

**SUBEX AMERICAS INC AND SUBSIDIARIES**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2016**  
**(ALL AMOUNTS ARE STATED IN US DOLLARS)**

# **SUBEX AMERICAS INC**

**MARCH 31, 2016**

**(ALL AMOUNTS ARE STATED IN US DOLLARS)**

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## INDEPENDENT AUDITOR'S REPORT

To the Shareholder of:  
Subex Americas Inc

I have audited the consolidated balance sheet of Subex Americas Inc as at March 31, 2016, and the consolidated statements of comprehensive income, stockholder's equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted the audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2016, and the results of its operations and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

Without qualifying my opinion, I draw attention to Note 2 in the financial statements which indicates that as of March 31, 2016 the Company has accumulated losses of \$140,049,435 and a working capital deficiency of \$10,539,654. These conditions, along with other matters set forth in Note 2, indicate circumstances regarding the Company's ability to continue as a going concern.

Harshad Parekh, CPA, CA  
Licensed Public Accountant

Toronto, Ontario  
May 12, 2016

# SUBEX AMERICAS INC

## CONSOLIDATED BALANCE SHEET

AS AT MARCH 31, 2016

(ALL AMOUNTS ARE STATED IN US DOLLARS)

|  | 2016                 | 2015                 |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| Current  |                      |                      |
| Cash and cash equivalents                                    | \$ 88,712            | \$ 61,242            |
| Accounts receivable  | 311,446              | 78,852               |
| Unbilled receivables   | 299,412              | 64,420               |
| Prepaid expenses and other current assets                    | 6,077                | 7,996                |
|  | <u>705,647</u>       | <u>212,510</u>       |
| Non-current  |                      |                      |
| Property and equipment                                       | 10,915               | -                    |
|  | <u>\$ 716,562</u>    | <u>\$ 212,510</u>    |
|  | =====                | =====                |
| <b>LIABILITIES</b>   |                      |                      |
| Current  |                      |                      |
| Current portion of loans payable (note 4)                    | \$ 10,000,000        | \$ 3,500,000         |
| Accounts payable and accrued liabilities (note 5)            | <u>1,245,301</u>     | <u>3,111,276</u>     |
|  | 11,245,301           | 6,611,276            |
| Non-current  |                      |                      |
| Loans payable (note 4)                                       | 2,000,000            | 8,500,000            |
| Due to related parties (note 6)                              | <u>4,601,330</u>     | <u>27,973,857</u>    |
|  | <u>17,846,631</u>    | <u>43,085,133</u>    |
| <b>SHAREHOLDER'S EQUITY</b>                                  |                      |                      |
| Share capital  |                      |                      |
| Authorized: unlimited common shares                          |                      |                      |
| Issued and outstanding: 100 common shares                    | 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  | <u>(140,024,632)</u> | <u>(165,767,186)</u> |
|  | <u>(17,130,069)</u>  | <u>(42,872,623)</u>  |
|  | <u>\$ 716,562</u>    | <u>\$ 212,510</u>    |
|  | =====                | =====                |

Approved:

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

# SUBEX AMERICAS INC

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED MARCH 31, 2016

(ALL AMOUNTS ARE STATED IN US DOLLARS)

|                                       | 2016                 | 2015                |
|---------------------------------------|----------------------|---------------------|
| Revenue                               | \$ 5,327,164         | \$ 6,357,782        |
| Operating Expenses                    |                      |                     |
| Subcontracting charges                | 2,083,344            | 1,187,793           |
| Salaries, wages, and benefits         | 581,222              | 432,812             |
| Sales support and consulting          | 889,942              | 956,147             |
| General and administrative            | 104,220              | 58,588              |
| Travel and entertainment              | 137,492              | 137,420             |
| Repairs and maintenance               | 3,852                | 15,636              |
| Professional fees                     | 36,225               | 20,658              |
| Bad debts recovered                   | <u>(171,178)</u>     | <u>(18,240)</u>     |
|                                       | <u>3,665,119</u>     | <u>2,790,814</u>    |
| Income from operations                | 1,662,045            | 3,566,968           |
| Interest expense (note 8)             | 8,454                | 1,395,808           |
| Other expenses                        | 168,535              | 40,379              |
| Foreign currency exchange loss (gain) | (28,520)             | (293,303)           |
| Write off of due to related parties   | (22,211,339)         | -                   |
| Write off of loan interest payable    | (2,018,842)          | -                   |
| Depreciation of capital assets        | <u>1,203</u>         | <u>-</u>            |
| Net income                            | 25,742,554           | 2,424,084           |
| Other comprehensive income            | -                    | -                   |
| Total comprehensive income            | \$ <u>25,742,554</u> | \$ <u>2,424,084</u> |

