

Interim Consolidated Financial Statements  
(Expressed in Canadian dollars)

## **REDKNEE SOLUTIONS INC.**

Six months ended March 31, 2007 and 2006  
(Unaudited)

# REDKNEE SOLUTIONS INC.

Interim Consolidated Balance Sheets  
(Expressed in Canadian dollars)

	March 31, 2007	September 30, 2006
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 4,059,544	\$ 2,902,706
Short-term investments	21,612,460	535,456
Accounts receivable	13,820,904	10,547,445
Unbilled revenue	5,517,918	3,060,896
Income taxes receivable	300,000	936,330
Prepaid expenses	816,127	786,560
Inventory (note 1(c))	870,791	201,916
	<u>46,997,744</u>	<u>18,971,309</u>
Restricted cash	–	51,465
Deferred financing costs	–	651,341
Deferred organization costs	–	84,958
Capital assets	293,269	501,336
Other assets	165,668	246,210
	<u>\$ 47,456,681</u>	<u>\$ 20,506,619</u>

## Liabilities and Shareholders' Equity (Deficiency)

Current liabilities:		
Accounts payable	\$ 2,649,394	\$ 1,408,176
Accrued liabilities	6,132,053	5,507,450
Income taxes payable	2,184,051	1,785,140
Deferred revenue	6,499,572	5,767,147
Notes payable	–	581,896
Current portion of long-term debt (note 4)	–	3,703,548
Current portion of obligations under capital leases	78,621	57,410
	<u>17,543,691</u>	<u>18,810,767</u>
Obligations under capital leases	–	49,371
Notes payable to related parties (note 3)	–	774,239
Long-term debt (note 4)	–	3,444,724
Shareholders' equity (deficiency):		
Share capital (note 2)	39,593,386	3,872,010
Contributed surplus	3,348,556	2,943,004
Deficit	(12,817,993)	(9,002,010)
Accumulated other comprehensive loss, net of tax	(210,959)	(385,486)
	<u>29,912,990</u>	<u>(2,572,482)</u>
Commitments and contingencies (note 8)		
	<u>\$ 47,456,681</u>	<u>\$ 20,506,619</u>

See accompanying notes to interim consolidated financial statements.

# REDKNEE SOLUTIONS INC.

Interim Consolidated Statements of Operations  
(Expressed in Canadian dollars)

	Six months ended March 31,	
	2007	2006
	(Unaudited)	
Revenue:		
Software and services	\$ 15,118,593	\$ 13,517,706
Support	5,565,738	3,457,254
	<u>20,684,331</u>	<u>16,974,960</u>
Cost of revenue	5,230,060	4,853,504
Gross profit	15,454,271	12,121,456
Operating expenses:		
Selling, general and administrative	12,007,146	9,945,851
Research and development	4,902,551	4,141,809
Amortization of capital assets	174,000	220,063
Amortization of deferred financing costs	–	160,108
Foreign exchange gain	(373,264)	(165,729)
	<u>16,710,433</u>	<u>14,302,102</u>
Loss from operations	(1,256,162)	(2,180,646)
Interest income	165,507	145,135
Interest expense	(1,650,164)	(1,258,178)
Loss before income taxes	(2,740,819)	(3,293,689)
Income taxes (recovery):		
Current	423,823	(1,221,494)
Future	–	177,072
	<u>423,823</u>	<u>(1,044,422)</u>
Loss for the period	<u>\$ (3,164,642)</u>	<u>\$ (2,249,267)</u>
Loss per common share (note 2(b)):		
Basic and diluted	\$ (0.08)	\$ (0.06)
Basic and diluted weighted average number of common shares	41,600,791	37,388,470

See accompanying notes to interim consolidated financial statements.

