

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

## **REDKNEE SOLUTIONS INC.**

Three months ended December 31, 2013 and 2012  
(Unaudited)

# REDKNEE SOLUTIONS INC.

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

	December 31, 2013	September 30, 2013
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 4)	\$ 71,149,391	\$ 79,054,757
Trade accounts and other receivables (note 5)	78,867,201	66,393,041
Unbilled revenue	40,954,048	39,421,584
Prepaid expenses	3,032,269	1,943,986
Other assets (note 6)	830,829	832,516
Inventories	6,672,500	6,644,580
Total current assets	201,506,238	194,290,464
Restricted cash (note 13(a))	1,026,588	1,011,361
Property and equipment	10,359,813	10,890,910
Deferred income taxes	1,869,235	1,923,409
Investment tax credits	366,541	378,923
Other assets (note 6)	2,929,392	3,179,724
Intangible assets	37,198,741	38,732,447
Goodwill	7,638,590	7,638,590
Total assets	\$ 262,895,138	\$ 258,045,828
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Trade payables	\$ 15,833,062	\$ 15,707,464
Accrued liabilities	60,030,468	59,532,922
Provisions	1,201,050	1,201,050
Income taxes payable	2,830,917	2,445,616
Deferred revenue	10,347,608	14,935,451
Loans and borrowings (note 7)	375,000	375,000
Total current liabilities	90,618,105	94,197,503
Deferred revenue	3,403,978	4,149,940
Other liabilities	3,193,063	2,793,146
Pension and non-pension post-employment benefit obligation	1,218,841	814,335
Contingent consideration (note 3(a))	25,984,206	24,833,537
Loans and borrowings (note 7)	42,931,530	32,956,036
Deferred income taxes	720,586	744,652
Total liabilities	168,070,309	160,489,149
Shareholders' equity:		
Share capital, net of employee share purchase loans	109,084,608	109,017,145
Treasury stock (note 9(b))	(46,110)	(132,050)
Contributed surplus	4,532,491	4,357,175
Deficit	(20,243,191)	(17,182,622)
Accumulated other comprehensive income	1,497,031	1,497,031
Total shareholders' equity	94,824,829	97,556,679
Total liabilities and shareholders' equity	\$ 262,895,138	\$ 258,045,828

Commitments, guarantees and contingent liabilities (note 13)

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

# REDKNEE SOLUTIONS INC.

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

	Three months ended December 31,	
	2013	2012
Revenue:		
Software, services and other	\$ 27,853,883	\$ 8,274,738
Support	32,549,357	5,962,225
	60,403,240	14,236,963
Cost of revenue	27,379,935	5,319,408
Gross profit	33,023,305	8,917,555
Operating expenditures:		
Sales and marketing	8,508,397	2,953,095
General and administrative	8,174,749	2,396,603
Research and development	14,884,339	3,199,661
Acquisition and related costs (note 3(b))	872,368	2,278,472
	32,439,853	10,827,831
Income (loss) from operations	583,452	(1,910,276)
Foreign exchange (loss) gain	(1,137,904)	360,363
Other income (expenses) (note 3(a))	(1,150,669)	–
Finance income	14,759	12,181
Finance costs	(584,520)	(114,162)
Loss before income taxes	(2,274,882)	(1,651,894)
Income tax expense (recovery):		
Current	844,805	125,429
Deferred	(59,118)	(38,491)
	785,687	86,938
Total comprehensive loss	\$ (3,060,569)	\$ (1,738,832)
Net loss per common share (note 8):		
Basic	\$ (0.03)	\$ (0.02)
Diluted	(0.03)	(0.02)
Weighted average number of common shares (note 8):		
Basic	95,529,355	75,446,243
Diluted	95,529,355	75,446,243

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

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2013 and 2012  
(Unaudited)

