

Redknee Solutions Inc.

Interim Consolidated Financial Statements
(Unaudited)

June 30, 2010

(expressed in Canadian dollars)

Redknee Solutions Inc.
Interim Consolidated Balance Sheet
(Unaudited)

(expressed in Canadian dollars)

	June 30, 2010	September 30 2009
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	19,812,246	25,663,047
Short-term investments	-	107,049
Trade accounts and other receivables	10,672,901	8,160,277
Unbilled revenue	4,706,969	2,670,431
Investment tax credits and income taxes receivable	200,000	600,000
Prepaid expenses	1,001,083	1,027,056
Goods in transit	85,116	242,099
	<u>36,478,315</u>	<u>38,469,959</u>
Restricted cash (note 7)	127,272	322,722
Property and equipment	432,309	623,567
Intangible assets	905,016	1,139,444
Future income taxes	337,529	334,513
Other assets	466,630	464,303
	<u>38,747,071</u>	<u>41,354,508</u>
Liabilities		
Current liabilities		
Accounts payable	1,034,435	907,694
Accrued liabilities	3,249,623	5,899,843
Income taxes payable	2,260,920	2,529,923
Deferred revenue	5,471,520	6,988,512
	<u>12,016,498</u>	<u>16,325,972</u>
Long-term deferred revenue	-	1,005,164
	<u>12,016,498</u>	<u>17,331,136</u>
Shareholders' equity		
Share capital , net of employee share purchase loans	43,094,235	40,744,480
Contributed surplus	4,175,711	4,572,737
Deficit	(20,409,087)	(21,144,555)
Accumulated other comprehensive loss , net of income taxes	(130,286)	(149,290)
Total deficit and accumulated other comprehensive loss	<u>(20,539,373)</u>	<u>(21,293,845)</u>
	<u>26,730,573</u>	<u>24,023,372</u>
	<u>38,747,071</u>	<u>41,354,508</u>
Guarantees and contingencies (note 7)		

Approved by the Board of Directors

(signed) "Alan Michels" Director

(signed) "Lucas Skoczkowski" Director

Redknee Solutions Inc.

Interim Consolidated Statement of Operations

(Unaudited)

(expressed in Canadian dollars)

	Three months ended June 30,		Nine months ended June 30,	
	2010 \$	2009 \$	2010 \$	2009 \$
Revenue				
Software, services and other	5,738,695	8,861,397	21,897,466	26,195,166
Support and Subscription	4,892,963	5,618,489	13,980,505	16,251,870
	10,631,658	14,479,886	35,877,971	42,447,036
Cost of revenue	3,112,879	3,008,663	9,566,056	9,300,867
Gross profit	7,518,779	11,471,223	26,311,915	33,146,169
Operating expenses				
Selling and marketing	2,804,084	3,765,183	9,483,020	12,040,384
General and administrative	2,400,288	2,470,037	5,771,829	7,451,500
Research and development (note 4)	2,810,904	2,931,780	8,185,452	9,591,644
Amortization of property and equipment and intangible assets	164,872	169,897	486,178	482,026
Foreign currency exchange (gain) loss	(504,352)	1,311,451	1,236,071	(909,409)
	7,675,796	10,648,348	25,162,550	28,656,145
Income (loss) from operations	(157,017)	822,875	1,149,365	4,490,024
Interest income	22,710	4,968	29,600	45,751
Interest expense	(3,827)	(10,681)	(21,335)	(14,880)
Income (loss) before income taxes	(138,134)	817,162	1,157,630	4,520,895
Income taxes				
Current	91,650	309,147	422,162	945,822
Net income (loss) for the period	(229,784)	508,015	735,468	3,575,073
Net income (loss) per common share (note 2)				
Basic	0.00	0.01	0.01	0.06
Diluted	0.00	0.01	0.01	0.06
Weighted average number of common shares (note 2)				
Basic	60,078,132	57,107,659	60,078,132	57,107,659
Diluted	60,078,132	59,122,135	61,785,769	58,226,223

Redknee Solutions Inc.

Interim Consolidated Statement of Comprehensive Income (Loss)

(Unaudited)

(expressed in Canadian dollars)

	Three months ended June 30,		Nine months ended June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Net income (loss) for the period	(229,784)	508,015	735,468	3,575,073
Other comprehensive income , net of income taxes				
Foreign currency translation adjustment	44,550	57,994	19,004	57,994
Comprehensive income (loss) for the period	(185,234)	566,009	754,472	3,633,067

Redknee Solutions Inc.

