

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

REDKNEE SOLUTIONS INC.

Years ended September 30, 2014 and 2013

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

November 19, 2014
Toronto, Canada



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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, 2014 and September 30, 2013, the consolidated statements of comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, 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, 2014 and September 30, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants

November 19, 2014
Toronto, Canada

REDKNEE SOLUTIONS INC.

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

September 30, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents (note 9)	\$ 108,636,797	\$ 79,054,757
Trade accounts and other receivables (note 10)	71,393,983	66,393,041
Unbilled revenue	42,396,988	39,421,584
Prepaid expenses	4,339,650	1,943,986
Other assets (note 13)	898,871	832,516
Inventories	5,199,362	6,644,580
Total current assets	232,865,651	194,290,464
Restricted cash (note 21(b))	881,940	1,011,361
Property and equipment (note 11)	8,708,115	10,890,910
Deferred income taxes (note 18(d))	1,939,416	1,923,409
Investment tax credits (note 18(c))	416,222	378,923
Other assets (note 13)	2,089,688	3,179,724
Intangible assets (note 12)	32,819,313	38,732,447
Goodwill	7,638,590	7,638,590
Total assets	\$ 287,358,935	\$ 258,045,828
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade payables	\$ 9,538,161	\$ 15,707,464
Accrued liabilities	38,566,558	59,532,922
Provisions (note 22)	14,967,576	1,201,050
Income taxes payable	1,595,569	2,445,616
Deferred revenue	20,743,769	14,935,451
Contingent consideration (note 5(a))	14,454,527	-
Loans and borrowings (note 15)	750,000	375,000
Total current liabilities	100,616,160	94,197,503
Deferred revenue	3,601,859	4,149,940
Other liabilities	2,281,341	2,793,146
Pension and non-pension post-employment benefit obligation (note 16)	10,258,900	814,335
Contingent consideration (note 5(a))	-	24,833,537
Loans and borrowings (note 15)	45,809,713	32,956,036
Provisions (note 22)	6,608,270	-
Deferred income taxes (note 18(d))	36,016	744,652
Total liabilities	169,212,259	160,489,149
Shareholders' equity:		
Share capital	173,757,863	109,017,145
Treasury stock (note 17(h))	(21,226)	(132,050)
Contributed surplus	5,665,135	4,357,175
Deficit	(57,080,147)	(17,182,622)
Accumulated other comprehensive income (loss)	(4,174,949)	1,497,031
Total shareholders' equity	118,146,676	97,556,679
Total liabilities and shareholders' equity	\$ 287,358,935	\$ 258,045,828

Commitments, guarantees and contingent liabilities (note 21)

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, 2014 and 2013

	2014	2013
Revenue:		
Software, services and other	\$ 141,336,360	\$ 68,066,282
Support	116,361,120	73,981,190
	<u>257,697,480</u>	<u>142,047,472</u>
Cost of revenue	<u>125,911,517</u>	<u>63,114,358</u>
Gross profit	131,785,963	78,933,114
Operating expenditures:		
Sales and marketing (note 6)	37,599,559	25,133,152
General and administrative (note 6)	32,387,711	20,653,701
Research and development (note 6)	62,214,327	34,421,619
Acquisition and related costs (note 5(b))	7,197,617	12,963,575
Restructuring costs (note 22)	22,524,612	-
	<u>161,923,826</u>	<u>93,172,047</u>
Loss from operations	(30,137,863)	(14,238,933)
Foreign exchange loss	(5,590,285)	(676,151)
Other income (note 8)	4,065,422	15,814,798
Finance income (note 7(b))	45,129	31,292
Finance costs (note 7(a))	(3,047,129)	(1,011,314)
Loss before income taxes	(34,664,726)	(80,308)
Income tax expense (note 18(a)):		
Current	4,001,874	1,920,688
Deferred	1,230,925	(1,737,286)
	<u>5,232,799</u>	<u>183,402</u>
Loss for the year	(39,897,525)	(263,710)
Other comprehensive income (loss):		
Items that will not be reclassified to net income:		
Actuarial gain (loss) on pension and non-pension post-employment benefit plans, (net of income tax recovery (expense) of \$2,063,711 (2013 - (\$753,101)) (note 16(b) and 16(c))	(5,671,980)	1,483,562
Total comprehensive income (loss)	<u>\$ (45,569,505)</u>	<u>\$ 1,219,852</u>
Loss per common share:		
Basic	\$ (0.39)	\$ 0.00
Diluted	(0.39)	0.00
Weighted average number of common shares (note 17(b)):		
Basic	102,921,881	82,808,206
Diluted	102,921,881	82,808,206

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, 2014 and 2013

	Share capital		Treasury stock (note 17(h))	Contributed surplus	Deficit	Accumulated other comprehensive income (loss)	Total shareholders' equity
	Number outstanding	Amount					
Balance, September 30, 2013	95,510,022	\$ 109,017,145	\$ (132,050)	\$ 4,357,175	\$ (17,182,622)	\$ 1,497,031	\$ 97,556,679
Loss for the year	–	–	–	–	(39,897,525)	–	(39,897,525)
Defined benefit plan actuarial loss (note 16)	–	–	–	–	–	(5,671,980)	(5,671,980)
Share-based compensation	–	–	–	1,747,974	–	–	1,747,974
Treasury stock issued (note 17(h))	–	–	110,824	(110,824)	–	–	–
Stock options exercised (note 17(g))	573,192	906,884	–	(329,190)	–	–	577,694
Proceeds from public offering (note 17(d))	12,820,520	63,833,834	–	–	–	–	63,833,834
Balance, September 30, 2014	108,903,734	\$ 173,757,863	\$ (21,226)	\$ 5,665,135	\$ (57,080,147)	\$ (4,174,949)	\$ 118,146,676
Balance, September 30, 2012	64,493,004	\$ 46,543,100	\$ (264,584)	\$ 4,787,549	\$ (16,918,912)	\$ 13,469	\$ 34,160,622
Loss for the year	–	–	–	–	(263,710)	–	(263,710)
Defined benefit plan actuarial gain (note 16)	–	–	–	–	–	1,483,562	1,483,562
Share-based compensation	–	–	–	634,445	–	–	634,445
Treasury stock issued (note 17(h))	–	–	132,534	(132,534)	–	–	–
Stock options exercised (note 17(g))	1,528,518	2,682,279	–	(932,285)	–	–	1,749,994
Proceeds from public offering (note 17(d))	14,950,000	18,731,390	–	–	–	–	18,731,390
Proceeds from private placement (note 17(d))	14,538,500	41,060,376	–	–	–	–	41,060,376
Balance, September 30, 2013	95,510,022	\$ 109,017,145	\$ (132,050)	\$ 4,357,175	\$ (17,182,622)	\$ 1,497,031	\$ 97,556,679

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, 2014 and 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Loss for the year	\$ (39,897,525)	\$ (263,710)
Adjustments for:		
Depreciation of property and equipment	5,454,417	2,779,362
Amortization of intangible assets	7,046,386	3,699,363
Finance income	(45,129)	(31,292)
Finance costs	3,047,129	1,011,314
Income tax expense	5,232,799	183,402
Unrealized foreign exchange loss	1,745,691	221,878
Bargain purchase gain from acquisition (note 8)	-	(15,814,798)
Share-based compensation	1,678,600	6,065,374
Pensions	1,708,874	(23,894)
Provisions	20,374,796	1,201,050
Revaluation of contingent consideration (note 5(a))	(5,556,594)	1,271,305
Change in non-cash operating working capital (note 19)	(30,278,863)	(9,651,394)
	(29,489,419)	(9,352,040)
Interest paid	(2,408,701)	(604,653)
Interest received	49,504	40,258
Income taxes paid	(4,887,313)	(1,088,213)
	(36,735,929)	(11,004,648)
Financing activities:		
Proceeds from public offering (note 17(d))	63,833,834	18,731,390
Proceeds from private placement	-	41,060,376
Proceeds from exercise of stock options	577,694	1,749,994
Proceeds from loans and borrowings	13,500,000	30,000,000
Repayment of loans and borrowings	(750,000)	-
Transaction costs on loans and borrowings	-	(1,530,954)
	77,161,528	90,010,806
Investing activities:		
Purchase of property and equipment	(3,271,622)	(2,403,507)
Purchase of intangible assets	(1,133,252)	(493,868)
Decrease in restricted cash	129,421	(98,091)
Payment of contingent consideration (note 5(a))	(4,822,415)	-
Acquisition of business (note 5)	-	(13,612,580)
	(9,097,868)	(16,608,046)
Effect of foreign exchange rate changes on cash and cash equivalents	(1,745,691)	(221,878)
Increase in cash and cash equivalents	29,582,040	62,176,234
Cash and cash equivalents, beginning of year	79,054,757	16,878,523
Cash and cash equivalents, end of year	\$ 108,636,797	\$ 79,054,757

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, 2014 and 2013

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 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. The Company is the parent of the wholly owned operating subsidiary, Redknee Inc. and its various subsidiaries.