	Share capital		Treasury stock	Contributed surplus	Deficit	Accumulated other comprehensive income	Total shareholders' equity
	Number outstanding	Amount	(note 9(b))				
Balance, September 30, 2013	95,510,022	\$ 109,017,145	\$ (132,050)	\$ 4,357,175	\$ (17,182,622)	\$ 1,497,031	\$ 97,556,679
Net loss	–	–	–	–	(3,060,569)	–	(3,060,569)
Share-based compensation	–	–	–	287,946	–	–	287,946
Treasury stock issued	–	–	85,940	(85,940)	–	–	–
Stock options exercised	106,000	67,463	–	(26,690)	–	–	40,773
<b>Balance, December 31, 2013</b>	<b>95,616,022</b>	<b>\$ 109,084,608</b>	<b>\$ (46,110)</b>	<b>\$ 4,532,491</b>	<b>\$ (20,243,191)</b>	<b>\$ 1,497,031</b>	<b>\$ 94,824,829</b>
Balance, September 30, 2012	64,493,004	\$ 46,543,100	\$ (264,584)	\$ 4,787,549	\$ (16,918,912)	\$ 13,469	\$ 34,160,622
Net loss	–	–	–	–	(1,738,832)	–	(1,738,832)
Issue of share capital	14,950,000	18,731,390	–	–	–	–	18,731,390
Share-based compensation	–	–	–	212,555	–	–	212,555
Purchase of treasury stock	–	–	90,245	(90,245)	–	–	–
Stock options exercised	165,355	241,436	–	(59,386)	–	–	182,050
<b>Balance, December 31, 2012</b>	<b>79,608,359</b>	<b>\$ 65,515,926</b>	<b>\$ (174,339)</b>	<b>\$ 4,850,473</b>	<b>\$ (18,657,744)</b>	<b>\$ 13,469</b>	<b>\$ 51,547,785</b>

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

# REDKNEE SOLUTIONS INC.

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

	Three months ended December 31,	
	2013	2012
Cash provided by (used in):		
Operating activities:		
Net income	\$ (3,060,569)	\$ (1,738,832)
Adjustments for:		
Depreciation of property and equipment	1,603,063	71,158
Amortization of intangible assets	1,690,134	164,792
Finance income	(14,759)	(12,181)
Finance costs	584,520	114,162
Income tax expense	785,687	86,938
Unrealized foreign exchange loss	45,701	66,462
Share-based compensation	670,206	392,654
Revaluation of contingent consideration	1,150,669	-
Changes in non-cash operating working capital (note 10)	(20,022,984)	(2,841,741)
	(16,568,332)	(3,696,588)
Interest paid	(953)	(87,236)
Interest received	14,759	12,195
Income taxes (paid) received	(92,259)	(118,398)
	(16,646,785)	(3,890,027)
Financing activities:		
Proceeds from public offering (note 9(a))	-	18,731,390
Proceeds from exercise of stock options	40,773	182,050
Proceeds of loans and borrowings	10,000,000	-
Transaction costs on loans and borrowings	(10,032)	-
	10,030,741	18,913,440
Investing activities:		
Purchase of property and equipment	(1,071,966)	(403,972)
Purchase of intangible assets	(156,428)	-
Decrease in restricted cash	(15,227)	(7,603)
	(1,243,621)	(411,575)
Effect of foreign exchange rate changes on cash and cash equivalents	(45,701)	(66,462)
(Decrease) increase in cash and cash equivalents	(7,905,366)	14,545,376
Cash and cash equivalents, beginning of period	79,054,757	16,878,523
Cash and cash equivalents, end of period	\$ 71,149,391	\$ 31,423,899

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 ended December 31, 2013 and 2012  
(Unaudited)

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Redknee Solutions Inc. (the "Company" or "Redknee") through its predecessors, commenced operations on March 29, 1999. The Company was incorporated under the Canada Business Corporations Act on November 1, 2006. The Company's registered head office is located at 2560 Matheson Blvd East, Suite 500, Mississauga, Ontario, Canada. The Company is publicly traded on the Toronto Stock Exchange (TSX: RKN).

Redknee is a leading global provider of innovative communication software products, solutions and services. Redknee's revenue and subscriber management platform provides innovative converged billing, charging, customer care, and payments solutions for voice, messaging and data services to over 200 service providers in over 90 countries. 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, and provide real-time rating, charging and billing. Redknee Solutions Inc. is the parent of the wholly owned operating subsidiary, Redknee Inc. and its various subsidiaries.

## 1. Basis of preparation:

### (a) 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 months ended December 31, 2013 were authorized for issuance by the Board of Directors of the Company on February 12, 2014.

### (b) Judgments and estimates

In preparing these condensed consolidated interim financial statements, management make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended September 30, 2013.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 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, 2013 (the "2013 financial statements"). Except as discussed below, these unaudited condensed consolidated interim financial statements follow the same accounting policies and methods of application as the 2013 financial statements.

### (b) Changes in accounting policies:

#### (a) New standards and interpretations adopted

##### IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities. IAS 27 (2008) survives as IAS 27 (2011) Separate Financial Statements, only to carry forward the existing accounting requirements for separate financial statements.