# REDKNEE SOLUTIONS INC.

Interim Consolidated Statements of Retained Earnings (Deficit)  
(Expressed in Canadian dollars)

	Six months ended March 31,	
	2007	2006
	(Unaudited)	
Retained earnings (deficit), beginning of period:		
As previously reported	\$ (9,002,010)	\$ 3,294,996
Change in accounting policy related to financial instruments (note 1(c))	(651,341)	—
	<u>(9,653,351)</u>	<u>3,294,996</u>
Loss for the period	(3,164,642)	(2,249,267)
Retained earnings (deficit), end of period	<u>\$ (12,817,993)</u>	<u>\$ 1,045,729</u>

Interim Consolidated Statements of Comprehensive Income  
(Expressed in Canadian dollars)

	Six months ended March 31,	
	2007	2006
	(Unaudited)	
Loss for the period	\$ (3,164,642)	\$ (2,249,267)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	174,527	(28,550)
Comprehensive loss	<u>\$ (2,990,115)</u>	<u>\$ (2,277,817)</u>

See accompanying notes to interim consolidated financial statements.

# REDKNEE SOLUTIONS INC.

Interim Consolidated Statement of Shareholders' Equity (Deficiency)  
(Expressed in Canadian dollars)

Six months ended March 31, 2007  
(Unaudited)

	Class A voting common shares		Class B non-voting common shares		Common shares		Total		Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total shareholders' equity (deficiency)
	Number	Amount	Number	Amount	Number	Amount	Number	Amount				
Balances, September 30, 2005	10	\$ 2	37,333,798	\$ 3,406,050	–	\$ –	37,333,808	\$ 3,406,052	\$ 2,019,542	\$ 3,294,996	\$ (408,465)	\$ 8,312,125
Issued on exercise of options	–	–	581,820	465,958	–	–	581,820	465,958	(121,070)	–	–	344,888
Stock-based compensation	–	–	–	–	–	–	–	–	1,044,532	–	–	1,044,532
Loss for the period	–	–	–	–	–	–	–	–	–	(12,297,006)	–	(12,297,006)
Other comprehensive income	–	–	–	–	–	–	–	–	–	–	22,979	22,979
Balances, September 30, 2006	10	2	37,915,618	3,872,008	–	–	37,915,628	3,872,010	2,943,004	(9,002,010)	(385,486)	(2,572,482)
Change in accounting policy (note 1(c))	–	–	–	–	–	–	–	–	–	(651,341)	–	(651,341)
Issued pursuant to Share Purchase Plan (note 2(c))	–	–	215,653	267,410	–	–	215,653	267,410	–	–	–	267,410
Issued pursuant to Option Exercise Plan (note 2(c))	–	–	3,226,445	1,559,211	–	–	3,226,445	1,559,211	(459,043)	–	–	1,100,168
Issued on exercise of options	–	–	38,438	21,443	–	–	38,438	21,443	–	–	–	21,443
Restricted Share Units (note 2(e))	–	–	966,250	–	–	–	966,250	–	–	–	–	–
Share buyback (note 2(d))	–	–	(75,000)	(7,659)	–	–	(75,000)	(7,659)	(85,341)	–	–	(93,000)
Issued on exchange to Class A & B (note 2(d))	(10)	(2)	(42,287,404)	(5,712,413)	42,287,414	5,712,415	–	–	–	–	–	–
Issued on initial public offering (note 2(d))	–	–	–	–	16,700,000	39,893,878	16,700,000	39,893,878	–	–	–	39,893,878
Organization costs related to IPO (note 2(d))	–	–	–	–	–	(5,109,814)	–	(5,109,814)	–	–	–	(5,109,814)
Issued on exercise of options	–	–	–	–	8,430	10,217	8,430	10,217	–	–	–	10,217
Stock-based compensation	–	–	–	–	–	–	–	–	949,936	–	–	949,936
Loss for the period	–	–	–	–	–	–	–	–	–	(3,164,642)	–	(3,164,642)
Employee loans (note 2(c))	–	–	–	–	–	(913,310)	–	(913,310)	–	–	–	(913,310)
Other comprehensive income (note 1(c))	–	–	–	–	–	–	–	–	–	–	174,527	174,527
Balances, March 31, 2007	–	\$ –	–	\$ –	58,995,844	\$ 39,593,386	58,995,844	\$ 39,593,386	\$ 3,348,556	(12,817,993)	\$ (210,959)	\$ 29,912,990

See accompanying notes to interim consolidated financial statements.

