SUBEX AMERICAS INC

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2015

(ALL AMOUNTS ARE STATED IN US DOLLARS)

SUBEX AMERICAS INC

CONSOLIDATED BALANCE SHEET

AS AT MARCH 31, 2015

(ALL AMOUNTS ARE STATED IN US DOLLARS)

	2015	2014
ASSETS		
Current		
Cash and cash equivalents	$ 61,242	$ 86,556
Accounts receivable	78,852	373,154
Unbilled receivables	64,420	37,060
Other receivables	-	2,991
Prepaid expenses and sundry	7,996	12,907
	$ 212,510	$ 512,668
LIABILITIES		
Current		
Current portion of loans payable (note 4)	$ 3,500,000	$ -
Accounts payable and accrued liabilities (note 5)	3,111,266	2,396,401
	6,611,266	2,396,401
Loans payable (note 4)	8,500,000	12,000,000
Due to shareholder (note 6)	27,973,867	31,412,974
	43,085,133	45,809,375
SHAREHOLDER'S EQUITY		
Share capital (note 7)	87,745,719	87,745,719
Additional paid-in-capital	27,912,335	27,912,335
Capital reserve	7,319,222	7,319,222
Other comprehensive loss - cumulative translation adjustment	(82,713)	(82,713)
Deficit	(165,767,186)	(168,191,270)
	(42,872,623)	(45,296,707)
	$ 212,510	$ 512,668

Approved:

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See accompanying notes.

SUBEX AMERICAS INC

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

FOR THE YEAR ENDED MARCH 31, 2015

(ALL AMOUNTS ARE STATED IN US DOLLARS)

	2015	2014
Revenue	$ 6,357,782	$ 4,781,508
Operating Expenses		
Subcontracting charges	1,187,793	1,855,137
Salaries, wages, and benefits	432,812	664,270
Sales support and consulting	956,147	1,286,139
General and adminstrative	58,588	60,367
Travel and entertainmet	137,420	33,389
Repairs and maintenance	15,636	18,980
Professional fees	20,658	117,367
Bad debts recovered	(18,240)	(636,838)
	2,790,814	3,398,811
Income from operations	3,566,968	1,382,697
Interest expense (note 8)	1,395,808	1,336,093
Other expenses	40,379	24,429
Foreign currency exchange gain	(293,303)	(88,538)
Net income for the year	2,424,084	110,713
Deficit, beginning of year	(168,191,270)	(168,301,983)
Deficit, end of year	$ (165,767,186)	$ (168,191,270)

See accompanying notes.

SUBEX AMERICAS INC

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2015

(ALL AMOUNTS ARE STATED IN US DOLLARS)

	2015	2014
Cash flows from (used in) operating activities		
Net income for the year	$ 2,424,084	$ 110,713
Changes in non-cash working capital		
Decrease (increase) in accounts receivable	294,301	(194,620)
Decrease (increase) in unbilled receivables	(27,360)	64,620
Decrease (increase) in other receivables	2,991	-
Decrease (increase) in prepaid expenses and sundry	4,911	2,408
Increase (decrease) in accounts payable and accruals	714,876	630,494
Increase (decrease) in deferred revenue	-	(317,114)
	3,413,803	185,788
Cash flows from (used in) financing activities		
Advances from (to) shareholder	(3,439,117)	(613,638)
	(3,439,117)	(613,638)
Net increase (decrease) in cash and cash equivalents	(25,314)	(317,137)
Cash and cash equivalents, beginning of year	86,556	403,693
Cash and cash equivalents, end of year	$ 61,242	$ 86,556

See accompanying notes.

1. Nature of operations

Subex Americas Inc., formerly Syndesis Limited (the “Company”), is a leading provider of software solutions for data communications providers including IPTV, Virtual Private Networks, and Voice-over IP Networks. The Company offers a comprehensive solution with its Net Provision suite. This suite is designed for multi-vendor, multi-technology environments and provides data communications providers with the ability to deliver high margin, highly customized services employees. The Company is a wholly owned subsidiary of Subex Limited (the “Shareholder”) who is publicly traded on the National Stock Exchange of India, the Bombay Stock Exchange, and the London Stock Exchange. The Company was acquired on April 1, 2007 and changed its name from Syndesis Limited to Subex Americas Inc. at that time.