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 consolidated financial statements for the year ended September 30, 2014 were authorized for issuance by the Board of Directors of the Company on November 19, 2014.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

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 as available-for-sale;
- contingent consideration for business combinations that is measured each period at fair value when cash-settled;
- embedded derivative liability, which is measured at fair value;
- plan assets for defined benefit pension plan is recognized as plan assets, plus unrecognized past service cost, less the present value of the defined benefit obligation and is limited as explained in note 16; and
- cash-settled share-based payments, which are all measured at fair value.

(b) Basis of consolidation:

These consolidated 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.

(c) Functional currency:

The consolidated 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 year-end rates of exchange. Foreign exchange gains and losses are recognized in the consolidated statements of comprehensive income (loss).

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

2. Significant accounting policies (continued):

(d) Use of judgments and estimates:

The preparation of consolidated financial statements and application of IFRS often involve management's judgment and the use of estimates and assumptions deemed to be reasonable at the time they are made. The Company reviews estimates and underlying assumptions on an ongoing basis. Revisions are recognized in the year in which the estimates are revised and may impact future years as well. 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 terms.

Critical judgments in applying accounting policies:

A significant portion of the Company's revenues is generated from large, complex customer contracts. Management's judgment is applied regarding, among other aspects, the evaluation of multiple components 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 is 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 the linkage of payments of software to delivery of services.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

2. Significant accounting policies (continued):

(ii) Trade receivables:

Key sources of estimation uncertainty:

The Company monitors the financial stability of its customers and the environment in which they operate to make estimates regarding the likelihood that the individual trade receivable balances will be paid. Credit risks for outstanding customer receivables 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 carry forwards may be utilized.

(iv) Accounting for business combinations:

Key sources of estimation uncertainty:

The Company completed the BSS acquisition during the year ended September 30, 2013. The determination and measurement of fair value of the net assets and liabilities acquired are based on management's best estimates and assumptions and utilizes established methodologies.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

2. Significant accounting policies (continued):

- (v) Estimate of useful lives of property and equipment and intangible assets:

Key sources of estimation uncertainty:

Useful lives over which assets are depreciated or amortized are based on management's judgment of future use and performance. Expected useful lives are reviewed annually for any change to estimates and assumptions.

- (vi) Contingent consideration:

Key sources of estimation uncertainty:

The contingent consideration liability, arising from the acquisition of BSS is measured at fair value each year. Management's estimates are required to assess the amount of estimated contingent consideration to be paid in future years, along with the estimated timing of when such payments will be made. As additional information becomes available, the Company will reassess the estimated payments and timing at each reporting date.

- (vii) Fair value estimates of share-based compensation:

Key sources of estimation uncertainty:

Fair value of stock options is determined using the Black-Scholes option pricing model. Inputs to the model are subject to various estimates related to volatility, interest rates, dividend yields and expected life of the stock options issued. Fair value inputs are subject to market factors, as well as internal estimates. In addition to the fair value calculation, the Company estimates the expected forfeiture rate with respect to equity-settled share-based payments based on historical experience.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

2. Significant accounting policies (continued):

(viii) Pension and non-pension post-employment benefit plans:

Key sources of estimation uncertainty:

The actuarial valuation of defined benefit obligation and fair value of plan assets require estimates, including discount rates applied to the Company's pension plan and non-pension post-employment benefit liabilities.

(e) Revenue recognition:

(i) General:

The Company's revenue is derived primarily from licensing of software products under non-cancellable license 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.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

2. Significant accounting policies (continued):

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.

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 terms 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.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

2. Significant accounting policies (continued):

(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 ratably over the term of the subscription license.

(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) Post-contract customer support:

PCS revenue is recognized ratably 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.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

2. Significant accounting policies (continued):

(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:

Up-front direct costs that relate to future activity on the contract are recognized as an asset when it is probable that they will be recovered through future minimum payments specified in contractual agreements.

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

Basic net income (loss) per common share is computed by dividing net income (loss) for the year by the weighted average number of common shares outstanding during the year. Diluted net income per share is determined by adjusting the income 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 per share calculation considers the impact of employee stock options, treasury shares 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 of the instrument at fair value. Financial assets and financial liabilities, with the exception of financial assets classified 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.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

2. Significant accounting policies (continued):

Measurement in subsequent periods depends on the classification of the financial instrument:

(i) Financial assets and financial liabilities at fair value through profit or loss ("FVTPL"):

Financial assets and financial liabilities are classified at FVTPL when acquired principally for the purpose of trading, if so designated by management, or if they are derivative assets or liabilities. Financial assets and financial liabilities classified at FVTPL are measured at fair value, with changes recognized in the consolidated statements of comprehensive income (loss).

Cash and cash equivalents, restricted cash, embedded derivative liability and cash-settled contingent consideration liabilities are classified at FVTPL.

(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.

(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 or other circumstances indicate deteriorating economic conditions.

Trade accounts and other receivables are classified as loans and receivables.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

2. Significant accounting policies (continued):

(iv) Other financial liabilities:

Other financial liabilities are financial liabilities that are not derivative liabilities or classified at 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, provisions, loans and borrowings and other liabilities.

(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) Inventories:

Inventories are recorded at the lower of cost and 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. Inventories include hardware and software held by the Company and are only purchased when required by specific customer projects; the Company makes only minor modifications to the inventories before shipping to the customer.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

2. Significant accounting policies (continued):

(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	3 - 5 years or term of lease
Furniture, fixtures and lab equipment	3 - 5 years
Leasehold improvements	Shorter of term of lease or estimated useful lives

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

(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.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

2. Significant accounting policies (continued):

(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
Acquired technology	5 - 10 years
Customer relationships	9 - 10 years

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

(m) Business combinations and goodwill:

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 remeasured 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 ("IAS") 39, Financial Instruments: Recognition and Measurement ("IAS 39"), is remeasured 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.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

2. Significant accounting policies (continued):

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 12 months following the date of acquisition. Changes to the allocation of the purchase price during this measurement period are recognized retrospectively.

(n) Impairment:

At each reporting date, the Company's non-financial assets, other than inventories 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.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

2. Significant accounting policies (continued):

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 to 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.

(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. No internal development costs have been capitalized as at September 30, 2014 (2013 - nil).

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

2. Significant accounting policies (continued):

(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 year, 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.

(r) Investment tax credits ("ITCs"):

The Company is entitled to certain Canadian ITCs for qualifying research and development activities performed in Canada. The Company records ITCs when qualifying expenditures have been made, provided there is reasonable assurance that the credits will be realized. The amount of ITCs 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 carryforward period or, in some cases, are refundable. Accrued ITCs 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.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

2. Significant accounting policies (continued):

(s) Employee benefits:

(i) Termination benefits:

Termination benefits are recognized at the earlier of recognizing costs for restructuring in the scope of IAS 37, Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), that includes the payment of termination benefits and when the Company can no longer withdraw the offer of those benefits. 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) Short-term employee 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. A liability is recognized for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(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 and RSUs are settled with common shares of the Company. PSUs are settled with either cash or common shares of the Company. Compensation costs for options, RSUs and PSUs settled in equity are 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. Compensation cost for PSUs intended to be settled in cash is measured based on the fair value of the PSU liability at the reporting date.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

2. Significant accounting policies (continued):

The Company also has a deferred share units ("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.