Interim Consolidated Statement of Shareholders' Equity

(Unaudited)

For the nine months ended June 30,

(expressed in Canadian dollars)

	2010						
	Share capital		Employee share purchase loans	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total shareholders' equity
	Number	Amount					
		\$	\$	\$	\$	\$	\$
Balance - September 30, 2009	58,808,751	41,237,082	(492,602)	4,572,737	(21,144,555)	(149,290)	24,023,372
Stock-based compensation (note 3)	-	-	-	275,689	-	-	275,689
Net income for the period	-	-	-	-	735,468	-	735,468
Collection of employee share purchase loans	2,750	-	479,405	-	-	-	479,405
Option exercise	1,128,939	1,665,750	-	(468,115)	-	-	1,197,635
Restricted share units vested and exercised	165,000	204,600	-	(204,600)	-	-	-
Other comprehensive income	-	-	-	-	-	19,004	19,004
Balance - June 30, 2010	60,105,440	43,107,432	(13,197)	4,175,711	(20,409,087)	(130,286)	26,730,573
	2009						
	Share capital		Employee share purchase loans	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total Shareholders' equity
	Number	Amount					
		\$	\$	\$	\$	\$	\$
Balance - September 30, 2008	58,350,626	40,663,829	(977,128)	4,410,677	(24,471,986)	(210,959)	19,414,433
Stock-based compensation (note 3)	-	-	-	513,058	-	-	513,058
Net income for the period	-	-	-	-	3,575,073	-	3,575,073
Collection of employee share purchase loans	-	-	168,650	-	-	-	168,650
Options exercise	18,750	15,223	-	-	-	-	15,223
Restricted share units vested and exercised	430,000	517,700	-	(517,700)	-	-	-
Other comprehensive income	-	-	-	-	-	57,994	57,994
Balance - June 30, 2009	58,799,376	41,196,752	(808,478)	4,406,035	(20,896,913)	(152,965)	23,744,431

Redknee Solutions Inc.

Interim Consolidated Statement of Cash Flows

(Unaudited)

(expressed in Canadian dollars)

	Three months ended June 30,		Nine months ended June 30,	
	2010 \$	2009 \$	2010 \$	2009 \$
Cash provided by (used in)				
Operating activities				
Net income (loss) for the period	(229,784)	508,015	735,468	3,575,073
Items not involving cash				
Amortization of property and equipment	105,462	112,115	307,948	311,114
Amortization of intangible assets	59,410	57,782	178,230	170,912
Unrealized foreign currency exchange loss (gain)	(377,156)	2,114,121	1,265,700	(1,333,887)
Stock-based compensation (note 3)	137,442	189,935	275,689	513,058
Change in non-cash operating working capital (note 5)	(19,236)	(417,866)	(9,237,670)	3,537,092
	(323,862)	2,564,102	(6,474,635)	6,773,362
Financing activities				
Collection of employee loans	12,797	109,621	479,405	168,650
Proceeds from exercise of stock options	464,018	15,224	1,197,635	15,224
Repayment of obligations under capital leases	-	-	-	(619)
	476,815	124,845	1,677,040	183,255
Investing activities				
(Purchase of) proceeds from short-term investments	-	4,958,910	107,049	(4,078,925)
Purchase of property and equipment	(39,427)	(88,088)	(116,690)	(401,033)
(Increase) decrease in other assets	(28,625)	8,118	(2,327)	(29,116)
(Increase) decrease in restricted cash	(5,400)	50,911	195,450	(195,854)
	(73,450)	4,929,851	183,482	(4,704,928)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(43,662)	(419,179)	(1,236,688)	780,102
Increase (decrease) in cash and cash equivalents during the period	35,840	7,199,619	(5,850,801)	3,031,791
Cash and cash equivalents - Beginning of period	19,776,406	11,074,779	25,663,047	15,242,607
Cash and cash equivalents - End of period	19,812,246	18,274,398	19,812,246	18,274,398
Supplemental cash flow information				
Interest paid	3,827	10,681	21,335	14,880
Interest received	22,711	4,968	29,600	45,751
Net income taxes paid	99,298	130,895	269,944	328,531

Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2010

Nature of operations

Redknee Solutions Inc. (the Company) commenced operations on March 29, 1999. Redknee is a leading provider of revenue generating software products, solutions and services to some of the largest network operators throughout the world, including wireless, wireline, broadband and satellite. Redknee delivers solutions in the areas of converged billing, interconnect billing, customer care, real-time rating, charging and policy management for voice, messaging and next generation data services to over 80 network operators in over 50 countries. 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 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 Summary of significant accounting policies

a) Basis of presentation

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and have been prepared on a basis consistent with the audited consolidated financial statements for the year ended September 30, 2009, except as described below.