2. Going concern and management’s plans

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the payments of liabilities in the ordinary course of business. Should the Company be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and to meet its liabilities as they become due. During the year, the Company had revenue of $6,357,782 (2014 - $4,781,508) and a net income of $2,424,084 (2014 - $110,713), an accumulated deficit of $165,767,186 (2014 - $168,191,270), and a working capital deficiency of $6,398,756 (2014 - $1,883,733). The Company’s ability to continue as a going concern is dependent upon its ability to attain profitable operations and generate funds there from, and to continue to obtain borrowings from third parties and the parent company sufficient to meet current and future obligations and/or restructure the existing debt and payables. The Company has received a written letter of support from the shareholder who maintains the intent and ability to operate the Company as a going concern for the foreseeable future. These financial statements do not reflect the adjustments or reclassification of assets and liabilities which would be necessary if the Company were unable to continue its operations. Management has identified opportunities to improve revenue and will also to look for additional financing other than the continuous support from the parent company.

3. Significant accounting policies

The consolidated financial statements are expressed in United States Dollars (“US Dollars”) and are prepared in accordance with the accounting principles generally accepted in the United States of America and include the following significant accounting policies:

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reported periods. The accounting estimates that require management’s most significant judgment include the recognition of revenue and the valuation of receivables and accounts payable and accrued liabilities. Actual results could differ materially from these estimates.

Accounts receivable

Accounts receivable consist mainly of receivables from customers who have entered into a contract for services to be provided by the Company. The accounts receivable are recorded at the invoiced or contracted amount and do not bear interest. An allowance for doubtful accounts is recognized against the accounts receivable balance for uncollectable amounts due from customers. The Company has recorded an allowance for doubtful accounts of $437,935 (2014 - $453,543).

Revenue recognition

Revenue is recognized when it can be measured and collectability is reasonably assured. The revenue recognition policies for the significant lines of business are as follows:

The Company's core competency is in the application of sophisticated software technology for configuring, controlling, and analyzing communications infrastructure networks for telecommunication providers. The Company recognizes revenue in accordance with the provisions of ASC 985-605, "Software Revenue Recognition".

The Company's revenues are derived from product elements, comprised primarily of license fees and upgrades and royalties from technology licenses, and service elements, which can include post-contract customer support ("PCS"), consulting, installation and training.

The Company recognizes revenue only when all of the following criteria are met:
Persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable. For contracts with multiple elements, the Company allocates revenue to the undelivered elements of a contract based on vendor specific objective evidence ("VSOE") of fair value of those elements.

Product elements are recognized pursuant to a contract, when each element is delivered to the customer and the fee is fixed or determinable and collection of the related receivable is probable. If the fee due from the customer is not fixed or determinable, revenue is recognized as payments become due from the customer. If collectability is not considered probable, revenue is recognized when the fee is collected. Revenue from arrangements with customers who are not the ultimate users (primarily resellers) is recognized when the product is delivered, the fee is fixed or determinable, collection is probable and no significant Company obligations remain.

Service elements include PCS, which is generally paid in advance, is non-refundable, and is recognized ratably over the term of the agreement which is typically twelve months. Revenues from consulting, installation, and training services are recognized when the services are performed.

Product and service elements that have been prepaid but do not yet qualify for recognition as revenue under the Company's revenue recognition policy are reflected as deferred revenue on the Company's consolidated balance sheet.

Unbilled receivables and deferred revenue

Under certain customer contracts, the Company invoices progress billings once certain milestones are met. The milestone terms vary by customer and can include upon receipt of the customer purchase order, delivery, installation, and launch. As the systems are delivered, and services are performed, and all of the criteria for revenue recognition are satisfied, the Company recognizes revenue. If the amount of revenue recognized for financial reporting purposes is greater than the amount invoiced, an unbilled receivable is recorded. If the amount invoiced is greater than the amount of revenue recognized for financial reporting purposes, deferred revenue is recorded. Deferred revenue also includes prepayment of extended maintenance and supports contracts.