# REDKNEE SOLUTIONS INC.

Interim Consolidated Statements of Cash Flows  
(Expressed in Canadian dollars)

	Six months ended March 31,	
	2007	2006
	(Unaudited)	
Net cash provided by (used in):		
Operating activities:		
Loss for the period	\$ (3,164,642)	\$ (2,249,267)
Items not involving cash:		
Amortization of capital assets	174,000	220,063
Amortization of deferred financing costs	–	160,108
Unrealized foreign exchange loss (gain)	483,712	(170,296)
Stock-based compensation	949,935	626,156
Debt accretion	818,750	462,512
Loan accretion	(12,004)	–
Future income taxes	–	177,072
Change in non-cash operating working capital (note 6)	(2,795,436)	(5,233,360)
Net cash used in operating activities	(3,545,685)	(6,007,012)
Financing activities:		
Proceeds from notes payable	–	575,488
Repayment of notes payable	(581,896)	(941,164)
Repayment of notes payable to related parties	(774,239)	–
Proceeds from issuance of common shares (note 2(d))	1,399,238	16,226
Proceeds from initial public offering, net of costs	34,784,064	–
Share buyback	(93,000)	–
Employee loans	(913,310)	–
Repayment of debt	(8,275,792)	(1,634,920)
Deferred organization costs (note 2(d))	84,958	–
Repayment of obligations under capital leases	(28,160)	14,396
Net cash provided by (used in) financing activities	25,601,863	(1,969,974)
Investing activities:		
Purchase of short-term investments	(21,077,538)	7,379,444
Purchase of capital assets	(34,067)	(224,451)
Other assets	80,542	(223,168)
Decrease in restricted cash	51,465	524,372
Net cash provided by (used in) investing activities	(20,979,598)	7,456,197
Effect of exchange rate changes on cash and cash equivalents	80,258	186,028
Increase (decrease) in cash and cash equivalents	1,156,838	(334,761)
Cash and cash equivalents, beginning of period	2,902,706	1,757,108
Cash and cash equivalents, end of period	\$ 4,059,544	\$ 1,422,347
Supplemental cash flow information:		
Interest paid	\$ (891,382)	\$ (703,967)
Interest received	74,918	168,439
Cash taxes received, net of income taxes paid	591,179	984,571

See accompanying notes to interim consolidated financial statements.

# REDKNEE SOLUTIONS INC.

Notes to Interim Consolidated Financial Statements  
(Expressed in Canadian dollars)

Six months ended March 31, 2007 and 2006  
(Unaudited)

---

Redknee Solutions Inc. (the "Company") was incorporated in Canada on November 1, 2006. Pursuant to an amalgamation agreement dated February 15, 2007 (the "Amalgamation Agreement") among the Company, Redknee Inc. ("Redknee"), a company under common control with the Company, and 2117580 Ontario Inc., a wholly owned subsidiary of the Company, Redknee and 2117580 Ontario Inc. were amalgamated to form a successor company, Redknee Inc., which is a wholly owned subsidiary of the Company. The above transaction is considered to be between companies under common control and the financial statements of the Company reflect the amalgamation as if the companies had always been amalgamated.

The Company's software products allow its wireless telecommunications network operator customers to extend and enhance their capabilities and service offerings, enabling them to introduce new revenue through the introduction of new next-generation, network-based services, including call and subscriber management, multimedia messaging information services and location aware services. In addition, the Company's software products also manage and analyze, in real-time, complex and critical network operations, such as service provisioning, network management and customer care, as well as provide real-time rating, charging and billing.