(iv) Other long-term employee benefits:

The Company's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior years. That benefit is discounted to determine its present value, and the fair value of any related assets is deducted. The calculation is performed using the projected unit credit method. Any actuarial gains and losses are recognized in profit or loss in the year in which they arise.

(v) Defined contribution plans:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available. Contributions to a defined contribution plan that are payable more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

2. Significant accounting policies (continued):

(vi) Defined benefit plans:

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in their current and prior years. That benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted.

The calculation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognized asset is limited to the total of any unrecognized past service costs and the present value of economic benefits available from the plan or reductions in future contributions to the plan. In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to any plan in the Company. An economic benefit is available to the Company if it is realizable during the life of the plan, or on settlement of the plan's liabilities. When the benefits of a plan are increased, the portion of the increased benefit related to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

The Company recognizes all actuarial gains and losses arising from defined benefit plans immediately in other comprehensive income and all expenses related to defined benefit plans in employee benefit expense in profit or loss.

(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, 2014 and 2013

3. New accounting pronouncements:

The following new standards and interpretations have been adopted by the Company effective October 1, 2013:

(a) IFRS 10, Consolidated Financial Statements ("IFRS 10"):

IFRS 10 replaces the guidance in IAS 27, Consolidated and Separate Financial Statements and Standing Interpretation Committee 12 ("SIC-12"), Consolidation - Special Purpose Entities ("SPEs"). 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 these consolidated financial statements.

(b) IFRS 11, Joint Arrangements ("IFRS 11"):

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 assets/operations under IAS 31, Interests in Joint Ventures. 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 these consolidated financial statements.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

3. New accounting pronouncements (continued):

(c) IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"):

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 these consolidated financial statements.

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

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 comprehensive income.

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 these consolidated financial statements other than the inclusion of certain fair value disclosures.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

3. New accounting pronouncements (continued):

(e) Amendments to IAS 19, Employee Benefits ("IAS 19"):

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 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 consolidated financial statements.

(f) Amendments to IFRS 7, Offsetting Financial Assets and Liabilities ("IFRS 7"):

IFRS 7 has been amended to include additional disclosure requirements for financial assets and liabilities that can be offset in the statements 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 these consolidated financial statements.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

3. New accounting pronouncements (continued):

(g) Recent accounting pronouncements:

The IASB has issued new standards and amendments to existing standards. These changes in accounting are not yet effective at September 30, 2014 and could have an impact on future periods.

- IAS 32, Financial Instruments: Presentation ("IAS 32") - In December 2011, the IASB amended IAS 32 to clarify the meaning of when an entity has a current legally enforceable right of set-off. The amendments are effective for annual periods beginning on or after January 1, 2014 and are required to be applied retrospectively. We do not expect this to have significant impact on our consolidated financial statements.
- International Financial Reporting Interpretations Committee ("IFRIC 21"), Levies ("IFRIC 21") - In May 2013, the IASB issued IFRIC 21, which provides guidance on when to recognize a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37 and those where the timing and amount of the levy is certain. The interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with relevant legislation. It provides the following guidance on recognition of a liability to pay levies: (i) the liability is recognized progressively if the obligating event occurs over a period of time; and (ii) if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. The standard is effective for annual periods beginning on or after January 1, 2014 with early adoption permitted. We are assessing the impact of this new standard on our consolidated financial statements.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

3. New accounting pronouncements (continued):

- IFRS 9, Financial Instruments ("IFRS 9") - The IASB issued IFRS 9, which replaces IAS 39, and which establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management. It does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness; however, it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduces more judgment to assess the effectiveness of a hedging relationship. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with certain exemptions.
- IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). The IASB issued IFRS 15, which is effective for annual periods beginning on or after January 1, 2017. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time and over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The Company is in the process of assessing the impact of this standard on its consolidated 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;

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

4. Financial instruments and capital management (continued):

- 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 are summarized below:

	2014		2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents (Level 1)	\$ 108,636,797	\$ 108,636,797	\$ 79,054,757	\$ 79,054,747
Restricted cash (Level 1)	881,940	881,940	1,011,361	1,011,361
Contingent consideration liability (Level 3)	14,454,527	14,454,527	24,833,537	24,833,537
Embedded derivative liability (other liabilities) (Level 2)	688,437	688,437	900,570	900,570

There were no transfers of financial assets between levels during the years ended September 30, 2014 and 2013.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

4. 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:

	2014	2013
Financial assets at FVTPL ^(a)	\$ 109,518,737	\$ 80,066,118
Loans and receivables ^(b)	71,393,983	66,393,041
Other financial liabilities ^(c)	118,521,619	112,565,618
Financial liabilities at FVTPL ^(d)	14,454,527	24,833,537

^(a)Includes cash and cash equivalents and restricted cash;

^(b)Includes trade accounts and other receivables;

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

^(d)Includes contingent consideration.

The carrying values of trade accounts and other receivables, trade payables, accrued liabilities and provisions approximate fair values because of the short-term nature of these financial instruments.

The carrying value of contingent consideration long-term provision, and other long-term liabilities approximates the fair value.

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

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instruments. The estimates are subjective in nature and involve uncertainties and matters of judgment.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

4. Financial instruments and capital management (continued):

(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, 2014 and 2013

4. Financial instruments and capital management (continued):

(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 as at September 30 was as follows:

	2014	2013
Europe, Middle East and Africa	54%	36%
North America, Latin America and Caribbean	40%	58%
Asia and Pacific Rim	6%	6%
	100%	100%

For the year ended September 30, 2014, the Company's three largest customers accounted for 23% (2013 - 16%) of revenue. 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.

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.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

4. Financial instruments and capital management (continued):

The Company's trade receivables had a carrying value of \$67,668,223 as at September 30, 2014 (2013 - \$52,979,613), 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 varies based upon the size of the customer, type of revenue and geographic region, and generally call for payment within 30 to 120 days. At September 30, 2014, approximately 19.9% of trade receivables, or \$14,841,753 was outstanding for more than 120 days (2013 - 8% in the amount of \$4,576,236). The activity of the allowance for doubtful accounts for the year ended September 30 is as follows:

	2014	2013
Allowance for doubtful accounts, beginning of year	\$ 2,062,902	\$ 1,459,329
Allowance made	2,388,198	942,004
Write-off bad debts	(101,514)	(338,431)
Allowance for doubtful accounts, end of year	\$ 4,349,586	\$ 2,062,902

Allowance for doubtful accounts is charged to general and administrative expense. Estimates for allowance for doubtful accounts are determined on 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 going concern risks.

The Company's exposure to credit risk for trade receivables by geographic area as at September 30 was as follows:

	2014	2013
Europe, Middle East and Africa	57%	62%
North America, Latin America and Caribbean	13%	10%
Asia and Pacific Rim	30%	28%
	100%	100%

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

4. Financial instruments and capital management (continued):

(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, 2014 will mature as follows:

	Less than 1 year	1 - 2 years	2 years and thereafter
Trade payables	\$ 9,538,161	\$ –	\$ –
Accrued liabilities	38,566,558	–	–
Loans and borrowings	750,000	4,500,000	41,309,713
Contingent consideration	14,454,527	–	–
Provisions	14,967,576	3,129,303	3,478,967
Other liabilities	–	–	2,281,341
	<u>\$ 78,276,822</u>	<u>\$ 7,629,303</u>	<u>\$ 47,070,021</u>

The Company also has contractual obligations in the form of operating leases (note 21(a)).

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

(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.

REDKNEE SOLUTIONS INC.