Foreign currency transactions

The Company's functional currency is US dollars. Due to the nature of its operations, the Company regularly enters into transactions that are denominated in foreign currencies. For these transactions, a realized foreign exchange gain or loss is recognized on the income statement at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the balance sheet date.

Deferred income taxes

The Company accounts for income taxes under "Accounting for Income Taxes" under US GAAP. The deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year which those temporary differences are expected to be recovered or settled. The effect of deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are expected more likely to be realized in the future.

Recent accounting pronouncements

In October 2009, the Financial Accounting Standards Board ("FASB") issued new revenue recognition standards which eliminate the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management's estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. These standards are effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the impact, if any, that the adoption of this amendment may have on its financial statements.

In June 2009, the FASB also issued FASB ASC 805 (SFAS 167), Amendments to FASB Interpretation 46(R), which is effective for the Company on January 1, 2010. It amends FIN 46(R) to require an enterprise to perform an analysis to determine whether the enterprise's VIEs give it a controlling financial interest in a VIE. This analysis identifies the primary beneficiary of a VIE as the enterprise that has both of the following characteristics: (a) The power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (b) The obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest equity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a VIE operates as designed when determining whether it has the power to direct the activities of the VIE that most significantly impact the entity's economic performance. In contrast to FIN 46(R), FASB ASC 805 (SFAS 167) requires ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE. It also amends the events that trigger a reassessment of whether an entity is a VIE and requires enhanced disclosures with more transparent information about an enterprise's involvement in a VIE. The Company does not expect the adoption of this standard will have an impact on its financial statements.

In June 2009, the FASB also issued FASB ASC 860 (SFAS 166), Accounting for Transfers of Financial Assets an amendment of FASB Statement No.140, which is effective for the Company on January 1, 2010. On and after the effective date, the concept of a qualifying special purpose entity (QSPE) is no longer relevant for accounting purposes. Therefore, former QSPEs (as defined under previous accounting standards) would be evaluated for consolidated on and after the effective date in accordance with the applicable consolidation guidance. Furthermore, the disclosure provisions of FASB ASC 805 (SFAS 166) will be applied to transfers that occurred both before and after the effective date. The Company does not expect the adoption of this standard will have an impact on its financial statements.

On April 9, 2009, the FASB issued three FASB Staff Positions (FSPs) in order to provide additional application guidance and to enhance disclosure regarding fair value measurements and other-than-temporary impairment of securities, as follows:

FASB ASC 820-10-65 (FSP FAS 157-4), "Determining Fair Value when the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly", provides additional factors to consider when measuring the fair value of an asset or liability when there has been a significant decrease in the level of market activity for the instrument and quoted prices are associated with transactions that are not considered to be orderly. It also expands the disclosure requirements for the fair value of financial instruments.

FASB ASC 320-10-65-1 (FSP FAS 115-2 and FAS 124-2), "Recognition and Presentation of Other-than-temporary Impairment" (OTTI), amends the impairment assessment guidance and recognition principles of OTTI for debt securities and enhances the presentation and disclosure requirements for debt and equity securities. The FSP requires an entity to recognize an OTTI when the entity intends to sell the security, it is more likely than not that it will be required to sell the security before recovery, or when the entire amortized cost basis of the security will not be recovered. When an entity intends to sell the security, or more likely than not will be required to sell the security, before recovery of its amortized cost basis less any current period credit loss, the OTTI is recognized in earnings equal to the difference between fair value and amortized cost at the balance sheet date. In all other situations, the impairment is separated into an amount representing credit loss and amount relating to all other factors. The impairment related to credit loss is recognized in earnings and impairment related to other factors is recognized in other comprehensive income.

The Company does not expect that the addition of the FSP's will have an impact on its financial statements.

50-30 (FSP 142-3) amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB ASC 350 (SFAS 142).