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

# SUBEX AMERICAS INC

## CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY

FOR THE YEAR ENDED MARCH 31, 2016

(ALL AMOUNTS ARE STATED IN US DOLLARS)

|   | <b>2016</b>              | <b>2015</b>              |
|---|--------------------------|--------------------------|
| Share capital, beginning of year              | \$ <u>87,745,719</u>     | \$ <u>87,745,719</u>     |
| Share capital, end of year                    | \$ 87,745,719<br>=====   | \$ 87,745,719<br>=====   |
| Additional paid-in-capital, beginning of year | \$ <u>27,912,335</u>     | \$ <u>27,912,335</u>     |
| Additional paid-in-capital, end of year       | \$ 27,912,335<br>=====   | \$ 27,912,335<br>=====   |
| Capital reserve, beginning of year            | \$ <u>7,319,222</u>      | \$ <u>7,319,222</u>      |
| Capital reserve, end of year                  | \$ 7,319,222<br>=====    | \$ 7,319,222<br>=====    |
| Other comprehensive loss, beginning of year   | \$ <u>(82,713)</u>       | \$ <u>(82,713)</u>       |
| Other comprehensive loss, end of year         | \$ (82,713)<br>=====     | \$ (82,713)<br>=====     |
| Deficit, beginning of year                    | \$(165,767,186)          | \$(168,191,270)          |
| Total comprehensive income                    | <u>25,742,554</u>        | <u>2,424,084</u>         |
| Deficit, end of year                          | \$(140,024,632)<br>===== | \$(165,767,186)<br>===== |
| Total shareholder's deficiency                | \$ (17,130,069)<br>===== | \$ (42,872,623)<br>===== |

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

# SUBEX AMERICAS INC

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2016

(ALL AMOUNTS ARE STATED IN US DOLLARS)

|  | 2016                | 2015                |
|--|---------------------|---------------------|
| Cash flows from (used in) operating activities                 |                     |                     |
| Net income for the year  | \$ 25,742,554       | \$ 2,424,084        |
| Adjustments for:   |                     |                     |
| Depreciation of capital assets                                 | 1,203               | -                   |
| Write off of loan interest payable                             | (2,018,842)         | -                   |
| Write off of due to related parties                            | <u>(22,211,339)</u> | <u>-</u>            |
|  | 1,513,576           | 2,424,084           |
| Changes in non-cash working capital                            |                     |                     |
| Decrease (increase) in accounts receivable                     | (232,594)           | 294,301             |
| Decrease (increase) in unbilled receivables                    | (234,993)           | (27,360)            |
| Decrease (increase) in other receivables                       | -                   | 2,991               |
| Decrease (increase) in prepaid expenses & other current assets | 1,919               | 4,911               |
| Increase (decrease) in accounts payable and accruals           | <u>152,878</u>      | <u>714,875</u>      |
|  | <u>1,200,786</u>    | <u>3,413,802</u>    |
| Cash flows from (used in) investing activities                 |                     |                     |
| Purchase of property and equipment                             | <u>(12,118)</u>     | <u>-</u>            |
|  | <u>(12,118)</u>     | <u>-</u>            |
| Cash flows from (used in) financing activities                 |                     |                     |
| Due to related parties   | <u>(1,161,198)</u>  | <u>(3,439,117)</u>  |
|  | <u>(1,161,198)</u>  | <u>(3,439,117)</u>  |
| Net increase (decrease) in cash and cash equivalents           | 27,470              | (25,315)            |
| Cash and cash equivalents, beginning of year                   | <u>61,242</u>       | <u>86,557</u>       |
| Cash and cash equivalents, end of year                         | \$ <u>88,712</u>    | \$ <u>61,242</u>    |
| Supplementary cash flow information                            |                     |                     |
| Interest paid  | \$ <u>8,454</u>     | \$ <u>1,395,808</u> |

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

**SUBEX AMERICAS INC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2016**  
**(ALL AMOUNTS ARE STATED IN US DOLLARS)**

**1. Nature of operations**

Subex Americas Inc., formerly Syndesis Limited (the “Company”), is a leading provider of “Data Integrity Management” products which is known as ROC DIM. Data Integrity Management is a discovery and reconciliation tool. ROC DIM is the industry’s first Data Integrity Management solution for improving the quality data that drives key service provider processes, resulting in lower costs and higher service profitability. The Company has positioned solution around this tool in the space of Network Analytics. The Network Analytics include ROC DIM, ROC Asset Assurance and ROC Capacity Management. ROC Asset Assurance uses the basis product of ROC DIM to optimize the investment in Capex. ROC Asset Assurance is a pioneering solution to manage telecommunications assets across all dimensions of the asset life cycle and reduce capex substantially. 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. The Company operates and markets its telecommunications software products and related services throughout the world, and as such, operates mainly in North and South America.

**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 \$5,327,164 (2015 - \$6,357,782) and a net income of \$25,742,554 (2015 - \$2,424,084), an accumulated deficit of \$140,049,435 (2015 - \$165,767,186), and a working capital deficiency of \$10,539,654 (2015 - \$6,398,766). 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**

**A summary of the significant accounting policies applied in the preparation of the accompanying consolidated financial statements is as follows:**

**Basis of preparation**

The accompanying consolidated financial statements are prepared in accordance with the accounting and reporting requirements of generally accepted accounting principles in the United States of America (“US GAAP”) to reflect the financial position, results of operations, and cash flows. The consolidated financial statements are for the years ended March 31, 2016 and March 31, 2015.

