Company's future cash flows. It is expected that the intangible assets will be deductible for tax purposes.

(c) Bargain purchase gain:

A preliminary bargain purchase gain of €9,186,733 (\$11,796,825) was recognized in this business combination, due to the acquisition price being less than the estimated fair market value of the net assets acquired.

(d) Other items:

During the three-months ended March 31, 2013, the Company incurred acquisition and related costs of \$5,903,503 which included transaction costs of \$4,702,453 and restructuring provision of \$1,201,050. During the six months ended March 31, 2013, the Company incurred acquisition and related costs of \$8,181,975 which included transaction costs of \$6,980,470 and restructuring provision of \$1,201,050. These costs have been presented separately in the condensed consolidated interim statements of comprehensive income.

The revenue and profit of the BSS business from the acquisition date of March 29, 2013 to March 31, 2013 was recorded in the condensed consolidated interim statement of comprehensive income and the amounts were deemed immaterial for the three-month period ended March 31, 2013. The Company is currently unable to provide the pro forma estimated consolidated revenue and consolidated profit for the period October 1, 2012 to March 29, 2013 as such information is not currently determinable.

# REDKNEE SOLUTIONS INC.

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

Three months and six months ended March 31, 2013 and 2012  
(Unaudited)

## 4. Cash and cash equivalents:

	March 31, 2013	September 30, 2012
Cash	\$ 20,601,816	\$ 16,567,900
Cash equivalents	379,907	310,623
	<u>\$ 20,981,723</u>	<u>\$ 16,878,523</u>

## 5. Other assets:

	March 31, 2013	September 30, 2012
Deferred contract costs - current (a)	\$ 730,605	\$ 649,272
Deferred contract costs - non-current (a)	3,215,575	2,760,814
Deferred financing costs (note 7(b))	903,457	–
Lease deposits - non-current	395,459	409,494
	<u>4,514,491</u>	<u>3,170,308</u>
	<u>\$ 5,245,096</u>	<u>\$ 3,819,580</u>

(a) The Company recognized upfront direct costs related to future activity on three customer contracts as an asset as it is probable that these assets will be recovered through future minimum contractual payment terms. The costs are being amortized over the pattern of recognition of the related contract revenues. During the six months ended March 31, 2013, \$98,121 (2012 - nil) was amortized.

## 6. Related party transactions:

In August 2011, the Company entered into a consulting agreement with a member of the Board of Directors. For the six months ended March 31, 2013, the Company has incurred \$30,000 (2012 - \$30,000) consulting expense related to this arrangement.

# REDKNEE SOLUTIONS INC.

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

Three months and six months ended March 31, 2013 and 2012  
(Unaudited)

## 7. Loans and borrowings:

	March 31, 2013	September 30, 2012
Line of credit, bearing interest at LIBOR floor of 1.25% plus applicable margin, due September 25, 2017 (a)	\$ 5,911,493	\$ 5,911,493
Less unamortized deferred financing costs	391,814	449,523
<b>Long-term portion of loans and borrowings</b>	<b>\$ 5,519,679</b>	<b>\$ 5,461,970</b>

### (a) Wells Fargo Credit Facility:

The Company has 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 uses the credit facility for working capital, general corporate purposes and potential acquisitions. A portion of the credit facility with Wells Fargo & Company was used in the year ended September 30, 2012 to repay the full outstanding credit facility the Company had with Export Development Canada. The credit facility is secured by Redknee Inc. and Redknee UK assets. 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 March 31, 2013, \$5,911,493 is outstanding and interest is payable monthly over the term of five years. The Company had incurred \$449,523 of transaction costs and has recorded these costs as deferred costs that are being amortized over the expected term of the loan, which management has estimated to be two years, using the effective interest rate method. During the six months ended March 31, 2013, \$58,121 (2012 - nil) was amortized.

# REDKNEE SOLUTIONS INC.

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

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## 7. Loans and borrowings (continued):

Interest is at LIBOR plus an applicable margin which was 3.50% at March 31, 2013 and 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 \$79,629 at March 31, 2013 (September 30, 2012 - \$107,400), using the assumption that the expected repayment of this loan will be on September 25, 2014. The fair value of the embedded derivative asset is estimated to be insignificant and, consequently, it is not separately presented in the condensed consolidated interim statements of financial position as March 31, 2013 or September 30, 2012.