Notes to Consolidated Financial Statements (continued)
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Years ended September 30, 2014 and 2013

4. Financial instruments and capital management (continued):

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 of \$5,590,285 during the year ended September 30, 2014 (2013 - loss of \$676,151).

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

2014	Currency of exposure in U.S. dollars		
	CAD	Euro	British Pound
Cash and cash equivalents	\$ 33,361,605	\$ 20,233,700	\$ 5,940,181
Trade accounts and other receivables	1,426,900	18,109,350	2,742,100
Restricted cash	–	881,940	–
Trade payables	(2,211,788)	(1,222,001)	–
Accrued liabilities	(11,000,518)	(3,473,587)	(12,669)
Contingent consideration	–	(14,454,527)	–
Gross exposure	\$ 21,576,199	\$ 20,074,875	\$ 8,669,612

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

4. Financial instruments and capital management (continued):

2013	Currency of exposure in U.S. dollars		
	CAD	Euro	British Pound
Cash and cash equivalents	\$ 19,635,896	\$ 14,877,976	\$ 3,479,970
Trade accounts and other receivables	120,285	49,317,069	1,475,180
Restricted cash	—	635,498	—
Trade payables	(1,302,939)	(8,651,277)	(449,353)
Accrued liabilities	(8,237,239)	(45,999,360)	(1,992,934)
Contingent consideration	—	(24,833,537)	—
Gross exposure	\$ 10,216,003	\$ (14,653,631)	\$ 2,512,863

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 \$8,561,192 (2013 - \$476,000) 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, 2014 would not be material. On the loans and borrowings, an incremental increase or decrease in the LIBOR rate by 10% will impact interest expense by approximately \$218,080.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

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 and has no externally imposed capital requirements.

5. Business acquisition:

On March 29, 2013, the Company acquired Nokia Networks' BSS business. The acquisition involved the purchase of certain assets and obligations, which include Nokia 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 Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended September 30, 2014 and 2013

5. Business acquisition (continued):

The Company completed the purchase price allocation as at September 30, 2013.

(a) Consideration transferred:

Redknee financed the transaction through a combination of cash and debt facilities. The consideration for the BSS business is €15,000,000 base amount, plus the net working capital balance 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.

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 statements of comprehensive income (loss). During the year ended September 30, 2014, an amount of \$4,822,415 was paid to the vendor. The fair value of the contingent consideration liability was \$14,454,527 as at September 30, 2014 (2013 - \$24,833,537). An amount of \$4,065,422 as at September 30, 2014 (2013 - nil) was recorded as other income to reflect changes in the estimate of fair value mainly arising from the accretion in the liability and changes due to foreign exchange revaluation of liability of \$1,491,172.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

5. Business acquisition (continued):

(b) Identifiable assets acquired and liabilities assumed:

The Company completed the purchase price allocation as at September 30, 2013. The fair values of the assets acquired and liabilities assumed upon acquisition are as follows:

	Purchase price allocation	
	(Euros)	(U.S. dollars)
Net assets acquired:		
Other receivables	€ 14,939,798	\$ 19,184,423
Property and equipment	8,207,944	10,539,947
Inventory	3,057,678	3,926,411
Accrued liabilities	(7,031,770)	(9,029,603)
Deferred revenue	(7,708,189)	(9,898,204)
Customer relationships	11,300,000	14,510,503
Acquired technology	18,500,000	23,756,133
	41,265,461	52,989,610
Bargain purchase gain	(12,315,715)	(15,814,798)
	€ 28,949,746	\$ 37,174,812
Cash consideration	€ 10,600,746	\$ 13,612,580
Contingent consideration	18,349,000	23,562,232
Total purchase consideration	€ 28,949,746	\$ 37,174,812

The Company applied significant estimates and assumptions in accounting for the acquisition of Nokia 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 Company allocated \$38,266,636 (€29,800,000) to intangible assets, including customer relationships and acquired 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 10 years for customer relationships and five years for technology. The useful lives of the intangible assets are determined as the period of time over which the assets are anticipated to contribute to the Company's future cash flows.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

5. Business acquisition (continued):

(c) Bargain purchase gain:

A bargain purchase gain of \$15,814,798 (€12,315,715) was recognized in this business combination in 2013, due to the acquisition price being less than the estimated fair market value of the net assets acquired. This was recorded in other income.

(d) Other items:

During the year ended September 30, 2014, the Company incurred acquisition and related costs of \$7,197,617 (2013 - \$12,963,575), which included expenses for legal, professional and other costs. These costs have been presented separately as acquisition and related costs in the consolidated statements of comprehensive income (loss).

6. Operating expenditures, excluding acquisition and related costs and restructuring costs:

The Company presents functional consolidated statements of comprehensive income (loss) 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.

2014	Sales and marketing	General and administrative	Research and development	Total
Personnel expenditures	\$ 26,602,544	\$ 9,738,999	\$ 44,875,661	\$ 81,217,204
Other operating expenditures	10,944,461	15,172,357	16,034,534	42,151,352
Depreciation and amortization	52,554	7,476,355	1,304,132	8,833,041
	<u>\$ 37,599,559</u>	<u>\$ 32,387,711</u>	<u>\$ 62,214,327</u>	<u>\$ 132,201,597</u>

2013	Sales and marketing	General and administrative	Research and development	Total
Personnel expenditures	\$ 17,144,268	\$ 9,591,073	\$ 23,532,845	\$ 50,268,186
Other operating expenditures	7,957,015	7,074,264	10,755,524	25,786,803
Depreciation and amortization	31,869	3,988,364	133,250	4,153,483
	<u>\$ 25,133,152</u>	<u>\$ 20,653,701</u>	<u>\$ 34,421,619</u>	<u>\$ 80,208,472</u>

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

7. Finance costs and finance income:

(a) Finance costs:

	2014	2013
Interest expense on loans and borrowings (note 15)	\$ 2,759,351	\$ 669,907
Amortization of deferred financing costs	515,520	300,590
Embedded derivative and related accretion	(380,764)	–
Interest expense others	153,022	40,817
	<u>\$ 3,047,129</u>	<u>\$ 1,011,314</u>

(b) Finance income:

Finance income includes interest income on bank accounts and term deposits of \$45,129 for the year ended September 30, 2014 (2013 - \$31,292).

8. Other income:

	2014	2013
Bargain purchase gain	\$ –	\$ 15,814,798
Revaluation of contingent consideration	4,065,422	–
	<u>\$ 4,065,422</u>	<u>\$ 15,814,798</u>

9. Cash and cash equivalents:

	2014	2013
Cash	\$ 108,356,746	\$ 78,758,567
Cash equivalents	280,051	296,190
	<u>\$ 108,636,797</u>	<u>\$ 79,054,757</u>

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

10. Trade accounts and other receivables:

	2014	2013
Trade receivables, net of allowance for doubtful accounts (note 4(b)(ii))	\$ 63,318,637	\$ 50,916,711
Other receivables (a)	7,344,753	15,048,678
Employee receivables (b)	730,593	427,652
	<u>\$ 71,393,983</u>	<u>\$ 66,393,041</u>

(a) The other receivables balance mainly includes trade receivables that were a part of the initial net working capital acquired through the BSS acquisition.

(b) Employee receivables represent advances for business travel.