Certain amounts in the previous period consolidated financial statements and notes have been reclassified to conform to the current year’s presentation.



**SUBEX AMERICAS INC**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Principles of consolidation**

The consolidated financial statements are prepared in United States Dollars (“US Dollars”) and include the accounts of the Company and its wholly-owned subsidiaries. Upon consolidation, all intercompany accounts and transactions are eliminated.

**Cash and cash equivalents**

The Company considers all highly liquid investments and deposits with a remaining maturity of ninety days or less on the date of purchase to be cash and cash equivalents. Cash and cash equivalents comprise cash on hand and balance in checking account with bank.

**Accounts receivable and allowance for doubtful accounts**

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. The Company follows specific identification method for recognizing an allowance for doubtful accounts. Management analyzes the composition of the accounts receivable aging, historical bad debts, current economic trends, and customer credit worthiness of each accounts receivable when evaluating the adequacy of the allowance for doubtful accounts. 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 \$152,528 (2015 - \$437,935).

**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.

**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

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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.

**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.

**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. All assets and liabilities denominated in foreign currencies are translated into US dollars using exchange rates in effect at the balance sheet date. Revenues and expenses are translated using the average exchange rate for the reporting period. The resulting cumulative translation adjustments are presented as a separate component of stockholders’ equity as accumulated other comprehensive income. Foreign currency transaction gains or losses are recorded directly in the consolidated statement of comprehensive income. Net foreign currency gain (loss) was \$28,520 (2015 - \$293,303).

**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

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accounts payable and accrued liabilities. Actual results could differ materially from these estimates.

**Fair value measurements and financial instruments**

The Company adopted the accounting standard for applying fair value measurements to certain assets, liabilities, and transactions that are periodically measured at fair value. The adoption did not have a material effect on the Company's financial position, results of operations or cash flows.

Assets and liabilities recorded at fair value in the financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels which are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets or liabilities are as follows:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access as of the measurement date.

Level 2 – inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.

Level 3 – unobservable inputs for the asset or liability only used when there is little, if any, market activity for the asset or liability at the measurement date.

**Commitments and contingencies**

Liabilities for loss contingencies arising from claims, assessments, litigations, fines, penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

**4. Loans payable**

Loans payable are for meeting working capital requirements and 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. Interest expense for the year was \$2,811 (2015 - \$695,977) and interest payable at year end is \$NIL (2015 - \$1,009,421). The loan is guaranteed in full by Subex (UK) Limited, a related party. The principal repayment for this year was rescheduled to March 2017 and the prior year interest payable was written off.

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. Interest expense for the year was \$2,811 (2015 - \$695,977) and interest payable at year end is \$NIL (2015 - \$1,009,421). The loan is guaranteed in full by Subex (UK) Limited, a related party. The principal repayment for this year was rescheduled to March 2017 and the prior year interest payable was written off.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**5. Accounts payable and accrued liabilities**

|                       | <b>2016</b>         | <b>2015</b>         |
|-----------------------|---------------------|---------------------|
| Sales tax payable     | \$ 927,754          | \$ 928,444          |
| Loan interest payable | -                   | 2,018,841           |
| Other payables        | 317,547             | 163,991             |
|                       | <b>\$ 1,245,301</b> | <b>\$ 3,111,276</b> |

**6. Due to related parties**

The amount due to related parties have no set repayment terms and does not bear any interest except a portion of \$2,950,711 which bears interest at 10% per annum. The related parties have 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. 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 \$21,348,146 (2015 - \$22,906,929) 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 \$80,559,042 (2015 - \$86,441,240) 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):

|      | <b>2016</b> | <b>2015</b> |
|------|-------------|-------------|
| 2006 | \$ -        | \$ 323,138  |
| 2007 | 27,831,346  | 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   |

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\$ 80,559,042                      \$ 86,441,240

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.

**8. Financial instruments**

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, unbilled receivables, prepaid expenses and other current assets, 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 other current assets, 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.

**9. Related party transactions**

The shareholder Subex Limited paid (received) \$2,089,296 (2015 - \$5,256,174) for subcontracting charges and \$(758,578) (2015 - \$(546,289)) for sales support and consulting expenses. The Company also received revenue from Subex Azure Limited - Bangalore \$722,925 (2015 - \$641,504). The aforementioned revenue (expense) transactions during the year were

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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. Advances paid to related parties for the year were \$1,161,198 (2015 - \$3,439,117). The amount due to related parties at year end was \$4,601,330 (2015 - \$27,973,857). Subex (UK) Limited has provided guarantees in full for the loans obtained from Manchester Securities Corp. and QVT Fund, as indicated in note 4.

**10. Subsequent events**

The Company evaluated all events and transactions that occurred after March 31, 2016 through May 12, 2016, the date the financial statements are issued. Based on the evaluations, the Company is not aware of any events or transactions that would require recognition or disclosure in the financial statements.

**11. Comparative figures**

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