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 condensed consolidated statements of financial position as at March 31, 2013 or 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 its debt covenants as at March 31, 2013 and determined it is in compliance.

### (b) Subsequent event - amended and restated Wells Fargo Credit Facility:

Subsequent to quarter end, on April 1, 2013, the Company has entered into an amended and restated credit agreement with Wells Fargo Capital Finance, part of Wells Fargo & Company, to add to its existing senior secured credit facility (which provided for a \$20,000,000 revolving line of credit) with two new term loan facilities in the amount of \$15,000,000 each, for a total credit facility of \$50,000,000.

The Company will use the credit facilities for working capital, general corporate purposes, capital expenditures and for potential acquisitions. The credit facilities are secured by the assets of Redknee Inc., Redknee Solutions (UK) Limited ("Redknee UK") and Redknee Germany GmbH ("Redknee Germany"). The Company, Redknee UK, and Redknee Germany have guaranteed the obligations of Redknee Inc. The Company's guarantee is secured by a pledge of all of its shares in Redknee Inc.

# REDKNEE SOLUTIONS INC.

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

As at March 31, 2013, the Company had incurred \$903,457 of transaction costs relating to this amended facility and has recorded these costs as deferred costs under other assets. The Company will start amortizing them on April 1, 2013 over the expected five-year term of the loan using the effective interest rate method.

For the six months ended March 31, 2013, interest expense of \$150,645 (2012 - \$166,728) in connection with loans payable has been recognized in the condensed consolidated interim statements of comprehensive income.

## 8. Net income 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 three months and six months ended March 31 is as follows:

	Three months ended March 31,		Six months ended March 31,	
	2013	2012	2013	2012
Basic weighted average number of common shares outstanding	79,840,642	64,410,404	77,660,795	64,316,481
Add dilutive stock options outstanding	3,664,578	893,828	3,025,484	885,090
Diluted weighted average number of common shares outstanding	83,505,220	65,304,232	80,686,279	65,201,571

The total number of anti-dilutive options that were out of the money and, therefore, excluded from the calculation of diluted net income per common share for the three months ended March 31, 2013 are 2,350,707 (2012 - 4,233,184) and six months ended March 31, 2013 are 2,989,801 (2012 - 4,241,922).

# REDKNEE SOLUTIONS INC.

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

Three months and six months ended March 31, 2013 and 2012  
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## 9. Share capital:

### (a) Normal course issuer bid:

On March 8, 2012, the Company announced a normal course issuer bid ("NCIB") under which it may purchase up to 4,701,696 of its common shares, commencing on March 12, 2012 and terminating 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"). As of March 31, 2013, the Company has not purchased any common shares under this NCIB.

### (b) Bought deal financing:

On October 23, 2012, the Company had completed an offering of 13,000,000 common shares (the "Common Shares") of the Company at a price of Cdn. \$1.35 per Common Share (the "Offering Price") for aggregate gross proceeds of Cdn. \$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 had 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 Cdn. \$2,632,500 was raised pursuant to the Offering and the aggregate gross proceeds of the Offering is Cdn. \$20,182,500. Transaction costs directly associated with this issuance of shares of Cdn. \$267,755 have been recognized against the proceeds.

# REDKNEE SOLUTIONS INC.

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

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## 9. Share capital (continued):

### (c) Treasury stock:

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

During the six months ended March 31, 2013, 71,845 shares with a cost of \$90,245 have been issued. As of March 31, 2013, a total of 430,113 shares with a cost of \$540,269 have been issued. The remaining number of treasury shares held by the Company is 138,793, with a cost of \$174,339.

### (d) Private placement financing:

Subsequent to quarter end, on April 18, 2013, the Company completed its offering of 14,538,500 special warrants (the "Special Warrants") of the Company at price of Cdn. \$3.10 per Special Warrant for aggregate gross proceeds of Cdn. \$45,069,350, which includes 18,500 Special Warrants issued pursuant to the underwriters exercising their over-allotment option (the "Private Placement").