11. Property and equipment:

	Computer equipment	Furniture, fixtures and lab equipment	Leasehold improvements	Total
Cost				
Balance, September 30, 2012	\$ 1,724,661	\$ 1,414,951	\$ 558,898	\$ 3,698,510
Additions	625,239	11,406,990	911,225	12,943,454
Balance, September 30, 2013	2,349,900	12,821,941	1,470,123	16,641,964
Additions	501,862	2,267,245	502,515	3,271,622
Balance, September 30, 2014	<u>\$ 2,851,762</u>	<u>\$ 15,089,186</u>	<u>\$ 1,972,638</u>	<u>\$ 19,913,586</u>
Accumulated depreciation				
Balance, September 30, 2012	\$ 1,469,252	\$ 1,231,554	\$ 270,886	\$ 2,971,692
Depreciation	186,392	2,339,149	253,821	2,779,362
Balance, September 30, 2013	1,655,644	3,570,703	524,707	5,751,054
Depreciation	217,555	4,807,005	429,857	5,454,417
Balance, September 30, 2014	<u>\$ 1,873,199</u>	<u>\$ 8,377,708</u>	<u>\$ 954,564</u>	<u>\$ 11,205,471</u>
Carrying amounts				
September 30, 2013	\$ 694,256	\$ 9,251,238	\$ 945,416	\$ 10,890,910
September 30, 2014	978,563	6,711,478	1,018,074	8,708,115

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

12. Intangible assets:

	Computer software	Acquired technology	Customer relationships	Total
Cost				
Balance, September 30, 2012	\$ 2,363,004	\$ 1,972,048	\$ 3,499,329	\$ 7,834,381
Additions	493,868	23,756,133	14,510,503	38,760,504
Balance, September 30, 2013	2,856,872	25,728,181	18,009,832	46,594,885
Additions	1,133,252	–	–	1,133,252
Balance, September 30, 2014	\$ 3,990,124	\$ 25,728,181	\$ 18,009,832	\$ 47,728,137
Accumulated amortization				
Balance, September 30, 2012	\$ 2,257,851	\$ 969,728	\$ 935,496	\$ 4,163,075
Amortization	27,199	2,587,064	1,085,100	3,699,363
Balance, September 30, 2013	2,285,050	3,556,792	2,020,596	7,862,438
Amortization	366,253	4,878,886	1,801,247	7,046,386
Balance, September 30, 2014	\$ 2,651,303	\$ 8,435,678	\$ 3,821,843	\$ 14,908,824
Carrying amounts:				
Balance, September 30, 2013	\$ 571,822	\$ 22,171,389	\$ 15,989,236	\$ 38,732,447
Balance, September 30, 2014	1,338,821	17,292,503	14,187,989	32,819,313

13. Other assets:

	2014	2013
Deferred contract costs - current (a)	\$ 898,871	\$ 832,516
Deferred contract costs - non-current (a)	1,484,559	2,599,304
Lease deposits - non-current	605,129	580,420
	2,089,688	3,179,724
	\$ 2,988,559	\$ 4,012,240

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

13. Other assets (continued):

- (a) The Company recognized up-front direct costs related to two customer contracts as an asset as it is probable that these assets will be recovered through future minimum contractual payment terms. During the year ended September 30, 2014, \$1,048,390 was amortized (2013 - \$372,946).

14. Related party transactions:

Compensation of key management personnel:

Key management personnel comprise the Company's directors and executive officers.

The aggregate remuneration of key management personnel during the year ended September 30 is as follows:

	2014	2013
Salaries and employee benefits	\$ 2,655,868	\$ 2,896,420
Share-based compensation (a)	1,611,067	4,779,076
	<u>\$ 4,266,935</u>	<u>\$ 7,675,496</u>

(a) Share-based compensation 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, 2014 and 2013

15. Loans and borrowings:

	September 30, 2014	September 30, 2013
Line of credit, bearing interest at LIBOR floor of 1.25% plus applicable margin, due April 1, 2018	\$ 19,411,493	\$ 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	14,625,000	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	14,625,000	15,000,000
	<u>48,661,493</u>	<u>35,911,493</u>
Less embedded derivative at inception	1,343,152	1,040,597
	<u>47,318,341</u>	<u>34,870,896</u>
Less unamortized deferred financing costs	1,164,367	1,679,887
Add loan accretion	405,739	140,027
	<u>46,559,713</u>	<u>33,331,036</u>
Less current portion of loans and borrowings	750,000	375,000
	<u>\$ 45,809,713</u>	<u>\$ 32,956,036</u>

On September 25, 2012, the Company had 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 for up to \$20,000,000 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 Consolidated Financial Statements (continued)
(Expressed in U.S. dollars)

Years ended September 30, 2014 and 2013

15. Loans and borrowings (continued):

As at September 30, 2014, \$48,661,493 (2013 - \$35,911,493) is outstanding and interest is payable monthly over the term of five years. In prior periods, the Company incurred \$2,002,980 of transaction costs and has recorded these costs as deferred financing costs that are being amortized over the expected five-year term of the loans using the effective interest rate method. During the year ended September 30, 2014, \$515,520 was amortized (2013 - \$300,590).

Interest is at LIBOR plus an applicable margin which was 4.5% at September 30, 2014 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 \$688,437 at September 30, 2014 (2013 - \$900,570), using the assumption that the expected repayment of this line of credit will be at maturity and repayment of the term loans are per the repayment terms. The change in fair value of \$212,133 for the year ended September 30, 2014 (2013 - nil) was recorded in finance costs in the consolidated statements of comprehensive income (loss). The embedded derivative liability was included in other liabilities in the consolidated statements of financial position.

For the year ended September 30, 2014, interest expense of \$2,759,351 (2013 - \$669,907), in connection with loans payable, has been recognized in the consolidated statements of comprehensive income (loss).

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 September 30, 2014 and September 30, 2013, and determined it is in compliance.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

16. Pension and other long-term employment benefit plans:

As a result of the acquisition of the BSS business in 2013, the Company acquired a number of employees and assumed the corresponding liabilities relating to pension and non-pension post-employment benefit plans in Germany, as well as other countries.

In Germany, there are a number of pensions and post-employment benefit plans, including a cash balance plan that provides benefits on retirement, disability and death, a salary sacrifice plan, as well as other post-employment benefit schemes. The liabilities relating to the German pension and post-employment benefit plans were fully funded by Nokia Networks as at the acquisition date of March 29, 2013. The plan assets are held in a separate Contractual Trust Arrangement with Deutsche Pensions Treuhand GmbH. The German pension plans operate under the legal framework of the German Company Pension Law and under the German Labour Law.

The other post-employment employee benefit plans relate to a number of other countries, including Austria, Bulgaria, France, Indonesia, Kuwait, Philippines, Saudi Arabia and Tanzania. These plans are generally unfunded.

The Company's pensions and post-employment benefit plans are subject to risks from changes in the market discount rate, the rate of salary and pension increases and longevity. A lower discount rate results in a higher defined benefit obligation and/or higher benefit costs.

The Company has assessed the valuation for pension and non-pension post-employment benefits. Pension fund assets are invested primarily in fixed income and equity securities. The Company's pension funds do not invest directly in the Company's shares, but may invest indirectly as a result of the inclusion of the Company's shares in certain market investment funds. These plan assets are maintained in segregated accounts by a custodian that is independent from the fund managers. The Company believes that the counterparty credit risk is low.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

16. Pension and other long-term employment benefit plans (continued):

September 30	2014	2013
German plans		
Fair value of plan assets (a)	\$ (25,793,987)	\$ (26,770,358)
Present value of obligations (b)	33,370,976	25,347,634
Total German employee benefit liability (asset)	7,576,989	(1,422,724)
Other plans		
Fair value of plan assets (a)	(137,319)	(127,561)
Present value of obligations (b)	2,819,230	2,364,620
Total other employee benefit liability	2,681,911	2,237,059
Total employee benefit liability	\$ 10,258,900	\$ 814,335

The following tables analyze plan assets, present value of defined benefit obligations, expense recognized in profit or loss, actuarial assumptions and other information for the German plans and other plans.