## 1. Significant accounting policies:

### (a) Basis of presentation:

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and have been prepared on a basis consistent with the audited financial statements of Redknee for the year ended September 30, 2006.

The preparation of these interim consolidated financial statements requires management to make assumptions and estimates that affect the figures herein these interim consolidated financial statements and notes. Actual results could differ significantly from those assumptions and estimates. Furthermore, the results could differ from those estimates and the operating results for the interim periods presented are not necessarily indicative of the results anticipated for the full year. In the opinion of management, these interim consolidated financial statements reflect adjustments necessary to state fairly the results for the periods presented.

# REDKNEE SOLUTIONS INC.

Notes to Interim Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Six months ended March 31, 2007 and 2006  
(Unaudited)

---

## 1. Significant accounting policies (continued):

The notes presented in these unaudited interim consolidated financial statements include only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures and notes required by Canadian GAAP for annual financial statements. Accordingly, these interim consolidated financial statements and notes should be read in conjunction with the Company's audited consolidated balance sheet as at November 1, 2006 and Redknee's audited consolidated financial statements for the year ended September 30, 2006.

These unaudited interim consolidated financial statements follow the same accounting policies and methods of applications as the 2006 annual financial statements except for the adoption of new accounting policies described in note 1(c) below.

### (b) Principles of consolidation:

The unaudited interim consolidated financial statements include the financial statements of the Company, Redknee and its wholly owned subsidiary companies, of which the principal subsidiaries are Redknee (Ireland) Ltd., Redknee (Germany) GmbH, Redknee (UK) Ltd., Redknee (ME) FZ-LLC (Dubai) and Redknee (India) Technologies Pvt. Ltd. All significant intercompany balances and transactions have been eliminated on consolidation.

### (c) Changes in accounting policies:

#### (i) Financial instruments:

Effective October 1, 2006, the Company adopted, prospectively without restatement, the new recommendations of The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments - Recognition and Measurement; and Section 3865, Hedges. These new Handbook Sections provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting.



# REDKNEE SOLUTIONS INC.

Notes to Interim Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Six months ended March 31, 2007 and 2006  
(Unaudited)

---

## 1. Significant accounting policies (continued):

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with GAAP. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been adjusted. The adoption of this Handbook Section had no impact on the Company's opening deficit as of October 1, 2006. The Company's comprehensive income amount consists of foreign currency translation gains and losses on net investment in self-sustaining operations (the Irish entity was self sustaining until February 28, 2007 at which point the entity was considered integrated) and net movements of available-for-sale financial instruments.

Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; and available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired, at which time the amounts would be recorded in net income.

Upon adoption of these new standards, the Company designated its cash, cash equivalents, and restricted cash as held-for-trading, which are measured at fair value. Short-term investments are designated as available-for-sale and are measured at fair value with changes in fair value, net of taxes, recorded in other comprehensive income until the investment is derecognized or impaired, at which time the amounts would be recorded in net income. Accounts receivable and inventory are classified as loans and receivables, which are measured at amortized cost. Accounts payable, accrued liabilities and notes payable are classified as other financial liabilities.

# REDKNEE SOLUTIONS INC.

Notes to Interim Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Six months ended March 31, 2007 and 2006  
(Unaudited)

---

## 1. Significant accounting policies (continued):

Effective October 1, 2006, the Company has elected to record all transaction costs in respect of financial assets and liabilities in income as incurred. The Company had previously deferred these costs and amortized them over the term of the related debt. The carrying value of the transaction costs at September 30, 2006 of \$651,341, net of income taxes of nil, was charged to opening deficit as of October 1, 2006.

As a result of the application of these standards, the Company was required to separate the early repayment option related to the Company's long-term debt. The assessment of its fair value was not deemed to be significant due to the terms associated with the underlying option. Accordingly, there was no separate value allocated and recorded on the adoption, as of October 1, 2006. There was no remaining long-term debt outstanding as at March 31, 2007.