The Private Placement was completed on a private placement basis and was underwritten by a syndicate of underwriters co-led by GMP Securities L.P. and TD Securities Inc. and including Canaccord Genuity Corp. and M. Partners Inc.

The Company plans to use the net proceeds from the Private Placement for working capital.

Each Special Warrant will be exercisable into one common share in the capital of the Company for no additional consideration. The Special Warrants will be deemed to be exercised upon the earlier of: (i) a date that is no later than the fifth business day after the date of issuance of a receipt for a final prospectus qualifying the issuance of common shares underlying the Special Warrants; and (ii) four months and one day following the closing of the Private Placement. The Company has agreed to use commercially reasonable best efforts to file a prospectus qualifying the issuance of the common shares underlying the Special Warrants within 75 days of closing of the Private Placement in all provinces of Canada where purchasers of Special Warrants are resident.

# REDKNEE SOLUTIONS INC.

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

Three months and six months ended March 31, 2013 and 2012  
(Unaudited)

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

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

	2013	2012
Trade accounts and other receivables	\$ (1,402,819)	\$ 80,005
Unbilled revenue	(1,128,542)	305,798
Prepaid expenses	(653,406)	160,505
Other assets	(1,425,928)	(654,684)
Trade payables	237,622	(255,037)
Accrued liabilities	2,314,507	(617,061)
Provisions	1,201,050	-
Deferred revenue	237,881	4,293,740
Income taxes payable	118,709	257,388
Inventory	219,999	41,621
	<u>\$ (280,927)</u>	<u>\$ 3,612,275</u>

## 11. Segment reporting:

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

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

	Three months ended		Six months ended	
	2013	March 31, 2012	2013	March 31, 2012
Europe, Middle East and Africa	\$ 3,418,741	\$ 6,688,620	\$ 8,319,394	\$ 11,321,834
North America, Latin America and Caribbean	5,206,703	5,267,001	10,586,535	11,368,996
Asia and Pacific Rim	3,127,333	2,152,015	7,083,811	4,789,718
	<u>\$ 11,752,777</u>	<u>\$ 14,107,636</u>	<u>\$ 25,989,740</u>	<u>\$ 27,480,548</u>

# REDKNEE SOLUTIONS INC.

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

Three months and six months ended March 31, 2013 and 2012  
(Unaudited)

## 11. Segment reporting (continued):

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

	Three months ended March 31,		Six months ended March 31,	
	2013	2012	2013	2012
Revenue by type:				
Software and services	\$ 5,646,306	\$ 7,913,750	\$ 13,103,273	\$ 14,949,465
Support	5,999,964	5,682,723	11,962,189	11,431,843
Third party software and hardware	106,507	511,163	924,278	1,099,240
	<u>\$ 11,752,777</u>	<u>\$ 14,107,636</u>	<u>\$ 25,989,740</u>	<u>\$ 27,480,548</u>

## 12. Commitments, guarantees and contingent liabilities:

### (a) Letters of credit:

As at March 31, 2013, the Company had \$859,932 (September 30, 2012 - \$913,270) in outstanding letters of credit relating to customer contracts, which are secured by restricted cash, shown separately in the condensed consolidated interim statements of financial position.

### (b) Guarantees:

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

### (c) Purchase Price and Post-Closing Adjustments Associated with Acquisitions:

With respect to purchase of Nokia Siemens Networks' BSS business described in note 3, the purchase agreements provide for post-closing adjustments to the stated purchase price based on the actual value of certain assets and liabilities as of the closing date relative to

# REDKNEE SOLUTIONS INC.

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

Three months and six months ended March 31, 2013 and 2012  
(Unaudited)

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

an estimate of those amounts at closing. Adjustments may be made for, among other things: (i) changes in net working capital; and (ii) changes in amounts to be paid in respect of transferred employees, including such items as accrued compensation and vacation days, retirement benefits and severance amounts, and (iii) finalization of contingent payments