(a) Plan assets:

Plan assets comprise:

	2014			2013		
	German	Other	Total	German	Other	Total
Short-term						
Eurozone						
bonds	\$ 24,034,154	\$ –	\$ 24,034,154	\$ 25,241,082	\$ –	\$ 25,241,082
Mixed funds	1,592,572	–	1,592,572	1,504,088	–	1,504,088
Money						
market						
funds	–	137,319	137,319	–	127,561	127,561
Cash	167,261	–	167,261	25,188	–	25,188
Fair value of						
plan assets	\$ 25,793,987	\$ 137,319	\$ 25,931,306	\$ 26,770,358	\$ 127,561	\$ 26,897,919
Return on						
plan assets	\$ 246,912	\$ –	\$ 246,912	\$ (241,993)	\$ –	\$ (241,993)

All asset classes in which plan assets are invested are traded freely and have quoted market prices in an active market.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

16. Pension and other long-term employment benefit plans (continued):

(b) Movement in the present value of the defined benefit obligations:

	2014			2013		
	German	Other	Total	German	Other	Total
Defined benefit obligations at October 1	\$ 25,347,634	\$ 2,364,620	\$ 27,712,254	\$ -	\$ -	\$ -
Assumed defined benefit obligations upon acquisition at March 29, 2013	-	-	-	25,254,086	2,418,164	27,672,250
Current service cost	1,694,303	221,634	1,915,937	798,556	146,094	944,650
Curtailement gain	(166,492)	-	(166,492)	-	(125,931)	(125,931)
Interest costs	965,833	140,743	1,106,576	426,485	57,094	483,579
Contribution by plan participants	70,167	-	70,167	91,211	-	91,211
Benefits paid	-	(163,321)	(163,321)	-	(40,134)	(40,134)
Plan settlements	-	-	-	-	(57,243)	(57,243)
Actuarial (gains) losses in other comprehensive income	7,795,862	403,653	8,199,515	(2,548,580)	69,924	(2,478,656)
Loss (gain) on movement in exchange rates	(2,336,331)	(148,099)	(2,484,430)	1,325,876	(103,348)	1,222,528
Defined benefit obligations at September 30	\$ 33,370,976	\$ 2,819,230	\$ 36,190,206	\$ 25,347,634	\$ 2,364,620	\$ 27,712,254

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

16. Pension and other long-term employment benefit plans (continued):

(c) Movement in the fair value of plan assets:

	2014			2013		
	German	Other	Total	German	Other	Total
Fair value of plan assets at October 1	\$ 26,770,358	\$ 127,561	\$ 26,897,919	\$ -	\$ -	\$ -
Plan assets acquired upon acquisition at March 29, 2013	-	-	-	25,195,074	96,373	25,291,447
Contributions paid by plan participants	70,167	-	70,167	91,211	-	91,211
Contributions paid by the employer	-	163,321	163,321	-	27,743	27,743
Benefits paid by the plan	-	(163,321)	(163,321)	-	-	-
Interest income from plan assets	1,020,043	9,758	1,029,801	426,034	3,445	429,479
Actuarial losses in other comprehensive income	-	-	-	-	-	-
Return on plan assets	(246,912)	-	(246,912)	(241,993)	-	(241,993)
Gain (loss) on movement in exchange rates	(1,819,669)	-	(1,819,669)	1,300,032	-	1,300,032
Fair value of plan assets at September 30	\$ 25,793,987	\$ 137,319	\$ 25,931,306	\$ 26,770,358	\$ 127,561	\$ 26,897,919

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

16. Pension and other long-term employment benefit plans (continued):

(d) Expense recognized in profit or loss:

	2014			2013		
	German	Other	Total	German	Other	Total
Current service cost	\$ 1,694,303	\$ 221,634	\$ 1,915,937	\$ 798,556	\$ 146,094	\$ 944,650
Curtailment gain	(166,492)	–	(166,492)	–	(125,931)	(125,931)
Finance costs	(54,210)	130,985	76,775	451	53,649	54,100
	\$ 1,473,601	\$ 352,619	\$ 1,826,220	\$ 799,007	\$ 73,812	\$ 872,819

The expense is recognized in the following line items in the consolidated statements of comprehensive income (loss):

	2014	2013
Cost of revenue	\$ 720,372	\$ 391,292
Research and development	940,194	427,427
General and administrative	38,783	–
Sales and marketing	50,096	–
Finance costs	76,775	54,100
	\$ 1,826,220	\$ 872,819

(e) Actuarial assumptions:

The determination of the value of the liabilities for defined benefit plans is based upon statistical and actuarial valuations. In particular, the present value of the defined benefit obligation is driven by financial variables (such as the discount rates or future increases in salaries) and demographic variables (such as mortality and employee turnover). The actuarial assumptions may differ significantly from the actual circumstances and could lead to different cash flows. The following are the principal actuarial assumptions:

	2014		2013	
	German	Other	German	Other
Discount rate	2.60%	7.54%	3.80%	3.10% - 9.25%
Future salary increases	2.75%	8.18%	2.75%	n/a
Future pension increases	2.00%	n/a	2.00%	n/a

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

16. Pension and other long-term employment benefit plans (continued):

Assumptions regarding future mortality are based on published statistics and mortality tables based on statistical information available in the various countries. In Germany, the Heubeck 2005G mortality tables were used. The calculation of the pension liabilities, at September 30, 2014 and September 30, 2013, in Germany, is based on a discount rate determined using the Mercer Yield Curve approach for an average duration of 20 years.

The following table shows the effects of possible changes in the actuarial assumptions on the present value of the obligation from defined benefit pension plans that are analyzed. A change in the discount rate by 50 basis points, as well as a change in the pension increase rate by 50 basis points is considered for German plans. In addition, the average duration of the obligation is shown:

Effect on defined benefit obligation	50 basis points increase	50 basis points decrease
On discount rate	\$ 30,463,307	\$ 36,459,323
On pension rate increase	35,336,244	31,360,147
Weighted average duration of defined benefit obligation	18.76	20.25

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

17. Capital stock:

(a) Authorized:

Unlimited preferred shares
Unlimited voting common shares

(b) Loss per common share:

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

	2014	2013
Basic weighted average number of common shares outstanding	102,921,881	82,808,206
Diluted weighted average number of common shares outstanding	102,921,881	82,808,206

Due to the losses for the years ended September 30, 2014 and September 30, 2013, 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 year ended September 30, 2014 is 4,655,996 (2013 - 4,762,459).

(c) Normal course issuer bid:

On May 30, 2014, the Company announced a Normal Course Issuer Bid ("NCIB") under which it may purchase up to 9,358,502 of its common shares, commencing on June 3, 2014 and terminating on June 2, 2015 or on such earlier date as the Company may complete its purchases pursuant to the notice of intention to make an 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, 2014, the Company has not purchased any common shares under this NCIB.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

17. Capital stock (continued):

(d) Bought deal financing:

- (i) On March 13, 2014, the Company completed an offering of 12,820,520 common shares (the "Common Shares") of the Company at a price of CAD \$5.85 per Common Share for aggregate gross proceeds of \$67,490,288 (CAD \$75,000,042) (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 Canaccord Genuity Corp.

The Common Shares were offered by way of a short-form prospectus filed in all provinces of Canada.

Transaction costs directly associated with this issuance of shares of \$3,656,454 (CAD \$3,750,002) have been recognized as a reduction of the proceeds.

- (ii) On October 23, 2012, the Company completed an offering of 13,000,000 Common Shares of the Company at a price of CAD \$1.35 per Common Share (the "Offering Price") for aggregate gross proceeds of \$17,557,020 (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 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 (CAD \$2,632,500) was raised pursuant to the Offering and the aggregate gross proceeds of the Offering is \$20,207,421 (CAD \$20,182,500).

Transaction costs directly associated with this issuance of shares of \$1,476,031 (CAD \$1,474,514) have been recognized as a reduction of the proceeds, resulting in net total proceeds of \$18,731,390.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

17. Capital stock (continued):

(iii) Private placement financing:

On April 18, 2013, the Company completed an offering of 14,538,500 special warrants (the "Special Warrants") of the Company at a price of CAD \$3.10 per Special Warrant for aggregate gross proceeds of \$44,230,070 (CAD \$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 Special Warrants were converted into 14,538,500 Common Shares without any additional consideration on June 26, 2013 upon the filing of the final short-form prospectus dated June 25, 2013. Transaction costs directly associated with this issuance of shares of \$3,169,694 (CAD \$3,229,110) have been recognized as a reduction of the proceeds, resulting in net total proceeds of \$41,060,376.