As at March 31, 2007, the short-term investments which are designated as available-for-sale were measured at fair value and the change from the recorded cost did not result in a significant change and, hence, no revaluation gain or loss was recorded in the period.

Upon the adoption of Section 3865, Hedges, there was no impact to the consolidated financial statements on transition or for the six-month period ended March 31, 2007.

In 2006, the CICA issued Handbook Section 3862, Financial Instruments - Disclosures, and Handbook Section 3863, Financial Instruments - Presentation. These new standards will become effective for the Company beginning October 1, 2007. The Company is currently assessing the impact of these two new standards.

### (ii) Non-monetary transactions:

Effective October 1, 2006, the Company adopted the new recommendations of CICA Handbook Section 3831, Non-monetary Transactions, prospectively. This standard requires all non-monetary transactions be measured at fair value unless they meet one of four criteria. Commercial substance replaces culmination of the earnings process as the test for fair value measurement. A transaction has commercial substance if it causes an identifiable and measurable change in the economic circumstances of the entity. The adoption of this standard had no significant impact on the Company's financial statements.

# REDKNEE SOLUTIONS INC.

Notes to Interim Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Six months ended March 31, 2007 and 2006  
(Unaudited)

---

## 1. Significant accounting policies (continued):

(iii) Stock-based compensation for employees eligible to retire before the vesting date:

Effective October 1, 2006, the Company adopted the provisions of Emerging Issues Committee ("EIC") Abstract 162, Stock-based Compensation for Employees Eligible to Retire Before the Vesting Date. Adoption of this standard did not have a significant impact on the Company's financial statements.

(iv) Inventory:

Inventory includes finished goods in transit which are recorded at the lower of cost or net realizable value.

(d) Foreign currency transactions:

Redknee Inc.'s foreign subsidiaries are considered to be integrated operations for accounting purposes. On February 28, 2007, Redknee (Ireland) Ltd. was deemed to have been an integrated operation for accounting purposes. It was previously considered to be a self-sustaining foreign operation.

The Company uses the temporal method to translate the foreign currency balances for its integrated operations.

## 2. Share capital:

(a) Authorized:

Unlimited voting common shares  
Unlimited preferred shares

(b) Loss per common share:

As a result of the loss for the six months ended March 31, 2007 and 2006, all potential dilutive securities, being stock options, unvested restricted share units and options exercised under the option loan program totalling 9,220,416 (2006 - 3,416,030), were considered anti-dilutive.

# REDKNEE SOLUTIONS INC.

Notes to Interim Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Six months ended March 31, 2007 and 2006  
(Unaudited)

---

## 2. Share capital (continued):

### (c) Share and loan purchase program:

For the period from November 1, 2006 to November 8, 2006, the Company allowed all of its employees to acquire up to 1,125,000 Class B common shares at a value of \$1.24 per share, which was considered to be fair value on that date. Each employee was limited to a maximum purchase of 3,750 shares with a minimum purchase of 500 shares. As part of this program, employees were eligible to receive a loan to acquire the first 500 shares, up to a maximum of \$620 per employee. These loans are unsecured, are repayable in two years and are non-interest bearing. The total number of shares purchased under this program was 215,653, of which 63,500 shares were purchased using the loan offered by the Company. The associated stock-based compensation expense relating to these shares is \$5,842, which is being amortized over the term of the respective loans. During the six months ended March 31, 2007, \$1,074 has been expensed. The total amount of the loans issued under this program was \$78,740 (amortized cost - \$73,332) and the balance outstanding as at March 31, 2007 aggregated \$76,260.

The shares purchased under this plan have been recorded in shareholders' equity (deficiency) as an increase in the number of shares issued and outstanding with the corresponding value assigned.