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008).

The Company adopted IFRS 10 for the annual period beginning on October 1, 2013. IFRS 10 did not have a material impact on the condensed consolidated interim financial statements.

##### IFRS 11 Joint Arrangements

Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2013 and 2012  
(Unaudited)

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

assets/operations under IAS 31. In addition, under IFRS 11 joint ventures are stripped of the free choice of equity accounting or proportionate consolidation; these entities must now use the equity method.

The Company adopted IFRS 11 for the annual period beginning on October 1, 2013. IFRS 11 did not have a material impact on the condensed consolidated interim financial statements.

### IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows.

The Company adopted IFRS 12 for the annual period beginning on October 1, 2013. The amendments did not have a material impact on the condensed consolidated interim financial statements.

### IFRS 13 Fair Value Measurement

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other.

The Company adopted IFRS 13 prospectively in its interim and annual financial statements beginning on October 1, 2013. IFRS 13 did not have a material impact on the condensed



# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2013 and 2012  
(Unaudited)

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

consolidated interim financial statements other than the inclusion of certain fair value disclosures which were previously applicable to annual financial statements only as included in note 12

Amendments to IAS 19 Employee Benefits

The amendments require the following:

- Recognition of actuarial gains and losses immediately in other comprehensive income
- Full recognition of past service costs immediately in profit or loss
- Recognition of expected return on plan assets in profit or loss to be calculated based on the rate used to discount the defined benefit obligation
- Additional disclosures that explain the characteristics of the entity's defined benefit plans and risks associated with the plans, as well as disclosures that describe how defined benefit plans may affect the amount, timing and uncertainty of future cash flows, and details of any asset-liability match strategies used to manage risks.

The amendments also impact termination benefits, which would now be recognized at the earlier of when the entity recognizes costs for a restructuring within the scope of IAS 37 Provisions, and when the entity can no longer withdraw the offer of the termination benefits.

The Company adopted the amendments in its financial statements for the annual period beginning on October 1, 2013. The amendments to IAS 19 did not have a material impact on the condensed consolidated interim financial statements.

Amendments to IFRS 7, Offsetting Financial Assets and Liabilities

IFRS 7 has been amended to include additional disclosure requirements for financial assets and liabilities that can be offset in the statement of financial position.

The Company adopted the amendments to IFRS 7 in its interim and annual financial statements beginning on October 1, 2013. The adoption did not have a material impact on the condensed consolidated interim financial statements.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2013 and 2012  
(Unaudited)

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

### (c) Principles of consolidation:

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

### (d) Functional currency:

The condensed consolidated interim financial statements are presented in U.S. dollar, 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.

## 3. Business acquisition:

On March 29, 2013, the Company acquired Nokia Siemens Networks' BSS business. Nokia Siemens Networks' BSS business provided 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.

The acquisition involved the purchase of certain assets and obligations, which include 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 has been accounted for as a business combination under the purchase method. The results of operations of the BSS business since the date of acquisition have been consolidated.

# REDKNEE SOLUTIONS INC.

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

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(Unaudited)

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### 3. Business acquisition (continued):

The Company completed the purchase price allocation as at September 30, 2013. The details of the acquisition are disclosed in note 5 of the 2013 financial statements.

(a) Contingent consideration:

Redknee financed the transaction through a combination of cash and debt facilities. The consideration for the BSS business was €15,000,000 base amount; plus the net working capital balance, as defined; less an adjustment for non-German pension liabilities.

In addition to the purchase price, the Company 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 48 months post-closing.

The fair value of the contingent consideration has been calculated by using probabilities-based outcomes. Subsequent changes in the estimated fair value are recorded in the statement of comprehensive income. The fair value of the contingent consideration liability was \$25,984,206 as at December 31, 2013 (\$24,833,537 as at September 30, 2013). For the three months ended December 31, 2013, the re-measurement charge of \$1,150,669 (2012 – nil) was recorded as Other income (expense).

(b) Other items:

During the three months ended December 31, 2013, the Company incurred acquisition and related costs of \$872,368 (2012 – 2,278,472), which included legal and professional expenses and other costs. These costs have been presented separately as acquisition and related costs in the consolidated statements of comprehensive income.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2013 and 2012  
(Unaudited)

## 4. Cash and cash equivalents:

	December 31, 2013	September 30, 2013
Cash	\$ 70,862,375	\$ 78,758,567
Cash equivalents	287,016	296,190
	<u>\$ 71,149,391</u>	<u>\$ 79,054,757</u>

## 5. Trade accounts and other receivables:

	December 31, 2013	September 30, 2013
Trade receivables, net of allowance for doubtful accounts	\$ 65,038,770	\$ 50,916,711
Other receivables (a)	12,912,019	15,048,678
Employee travel advances	916,412	427,652
	<u>\$ 78,867,201</u>	<u>\$ 66,393,041</u>

(a) The other receivables mainly relate to receivables acquired as part of the BSS business, expected to settle in the next twelve months.