(e) 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 subject to vesting contingent on the achievement of performance conditions based on certain Company performance metrics. The related compensation expense is recognized over the related service period, which is based on management's best estimate of the outcome of the performance conditions.

During 2014, the Company granted 353,730 (2013 - 105,263) PSUs under the share unit plan to employees at a weighted average price of CAD \$6.28 (2013 - CAD \$1.90) per unit resulting in an expense of \$510,366 (2013 - \$3,946,569).

RSUs 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. The associated stock-based compensation is measured at fair value and is amortized over the appropriate vesting period using the straight-line method.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

17. Capital stock (continued):

During 2014, the Company granted 25,167 (2013 - 158,717) RSUs to non-directors under the share unit plan at a weighted average price of CAD \$5.42 (2013 - CAD \$2.56) per unit. In 2014, the Company recognized compensation cost of \$266,160 (2013 - \$150,223) relating to these RSUs.

Restricted Share Units	PSUs		RSUs	
	2014	2013	2014	2013
Outstanding, beginning of year	1,065,268	990,645	514,752	390,637
Settled in cash	(1,065,268)	—	—	—
Settled in equity	—	—	(88,228)	—
Granted	353,730	105,263	25,167	158,717
Forfeited	—	(30,640)	—	(34,602)
Outstanding, end of year	353,730	1,065,268	451,691	514,752

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.

(f) 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. DSU grants and vesting conditions are at the discretion of the Board of Directors. An eligible director may elect to receive their annual cash remuneration in the form of DSUs, cash or any combination thereof. DSUs are classified as cash-settled share-based compensation and are remeasured to fair value at each reporting year.

An eligible director 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, 2014 and 2013

17. Capital stock (continued):

During 2014, the Company recorded compensation cost reduction of \$69,374 (2013 - expense of \$1,552,017). The value of the liability related to the DSUs as at September 30, 2014 was \$1,513,423 (2013 - \$1,738,021) and is included in other long-term liabilities.

Deferred Share Units	2014	2013
Outstanding, beginning of year	341,785	244,147
Granted	108,485	132,036
Exercised	—	(34,398)
Outstanding, end of year	450,270	341,785

(g) 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, 2014 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 10% of the issued and outstanding common shares of the Company on the date of grant. The total number of stock options outstanding under the current plan does not exceed this threshold.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

17. Capital stock (continued):

(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.

	CAD stock options		GBP stock options	
	Number of stock options	Weighted average exercise price per share	Number of stock options	Weighted average exercise price per share
Outstanding, September 30, 2012	6,124,787	\$ 1.05	230,000	£ 0.54
Granted	325,000	1.90	—	—
Exercised	(1,445,518)	1.19	(83,000)	0.60
Forfeited	(388,810)	1.21	—	—
Outstanding, September 30, 2013	4,615,459	1.05	147,000	0.51
Granted	1,296,117	5.86	—	—
Exercised	(561,192)	1.12	(12,000)	0.44
Forfeited	(766,138)	1.13	(63,250)	0.59
Outstanding, September 30, 2014	4,584,246	2.39	71,750	0.45

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

17. Capital stock (continued):

Summary information about stock options outstanding and exercisable as at September 30, 2014 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, 2014):

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	25,000	4.20	25,000	4.20
CAD \$0.36	0.36	765,500	4.45	765,500	4.45
GBP £0.41	0.67	40,000	3.75	40,000	3.75
GBP £0.44	0.72	28,000	3.31	28,000	3.31
GBP £0.93	1.54	3,750	2.74	3,750	2.74
CAD \$1.10	1.10	1,567,500	4.86	430,000	4.86
CAD \$1.18	1.18	112,500	3.84	81,250	3.84
CAD \$1.21	1.21	62,802	1.04	62,802	1.04
CAD \$1.24	1.24	4,375	2.12	4,375	2.12
CAD \$1.25	1.25	275,000	4.87	275,000	4.87
CAD \$1.35	1.35	30,000	3.36	22,500	3.36
CAD \$1.37	1.37	80,000	5.87	80,000	5.87
CAD \$1.50	1.50	50,000	3.17	8,750	3.17
CAD \$1.90	1.90	325,000	5.18	32,500	5.18
CAD \$4.55	4.55	322,366	6.61	–	6.61
CAD \$6.30	6.30	964,203	6.20	–	6.20
		4,655,996	5.10	1,859,427	4.48

The common share price of the Company as at September 30, 2014 was CAD \$3.77 (2013 - CAD \$5.23) per share.

(ii) Fair values and stock-based compensation expense:

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 1.7% (2013 - 1.5%); dividend yield of nil (2013 - nil); volatility of 47.5% (2013 - 58.2%); and expected lives of stock options of five years (2013 - five years). The fair value of the stock options is expensed over the vesting period of the stock options using the straight-line method.

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

17. Capital stock (continued):

During 2014, the Company recorded a stock-based compensation of \$971,448 (2013 - \$480,381) related to stock options granted under this Plan.

(h) 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 2013 and 2014. The Company classifies these shares as treasury stock until they are delivered pursuant to the terms of the awards.

During the year ended September 30, 2014, 88,228 shares with a cost of \$110,824 have been issued (2013 - 105,512 shares with a cost of \$132,534). The remaining number of treasury stock held by the Company as at September 30, 2014 is 16,898 with a cost of \$21,226 (2013 - 105,126 with a cost of \$132,050).

18. Income tax expense:

(a) Income tax expense recognized in profit or loss:

	2014	2013
Current income tax expense:		
Current year	\$ 5,176,922	\$ 1,807,540
Adjustment for prior years	(1,175,048)	113,148
	<u>4,001,874</u>	<u>1,920,688</u>
Deferred income tax expense (recovery):		
Origination and reversal of temporary differences	1,383,295	(128,083)
Utilization of previously recognized tax assets	72,748	475,556
Recognition of previously unrecognized tax assets	(225,118)	(2,084,759)
	<u>1,230,925</u>	<u>(1,737,286)</u>
Total income tax expense	\$ 5,232,799	\$ 183,402

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

18. Income tax expense (continued):

(b) Reconciliation of effective income 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 loss before income taxes. These differences result from the following items:

	2014	2013
Loss before income taxes	\$ (34,664,726)	\$ (80,308)
Statutory income tax rate	26.50%	26.50%
Expected income tax recovery based on loss before income taxes	\$ (9,186,152)	\$ (21,282)
Increase (decrease) in income taxes resulting from:		
Non-taxable/deductible items	800,538	(55,730)
Differences due to different income tax rates for foreign subsidiaries	141,081	15,853
Impact of changes to income tax rates	79,021	–
Change in unrecognized temporary differences and prior year losses	12,084,071	(516,757)
Impact of foreign exchange, withholding tax, and other items	1,314,240	761,318
Income tax expense	\$ 5,232,799	\$ 183,402

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

18. Income tax expense (continued):

(c) Unrecognized deferred tax assets:

The Company has approximately \$83,700,000 (2013 - \$52,400,000) of unrecognized loss carryforwards and other deductible temporary differences. As of September 30, 2014, management has not recognized these deferred tax assets in certain jurisdictions as it is not probable that the benefit of these assets can be realized in the foreseeable future. Management will continue to monitor the situation and revise its estimates as appropriate.

Included in the above amount is \$35,300,000 (2013 - \$4,600,000) of Canadian unclaimed scientific research and experimental development ("SR&ED") expenditures and federal non-capital losses, which are available to reduce future years' income for Canadian income tax purposes.

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

2031	\$ 500,000
2034	29,000,000
	<hr/>
	\$ 29,500,000

In 2014, the Company recognized nil (2013 - \$22,300,000) of previously unrecognized Canadian unclaimed SR&ED expenditures and federal non-capital losses against future tax liabilities arising from the bargain purchase gain on the BSS acquisition and nil of previously unrecognized non-capital losses from foreign subsidiaries. In 2013, \$7,000,000 of unrecognized non-capital losses from foreign subsidiaries (which do not expire), were recognized as their availability was no longer in doubt.