In April 2008, the FASB issued FASB 350-30 (FSP142-3), "Determination of the Useful Life of Intangible Assets". FASB 350-30 (FSP 142-3) amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB ASC 350 (SFAS 142), “Goodwill and Other Intangible Assets”. The objective of FASB 350-30 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R, “Business Combinations”, and other U.S. generally accepted accounting principles. These standards were effective beginning in fiscal year 2010. The Company has evaluated the impact that this FSP has on its financial statements and disclosures and does not consider it to be material.

In June 2009, the Financial Accounting Standards Board (“FASB”) approved the FASB Accounting Standards Codification (“the Codification” or “FASB ASC”) as the single source of authoritative nongovernmental generally accepted accounting principles (“GAAP”). All existing accounting standard documents, such as FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force, and other related literature excluding guidance from the Securities and Exchange Commission (“SEC”), have been superseded by the Codification. All other non-grandfathered, non-SEC accounting literature not included in the Codification has become non-authoritative. The Codification did not change GAAP, but instead introduced a new structure that combines all authoritative standards into a comprehensive, topically organized online database. The Codification is effective for interim or annual periods ending after September 15, 2009. The Company has evaluated the impact that this pronouncement has on its financial statements and disclosures and does not consider it to be material.

In August 2009, the FASB issued Accounting Standards Update (“ASU”) No. 2009-05, Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value (“ASU 2009-05”). ASU 2009-05 provides clarification in measuring the fair value of liabilities in circumstances in which a quoted price in an active market for the identical liability is not available and in circumstances in which a liability is restricted from being transferred. This ASU also clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. The Company has evaluated the impact that this pronouncement has on its financial statements and disclosures and does not consider it to be material.

In June 2009, the FASB issued guidance now codified as ASC Topic 810, Consolidation (“ASC Topic 810”), which amends the evaluation criteria to identify the primary beneficiary of a variable interest entity (“VIE”) and requires ongoing reassessment of whether an enterprise is the primary beneficiary of the VIE. ASC Topic 810 significantly changes the consolidation rules for VIEs including the consolidation of common structures, such as joint ventures, equity method investments, and collaboration arrangements. The guidance is applicable to all new and existing VIEs. The provisions of ASC Topic 810 are effective for interim and annual reporting periods ending after November 15, 2009. The Company has evaluated the impact that this pronouncement has on its financial statements and disclosures and does not consider it to be material.

In May 2009, the FASB issued guidance now codified as ASC Topic 855, Subsequent Events (“ASC Topic 855”), which established a general standard of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company has evaluated the impact that this pronouncement has on its financial statements and disclosures and does not consider it to be material.

(ALL AMOUNTS ARE STATED IN US DOLLARS)

In June 2006, the FASB issued FIN No.48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No.109 ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No.109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition, and defines the criteria that must be met for the benefits of a tax position to be recognized. The cumulative effect of the change in accounting principle must be recorded as an adjustment to opening retained earnings. The Company has adopted FIN No.48 and determined that such adoption did not have a material impact on its consolidated financial statements.

4. Loans payable

Loans payable consist of the following:

A loan for $6,000,000 from Manchester Securities Corp. which bears interest at 10.5% and is due $1,750,000 in September 2015, $3,250,000 in August 2016, and $1,000,000 in June 2017. The loan is guaranteed by Subex (UK) Limited.

A loan for $6,000,000 from QVT Fund which bears interest at 10.5% and is due $1,750,000 in September 2015, $3,250,000 in August 2016, and $1,000,000 in June 2017. The loan is guaranteed by Subex (UK) Limited.

5. Accounts payable and accrued liabilities

	2015	2014
Sales tax payable	$ 928,444	$ 928,919
Loan interest payable	2,018,841	1,081,136
Other payables	163,981	386,346
	$ 3,111,266	$ 2,396,401

6. Due to shareholder

The amount due to the shareholder Subex Limited has no set repayment terms and does not bear any interest. The shareholder has indicated that there will be no demand for repayment within the next fiscal year, so the amount has been classified as a long-term liability.

7. Share capital

The share capital consists of 100 shares of common stock issued (authorized: unlimited).