## 6. Other assets:

	December 31, 2013	September 30, 2013
Deferred contract costs - current (a)	\$ 830,829	\$ 832,516
Deferred contract costs - non-current (a)	2,289,653	2,599,304
Lease deposits - non-current	639,739	580,420
	<u>2,929,392</u>	<u>3,179,724</u>
	<u>\$ 3,760,221</u>	<u>\$ 4,012,240</u>

(a) The Company recognized upfront direct costs related to future activity on certain 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 three months ended December 31, 2013, \$311,338 was amortized (2012 - \$47,302).

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2013 and 2012  
(Unaudited)

## 7. Loans and borrowings:

	December 31, 2013	September 30, 2013
Line of credit, bearing interest at LIBOR floor of 1.25% plus applicable margin, due April 1, 2018	\$ 15,911,493	\$ 5,911,493
Term Loan A (effective May 1, 2013), bearing interest at LIBOR floor of 1.25% plus applicable margin, due April 1, 2018	15,000,000	15,000,000
Term Loan B (effective August 1, 2013), bearing interest at LIBOR floor of 1.25% plus applicable margin, due April 1, 2018	15,000,000	15,000,000
	45,911,493	35,911,493
Less embedded derivative at inception	(1,270,062)	(1,040,597)
	44,641,431	34,870,896
Less unamortized deferred financing costs	(1,528,956)	(1,679,887)
Add loan accretion	194,055	140,027
	43,306,530	33,331,036
Less current portion of loans and borrowings	375,000	375,000
<b>Long-term portion of loans and borrowings</b>	<b>\$ 42,931,530</b>	<b>\$ 32,956,036</b>

On September 25, 2012, the Company entered into a senior secured credit facility with Wells Fargo Capital Finance, part of Wells Fargo & Company ("Wells Fargo"), which provided for a revolving line of credit for up to \$20,000,000.

On April 1, 2013, the Company entered into an amended and restated credit agreement with Wells Fargo to add to its existing senior secured credit facility 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 uses 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)  
(Expressed in U.S. dollars)

Three months ended December 31, 2013 and 2012  
(Unaudited)

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## 7. Loans and borrowings (continued):

As at December 31, 2013, \$45,911,493 (September 30, 2013 – \$35,911,493) is outstanding and interest is payable monthly over the term of five years. The Company has incurred \$2,002,980 of transaction costs and has recorded these costs as deferred costs that are being amortized over the expected five-year term of the loans using the effective interest rate method. During the three months ended December 31, 2013, \$151,128 was amortized (2012 - \$32,733).

Interest is at LIBOR plus an applicable margin which was 4.5% at December 31, 2013 and September 30, 2013.

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 \$1,012,266 at December 31, 2013 (September 30, 2013 - \$900,570), using the assumption that the expected repayment of revolver will be at maturity and repayment of the term loan is per the repayment terms. The change in fair value of \$117,759 was recorded to the finance costs in the condensed consolidated interim statements of comprehensive income. The embedded derivative liability was included in other liabilities in the condensed consolidated interim statement of financial position.

The Company is required to comply with certain financial and non-financial covenants that exist under the agreement, which, if violated, could result in the amounts borrowed being due and payable to the lender on demand. The Company has assessed its debt covenants as at December 31, 2013 and determined it is in compliance.

For the three months ended December 31, 2013, interest expense of \$550,000 (2012 - \$81,468) in connection with loans payable has been 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)

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(Unaudited)

## 8. Net income per common share:

A reconciliation of the number of common shares used for purposes of calculating basic and diluted net income loss per common share for the three months ended December 31 is as follows:

	2013	2012
Basic weighted average number of common shares outstanding	95,529,355	75,446,243
Add dilutive stock options outstanding	–	–
Diluted weighted average number of common shares outstanding	95,529,355	75,446,243

Due to the losses for three months ended December 31, 2013 and 2012, all options were excluded from the calculation of diluted loss per common share as their inclusion would be anti-dilutive. The total number of options that were excluded from the calculation for the three months ended December 31, 2013 are 5,137,625 (2012 - 6,464,432).