Further during the period from November 1, 2006 to November 8, 2006, the Company allowed its employees to exercise their vested options and acquire Class B common shares in Redknee. The Company offered loans to all of its existing employees holding vested options based on their tenure ranging from \$5,000 to \$40,000. These loans are secured by the shares acquired upon exercise of the options. The loans are non-interest bearing and are repayable in three years or in proportion to any sale of shares by the employee. Employees are eligible to a cash bonus annually equal to 10% of the outstanding loan amount provided they remain an employee of the Company as of the anniversary date. The Company recorded \$38,730 as the bonus expense for the six months ended March 31, 2007. The total number of options that were exercised under this program was 1,290,578 and employees used a combination of cash and loans to exercise the options. The total amount of loans issued under this program was \$1,016,846 (amortized cost - \$941,581) and the balance outstanding as at March 31, 2007 aggregated \$913,310.

The Company recorded a compensation expense aggregating \$92,678, being the difference between the loan provided to the employees and its fair value, per the requirements of Handbook 3855 - Financial Instruments - Recognition and Measurement.

# REDKNEE SOLUTIONS INC.

Notes to Interim Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Six months ended March 31, 2007 and 2006  
(Unaudited)

---

## 2. Share capital (continued):

The options exercised under this plan have been recorded in shareholders' equity (deficiency) as an increase in the number of shares outstanding with their corresponding cash value. The loans used to acquire these shares have been recorded as a reduction in equity corresponding to their cash value. The number of shares outstanding relating to loans outstanding have been excluded in the calculation of the basic earnings per share. As loans are repaid, an offset to share capital will be reduced accordingly.

### (d) Amalgamation:

Pursuant to the Amalgamation Agreement, each Class A share of Redknee was exchanged for 2.5 Class A shares of the Company, and each Class B share of Redknee and restricted Class B share was exchanged for 2.5 common shares of the Company. On February 23, 2007 at 11:59 p.m. Class A shares were automatically converted to common shares of the Company on a 1:1 basis. The share continuity schedule reflects the share exchange retroactively.

On November 10, 2006, the Company received a notice of dissent from one of its shareholders holding 75,000 common shares along with a demand for payment based on the fair value of the Company's common shares. These shares were redeemed for \$93,000.

On February 21, 2007, the Company completed its initial public offering ("IPO") on the Alternative Investment Market of the London Stock Exchange and issued 16,700,000 common shares for gross proceeds of \$39,893,878 (17,535,000 GBP). Certain costs aggregating \$5,109,814 were incurred in association with the Company's IPO have been recognized as a reduction to share capital.

### (e) Long-term incentive program:

On November 10, 2006, the Company established a restricted share plan ("RSP") for the purpose of providing additional compensation for certain employees and directors that is reflective of the responsibility, commitment and risk accompanying their role. Eligible employees are any employees or directors of the Company that the Board of Directors designate as eligible to participate in the plan. The number of shares which may be issued under the plan is limited to 1,125,000. Shares granted under the RSP are subject to vesting from the grant date, which can be a time based or performance-based vesting at the Board of Directors' discretion.

# REDKNEE SOLUTIONS INC.

Notes to Interim Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Six months ended March 31, 2007 and 2006  
(Unaudited)

---

## 2. Share capital (continued):

Vesting of shares issued to directors, unless otherwise noted, is deemed to be immediately upon being granted but subject to resale restrictions, such that no vested shares can be sold until the earlier of the one year anniversary date of the grant date and the director's date of death. The vesting period for all other participants, provided that the participants are actively employed by the Company on the applicable date and are not covered above is: 50% of the shares granted will be vested on the second anniversary of the grant date; 25% of the shares granted shall be vested on the third anniversary of the grant date; and 25% of the shares shall become vested on the fourth anniversary of the grant date.

On November 10, 2006, in addition to establishing the RSP noted above, the Board of Directors approved and the Company granted 966,250 Restricted Shares Units at a price of \$1.24 per share with 81,250 of these being granted to directors and the remaining 885,000 being granted to other participants. The associated stock-based compensation expense of \$1,198,150 is amortized over the appropriate vesting period. As of March 31, 2007, \$218,256 of the stock-based compensation was expensed.