8. Interest paid

The amount of interest paid for the year was $1,395,808 (2014 - $1,336,093).

(ALL AMOUNTS ARE STATED IN US DOLLARS)

9. Income taxes

The Company has made no provision for income taxes as the Company has income but also has losses carried forward. Deferred tax assets are to be reduced by a valuation allowance if, based on the weight of available positive and negative evidence, it is more likely that not (a likelihood of greater than 50 percent) that some portion or all of the deferred tax assets will not be realized. Realization of the future tax benefits related to deferred tax assets are dependent on many factors, including the Company's ability to generate taxable income within the net operating loss carry forward period. Management has considered these factors in reaching its conclusion that a valuation allowance for financial reporting purposes will be recorded. Management has reached this decision based on the fact that they believe that it is not likely the Company will realize substantially all of the deferred tax asset because they do not expect to generate sufficient levels of income. The Company has a potential deferred tax asset of $22,906,929 (2014 - $23,549,311) based on a tax rate of 26.5%. The significant components of the Company's deferred tax asset are as follows:

The Company has accumulated non-capital loss carry forwards of $86,441,240 (2014 - $88,865,324) which are available to offset future taxable income and were incurred as follows (the losses can be carried forward for 20 years from the date incurred):

	2015	2014
2006	$ 323,138	$ 2,747,222
2007	33,390,406	33,390,406
2008	26,272,002	26,272,002
2009	9,114,402	9,114,402
2010	12,136,588	12,136,588
2011	1,494,785	1,494,785
2012	890,285	890,285
2013	2,819,634	2,819,634
	$ 86,441,240	$ 88,865,324

The Company adopted new accounting guidance issued by the FASB related to the application of accounting for uncertainty in income taxes. Under this guidance, the Company assesses the likelihood of the financial statement effect of a tax position that should be recognized when it is more likely than not that the position will be sustained upon examination by a taxing authority based on the technical merits of the tax position, circumstances, and information available as of the reporting date. Management has assessed the impact of this guidance as it relates to the Company's operations and there was no impact to the financial statements as a result of implementing this guidance. There are no current tax positions that would result in an asset or liability for taxes being recognized in the United States as any such taxes are the responsibility of the individual members.

10. Financial instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, unbilled receivables, prepaid expenses and sundry, loans payable, accounts payable and accrued liabilities, and due to shareholder.

The fair value of cash and cash equivalents, accounts receivable, unbilled receivables, prepaid expenses and sundry, loans payable, and accounts payable and accrued liabilities approximate their carrying values due to their short term nature.

The fair value of the amount due to shareholder is not practicable to estimate due to the related party nature of the underlying transactions.

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Company is exposed to credit risk from its customers. The Company believes that there is no unusual exposure associated with the collection of its receivables. The Company performs regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable.

The Company is subject to currency risk through its non-domestic sales. The Company invoices a portion of its foreign currency sales, and as such, changes in the exchange rate affect the operating results of the Company. The Company closely monitors changes in foreign currency and reacts accordingly. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. Fluctuations in currency exchange rates could impact the Company's business in the future.

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The Company is exposed to liquidity risk mainly with respect to its loans payable and due to shareholder. Refer to note 2 on going concern assessment.

11. Related party transactions

The shareholder Subex Limited has paid (received) $5,256,174 (2014 - $3,007,574) for subcontracting charges and $(546,289) (2014 - $1,286,139) for sales support and consulting expenses. The aforementioned expenses were incurred in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties as follows: Subcontracting charges are calculated as cost plus 5% for software and related services provided by the shareholder, sales support and consulting expenses are based on an allocated portion of support staff salaries. The Company also received revenue from Subex Azure Limited – Bangalore $641,504 (2014 - $568,414).

12. Contingencies

In the ordinary course of business, the Company is involved in litigation and other claims. Management is not able to determine the extent of the Company's possible liability from such litigation and claims but the outcome of these claims may have material impact on the financial statements.

13. Segment information

The Company operates in a single operating segment: telecommunications software and related services. The Company operates and markets its products and services throughout the world, and as such, operates mainly in North and South America.

14. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.