## 9. Share capital:

### (a) Bought deal financing:

On October 23, 2012, the Company 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 \$17,557,020 (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 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 \$2,650,401 (Cdn. \$2,632,500) was raised pursuant to the Offering and the aggregate gross proceeds of the Offering is \$20,207,421 (Cdn. \$20,182,500). Transaction costs directly associated with this issuance of shares of \$1,476,031 (Cdn. \$1,474,514) have been recognized as a reduction of the proceeds.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2013 and 2012  
(Unaudited)

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## 9. Share capital (continued):

### (b) 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. No additional purchases were made in three months ended December 31, 2013 (2012 – nil). The Company classifies these shares as treasury stock until they are delivered pursuant to the terms of the awards.

During the three months ended December 31 2013, 68,418 shares with a cost of \$85,940 have been issued (2012 – 71,845 shares with a cost of \$90,245). The remaining number of treasury stock held by the Company as at December 31, 2013 is 36,708, with a cost of \$46,109 (September 30, 2013 – 138,793 with a cost of \$174,339).

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

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

	2013	2012
Trade accounts and other receivables	\$ (12,474,160)	\$ (2,957,592)
Unbilled revenue	(1,532,464)	(156,409)
Prepaid expenses	(1,088,283)	(156,330)
Inventories	(27,920)	313,339
Other assets	252,019	(269,614)
Accounts payable	125,598	2,434,505
Accrued liabilities and other liabilities	(82,838)	(1,934,177)
Deferred revenue	(5,333,805)	(238,283)
Income taxes payable	(265,637)	122,820
Other	404,506	–
	<u>\$(20,022,984)</u>	<u>\$ (2,841,741)</u>



# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2013 and 2012  
(Unaudited)

## 11. 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.

Financial assets and liabilities measured at fair value at December 31, 2013 and September 30, 2013 are summarized below:

	December 31, 2013		September 30, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (level 1)	\$ 71,149,391	\$ 71,149,391	\$ 79,054,757	\$ 79,054,757
Restricted cash (level 1)	1,026,588	1,026,588	1,011,361	1,011,361
Contingent consideration liability (level 3)	25,984,206	25,984,206	24,833,537	24,833,537
Embedded derivative liability (other liabilities) (level 2)	1,012,266	1,012,266	900,570	900,570

There were no transfers of financial assets between levels during the period ended December 31, 2013.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2013 and 2012  
(Unaudited)

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## 11. Financial instruments and capital management (continued):

Financial instruments are classified into one of the following categories: financial assets, loans and receivables, and other financial liabilities. The following table summarizes information regarding the carrying values of the Company's financial instruments:

	December 31, 2013	September 30, 2012
Financial assets at FVTPL <sup>(a)</sup>	\$ 72,175,979	\$ 80,066,118
Loans and receivables <sup>(b)</sup>	78,867,201	66,393,041
Other financial liabilities <sup>(c)</sup>	149,548,379	137,399,155

<sup>(a)</sup>Fair Value through Profit and Loss, includes cash and cash equivalents and restricted cash;

<sup>(b)</sup>Includes trade accounts and other receivables; and

<sup>(c)</sup>Includes trade payables, accrued liabilities, contingent consideration, other long-term liabilities and current and long-term portions of loans and borrowings and provisions

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

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 approximates market rates.

# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2013 and 2012  
(Unaudited)

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## 12. 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.

Revenue is attributed to geographic locations, based on the location of the external customer. The Company's revenue by geographic area for the three months ended December 31 is as follows:

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	2013	2012
Europe, Middle East and Africa	\$ 31,502,457	\$ 4,900,653
North America, Latin America and Caribbean	7,375,218	5,379,832
Asia and Pacific Rim	21,525,565	3,956,478
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	\$ 60,403,240	\$ 14,236,963

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

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	2013	2012
Revenue by type:		
Software and services	\$ 22,516,980	\$ 7,456,968
Support	32,549,359	5,962,224
Third party software and hardware	5,336,901	817,771
	<hr/>	<hr/>
	\$ 60,403,240	\$ 14,236,963

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# REDKNEE SOLUTIONS INC.

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

Three months ended December 31, 2013 and 2012  
(Unaudited)

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## 13. Commitments, guarantees and contingent liabilities:

### (a) Letters of credit:

As at December 31, 2013, the Company had \$1,026,588 (September 30, 2013 - \$1,011,361) in lease guarantees 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.