The Company has approximately \$8,100,000 (2013 - \$9,000,000) of Canadian ITCs, 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 previously recorded \$416,222 (2013 - \$378,923) 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, 2014 and 2013

18. Income tax expense (continued):

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

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

	Corporate minimum taxes and other deductions	Unclaimed SR&ED expenditures and non- capital losses	Intangible assets	Pensions	Set-off of deferred tax assets and liabilities	Total
Deferred income tax assets:						
Balance, September 30, 2013	\$ 294,673	\$ 8,371,019	\$ —	\$ —	\$ (6,742,283)	\$ 1,923,409
Credited (charged) to loss before income tax expense	(20,152)	(123,899)	—	—	—	(144,051)
Credited (charged) to income tax expense	225,118	(1,924,075)	—	—	—	(1,698,957)
Credited to other comprehensive loss	—	—	—	1,310,610	—	1,310,610
Set-off of deferred tax assets and liabilities	—	—	—	—	548,405	548,405
Balance, September 30, 2014	\$ 499,639	\$ 6,323,045	\$ —	\$ 1,310,610	\$ (6,193,878)	\$ 1,939,416
Deferred income tax liabilities:						
Balance, September 30, 2013	\$ —	\$ —	\$ (6,733,834)	\$ (753,101)	\$ 6,742,283	\$ (744,652)
Charged to loss before income tax expense	—	—	5,183	30,725	—	35,908
Credited (charged) to income tax expense	—	—	1,809,367	(1,341,335)	—	468,032
Credited to other comprehensive loss	—	—	—	753,101	—	753,101
Set-off of deferred tax assets and liabilities	—	—	—	—	(548,405)	(548,405)
Balance, September 30, 2014	\$ —	\$ —	\$ (4,919,284)	\$ (1,310,610)	\$ 6,193,878	\$ (36,016)

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

18. Income tax expense (continued):

	Corporate minimum taxes and other deductions	Unclaimed SR&ED expenditures and non- capital losses	Intangible assets	Pensions	Set-off of deferred tax assets and liabilities	Total
Deferred income tax assets:						
Balance, September 30, 2012	\$ 399,286	\$ 851,635	\$ —	\$ —	\$ (591,661)	\$ 659,260
Applied to income taxes payable	(92,781)	—	—	—	—	(92,781)
Credited (charged) to loss before income tax expense	(11,832)	5,563	—	—	—	(6,269)
Credited to income tax expense	—	7,513,821	—	—	—	7,513,821
Set-off of deferred tax assets and liabilities	—	—	—	—	(6,150,622)	(6,150,622)
Balance, September 30, 2013	\$ 294,673	\$ 8,371,019	\$ —	\$ —	\$ (6,742,283)	\$ 1,923,409
Deferred income tax liabilities:						
Balance, September 30, 2012	\$ —	\$ —	\$ (999,817)	\$ —	\$ 591,661	\$ (408,156)
Credited to loss before income tax expense	—	—	42,518	—	—	42,518
Charged to income tax expense	—	—	(5,776,535)	—	—	(5,776,535)
Charged to other comprehensive income	—	—	—	(753,101)	—	(753,101)
Set-off of deferred tax assets and liabilities	—	—	—	—	6,150,622	6,150,622
Balance, September 30, 2013	\$ —	\$ —	\$ (6,733,834)	\$ (753,101)	\$ 6,742,283	\$ (744,652)

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

19. Change in non-cash operating working capital:

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

	2014	2013
Trade accounts and other receivables	\$ (5,005,317)	\$ (36,822,945)
Unbilled revenue	(2,975,404)	(27,296,495)
Prepaid expenses	(2,395,664)	(1,144,085)
Inventories	1,445,218	(2,137,997)
Other assets	1,023,681	(192,660)
Trades payable	(6,169,303)	13,950,932
Accrued liabilities and other liabilities	(21,568,547)	41,584,443
Deferred revenue	5,260,237	1,850,426
Income taxes payable	106,236	556,987
	<u>\$ (30,278,863)</u>	<u>\$ (9,651,394)</u>

20. 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:

	2014	2013
Europe, Middle East and Africa	\$ 115,635,827	\$ 77,762,519
North America, Latin America and Caribbean	26,652,048	24,229,877
Asia and Pacific Rim	115,409,605	40,055,076
	<u>\$ 257,697,480</u>	<u>\$ 142,047,472</u>

REDKNEE SOLUTIONS INC.

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

Years ended September 30, 2014 and 2013

20. Segment reporting (continued):

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

	2014	2013
Revenue by type:		
Software and services	\$ 117,009,205	\$ 61,202,512
Support	116,361,120	73,981,190
Third party software and hardware	24,327,155	6,863,770
	<u>\$ 257,697,480</u>	<u>\$ 142,047,472</u>

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

	2014	2013
Canada	\$ 1,016,789	\$ 1,467,762
Germany	4,647,813	6,171,040
India	1,556,573	2,214,845
Poland	650,392	756,515
Croatia	148,360	100,173
Spain	44,733	78,650
Other	643,455	101,925
	<u>\$ 8,708,115</u>	<u>\$ 10,890,910</u>

The Company's intangible assets by geographic area are as follows:

	2014	2013
Canada	\$ 20,210,269	\$ 24,956,848
United Kingdom	12,324,547	13,775,599
Other	284,497	—
	<u>\$ 32,819,313</u>	<u>\$ 38,732,447</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, 2014 and 2013

21. 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 year ended September 30, 2014 were \$4,550,969 (2013 - \$2,612,782). 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, 2014 are as follows:

2015	\$ 4,700,805
2016	3,527,426
2017	3,137,698
2018	2,707,874
2019 and thereafter	1,522,791
	<hr/>
	\$ 15,596,594

(b) Letters of credit:

As at September 30, 2014, the Company had \$ 881,940 in lease guarantees which are secured by restricted cash, shown separately in the consolidated statements of financial position. At September 30, 2013, the Company had \$1,011,361 in outstanding letters of credit relating to customer contracts, which were secured by restricted cash, shown separately in the consolidated statements of financial position. This restriction was released in 2014.

(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, 2014 and 2013

22. Provisions:

	Restructuring (a)		Other	Total
Opening balance, September 30, 2012	\$	–	\$	–
Additions during the year			1,201,050	1,201,050
Opening balance, September 30, 2013		–	1,201,050	1,201,050
Additions during the year	22,524,612		–	22,524,612
Cash payments	(444,848)		–	(444,848)
Transfer to trade payable	–		(1,201,050)	(1,201,050)
Foreign exchange	(503,918)		–	(503,918)
Closing balance, September 30, 2014	\$ 21,575,846	\$	–	\$ 21,575,846
Current				\$ 14,967,576
Non-current				6,608,270
Total at September 30, 2014				\$ 21,575,846

(a) In August 2014, the Company announced that it would eliminate satellite office locations, concentrate research and development and support staff into existing locations and consolidate activities to lower costs centres. The Company also announced restructuring actions throughout the organization intended to reduce its overall cost structure and improve its margin performance. In connection with these plans, the Company recorded restructuring charges of \$22,524,612 during the year for primarily employee termination costs. Of this amount, \$444,848 has been paid up to September 30, 2014, and an amount of \$14,967,576 is estimated as payable within one year. The balance of the provision, classified as long-term is payable over five years and amounts to \$6,608,270, and has been discounted. The accretion expense of the long-term provision will be included in finance costs.

The recognition of restructuring charges required management to make certain judgments and estimates regarding the nature, timing and amounts associated with the restructuring actions. Management's major assumptions included the timing and number of employees to be terminated and the measurement of termination costs. The Company developed a detailed plan and has recorded termination costs for employees informed of their termination. At the end of each reporting year, management will evaluate the appropriateness of the restructuring charges and provision balances. Further adjustments may be required to reflect actual experience or changes in estimates.