## 3. Related party transactions:

In February 2007, the Company repaid its outstanding shareholder loans of \$774,239.

## 4. Long-term debt:

On March 1, 2007, the Company repaid all of its outstanding long-term debt, which included a prepayment penalty of \$367,936. This penalty has been expensed as an interest expense in the statement of operations for the six months ended March 31, 2007.

## 5. Stock option plan:

On January 9, 2007, the Company adopted the RSI Stock Option Plan applicable to employees, directors, officers and service providers. Under the RSI Stock Option Plan, the options are granted at a price determined by the Board of Directors, but not at a price lower than the fair market value of the common shares on the date of the grant and the expiry date of such options is no later than ten years after the date of the grant. The maximum number of common shares available for issuance under the plan are 3,000,000 common shares. No options were granted under the RSI Stock Option Plan during the six months ended March 31, 2007.

# REDKNEE SOLUTIONS INC.

Notes to Interim Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Six months ended March 31, 2007 and 2006  
(Unaudited)

## 5. Stock option plan (continued):

Pursuant to the Amalgamation Agreement described above, the Company agreed to assume the obligation of Redknee under the Redknee Stock Option Plan whereby the Company agreed to issue its common shares upon the exercise of options issued and outstanding under the Redknee Stock Option Plan and Redknee agreed to remit payment as set out in such options for such issued shares to the Company.

On January 9, 2007, the Board of Directors approved the accelerated vesting of 300,000 options which were previously granted to directors under the Redknee Stock Option Plan. The associated stock-based compensation expense related to the accelerated vesting of \$378,749 was accounted for in the period ended March 31, 2007.

The Company's options are non-transferable and vest as 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. Options are priced in U.S. dollars or Canadian dollars.

U.S. \$ options	Number of options outstanding	Weighted average exercise price per share
Outstanding, September 30, 2003	11,769,080	U.S. \$ 0.52
Exercised	(1,787,952)	0.12
Cancelled	(663,300)	0.95
Outstanding, September 30, 2004	9,317,828	0.56
Exercised	(1,507,030)	0.10
Cancelled	(4,009,768)	1.09
Outstanding, September 30, 2005	3,801,030	0.19
Exercised	(355,625)	0.18
Cancelled	(299,375)	0.48
Outstanding, September 30, 2006	3,146,030	0.18
Exercised (unaudited)	(2,701,030)	0.14
Cancelled (unaudited)	(100,000)	0.16
Outstanding, March 31, 2007 (unaudited)	345,000	0.20

# REDKNEE SOLUTIONS INC.

Notes to Interim Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Six months ended March 31, 2007 and 2006  
(Unaudited)

## 5. Stock option plan (continued):

Canadian \$ options	Number of options outstanding	Weighted average exercise price per share
Outstanding, September 30, 2003	1,235,000	Cdn. \$ 1.97
Granted	2,914,375	2.61
Exercised	(10,273)	1.97
Cancelled	(316,250)	2.58
Outstanding, September 30, 2004	3,822,852	2.41
Granted	7,544,228	1.18
Exercised	(150,258)	0.04
Cancelled	(4,007,720)	2.26
Outstanding, September 30, 2005	7,209,102	1.28
Granted	787,250	1.21
Exercised	(226,195)	1.21
Cancelled	(1,336,305)	1.22
Outstanding, September 30, 2006	6,433,852	1.22
Granted (unaudited)	158,125	1.56
Exercised (unaudited)	(572,283)	1.21
Cancelled (unaudited)	(275,000)	1.21
Outstanding, March 31, 2007 (unaudited)	5,744,694	1.23



# REDKNEE SOLUTIONS INC.

Notes to Interim Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Six months ended March 31, 2007 and 2006  
(Unaudited)

## 5. Stock option plan (continued):

Summary information about stock options outstanding and exercisable at March 31, 2007 is as follows:

	Options outstanding		Options exercisable	
	Number outstanding, March 31, 2007	Weighted average remaining contractual life (years)	Number exercisable, March 31, 2007	Weighted average remaining contractual life (years)
	(Unaudited)		(Unaudited)	
U.S. \$0.14	220,000	4.51	220,000	4.51
U.S. \$1.09	50,000	6.58	37,500	6.58
U.S. \$1.31	75,000	6.04	50,000	6.04
Cdn. \$1.21	5,555,320	7.51	2,706,035	7.13
Cdn. \$1.97	50,000	6.45	37,500	6.45
Cdn. \$1.24	84,376	9.62	—	—
Cdn. \$2.16	55,000	9.79	—	—

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

	Six months ended March 31,	
	2007	2006
	(Unaudited)	
Accounts receivable	\$ (3,273,459)	\$ (2,026,477)
Unbilled revenue	(2,457,022)	1,073,957
Income taxes receivable	636,330	(549,427)
Prepaid expenses	(29,567)	(142,836)
Accounts payable	1,241,218	37,011
Accrued liabilities	624,603	(1,239,413)
Accrued profit-sharing plan	—	(570,625)
Deferred revenue	732,425	(729,959)
Income taxes payable	398,911	(1,085,591)
Inventory	(668,875)	—
	\$ (2,795,436)	\$ (5,233,360)

# REDKNEE SOLUTIONS INC.

Notes to Interim Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Six months ended March 31, 2007 and 2006  
(Unaudited)

## 7. Segmented reporting:

The Company reviewed its operations and determined that it operates in a single reportable operating segment, the telecommunications software market. The single reportable operating segment derives its revenue from the sale of software products and related services and hardware. The following information provides the required enterprise-wide disclosures.

The Company's revenue by geographic area is as follows:

	Six months ended March 31,	
	2007	2006
	(Unaudited)	
Europe, Middle-East and Africa	\$ 8,676,509	\$ 6,555,870
North America, Latin America and Caribbean	10,751,425	8,372,525
Asia and the Pacific Rim	1,256,397	2,046,565
	<u>\$ 20,684,331</u>	<u>\$ 16,974,960</u>

Revenue is attributed to geographic locations based on the location of the external customer. Sales related to Canadian customers were: \$2,389,479 and \$786,236 for each of 2007 and 2006, respectively.

	Six months ended March 31,	
	2007	2006
	(Unaudited)	
Revenue by type:		
Software and services	\$ 13,912,318	\$ 11,731,357
Subscription	449,821	10,338
Third party hardware/software	756,443	1,776,012
Support	5,565,749	3,457,253
	<u>\$ 20,684,331</u>	<u>\$ 16,974,960</u>

In the six months ended March 31, 2007, two customers of the Company accounted for 10% and 11% of revenue (2006 - five customers of the Company accounted for 16%, 14%, 14%, 13% and 12% of revenue).

# REDKNEE SOLUTIONS INC.

Notes to Interim Consolidated Financial Statements (continued)  
(Expressed in Canadian dollars)

Six months ended March 31, 2007 and 2006  
(Unaudited)

---

## 8. Commitments and contingencies:

### (a) Lease commitments:

Future minimum lease payments for premises and equipment under non-cancellable operating leases are as follows:

---

2007	\$ 1,018,008
2008	1,536,779
2009	1,152,251
2010	1,058,675
2011	1,050,761
Thereafter	1,898,683

---

Rent expense for the six months ended March 31, 2007 was \$477,632 (2006 - \$473,727). The Company is also responsible for certain common area costs and realty taxes of its leased premises.

### (b) Litigation and claims:

The Company and its subsidiaries are involved in certain claims and litigation arising out of the ordinary course and conduct of business. Management assesses such claims, and if considered likely to result in material exposure and where the amount of the claim is quantifiable, provisions for loss are made based on management's assessment of the likely outcome. Management does not provide for claims where the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable.

## 9. Comparative figures:

Certain 2006 comparative figures have been reclassified to conform with the financial statement presentation adopted in 2007.