The preparation of these interim consolidated financial statements requires management to make assumptions and estimates that affect the figures within these interim consolidated financial statements and notes. Actual results could differ significantly from those assumptions and estimates. Furthermore, 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.

b) Principle of consolidation

The 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), Redknee (US) Ltd., Redknee (India) Technologies Pvt. Ltd., Redknee Solutions (UK) Limited, Redknee (Lebanon) MEA SAL and Redknee Singapore PTE. LTD. All significant intercompany balances and transactions have been eliminated on consolidation. The Company does not have any entities to be consolidated under Accounting Guideline 15, Consolidation of Variable Interest Entities.

c) Changes in accounting policies

Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the Emerging Issues Committee (EIC) of the CICA issued EIC Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities (EIC 173), which requires the

Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2010

consideration of the Company's own credit risk and the credit risk of the Company's counterparty when determining the fair value of financial assets and liabilities. The adoption of these new recommendations has had no significant impact on the Company's interim consolidated financial statements.

Accounting changes

CICA Handbook Section 1506, Accounting Changes, was amended to exclude from its scope changes in accounting policies upon the complete replacement of an entity's primary basis of accounting. The amendments apply to interim and annual financial statements relating to years beginning on/after July 1, 2009. The impact of this amendment did not have an impact on the interim consolidated financial statements.

d) Future changes in accounting standards

Business combinations, consolidated financial statements and non-controlling interests

In January 2009, the CICA issued Handbook: Section 1582, Business Combinations; Section 1601, Consolidated Financial Statements; and Section 1602, Non-controlling Interests. These sections replace the former Handbook Section 1581, Business Combinations, and Handbook Section 1600, Consolidated Financial Statements, and establish new sections for accounting for a non-controlling interest in a subsidiary. Handbook Section 1582 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Handbook Sections 1601 and 1602 apply to interim and annual consolidated financial statements relating to years beginning on or after January 1, 2011 and allows for early adoption. The Company is currently assessing the effect these standards may have on the Company's results of operations and consolidated financial position.

Fair value measurement disclosure

In June 2009, the CICA amended Handbook Section 3862 Financial Instruments - Disclosures, to adopt the amendments recently made by the International Accounting Standards Board to IFRS 7, Financial Instruments - Disclosures. The amendments require enhanced disclosures about fair value measurements, including the relative reliability of the inputs used in those measurements and about the liquidity risk of financial instruments. Although the amendments apply to financial statements relating to fiscal years ending after September 30, 2009, comparative information is not required in the first year of application. The impacts of these amendments will be assessed and the necessary additional disclosures will be implemented commencing with the annual financial statements for fiscal 2010.

Revenue recognition

In December 2009, the CICA issued EIC 175, Multiple Deliverable Revenue Arrangements, replacing EIC 142, Revenue Arrangements with Multiple Deliverables. This abstract was amended to: (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (2) require, in situations where a vendor does not have vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and

Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2010

(4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity's fiscal year, it must be applied retroactively from the beginning of the Company's fiscal period of adoption. The Company is currently assessing the future impact of these amendments on its financial statements and has not yet determined the timing and method of its adoption.

2 Net income per common share

Basic earnings per common share are calculated using the daily weighted average number of common shares outstanding during the period.

Diluted earnings per common share is calculated using the daily weighted average number of equivalent common shares that would have been outstanding during the period assuming all dilutive potential common shares were outstanding. The treasury stock method is employed to determine the incremental number of shares that would have been outstanding had the Company used proceeds from the exercise of the stock options, restricted share units, and share purchase loans to acquire shares at the average market price during the period.

For 2010 and 2009, some stock options were dilutive.

A reconciliation of the number of shares used for purposes of calculating basic and diluted income per share is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2010	2009	2010	2009
Weighted average number of shares outstanding	60,105,440	58,780,626	60,105,440	58,780,626
Less: Shares associated with outstanding share purchase loans	27,308	1,672,967	27,308	1,672,967
Basic weighted average number of shares outstanding	60,078,132	57,107,659	60,078,132	57,107,659
Add: Dilutive stock options outstanding	-	1,684,476	1,542,637	788,564
Unvested restricted share units	-	330,000	165,000	330,000
Diluted weighted average shares outstanding	60,078,132	59,122,135	61,785,769	58,226,223

Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2010

The dilutive stock options outstanding are based on the quarter and year-to date average share price at June 30, 2010 and June 30, 2009 that were “in the money”. The average trade value for the nine months ended June 30, 2010 was \$1.26 (2009 - \$0.51).

3 Stock-based compensation

During the nine months ended June 30, 2010, 305,000 stock options were granted with a weighted average fair value of \$1.08 per common share. During the nine months ended June 30, 2009, 2,673,750 stock options were granted and issued to employees with a weighted average fair value of \$0.29 per common share. The fair value of the stock options was determined using a Black-Scholes option pricing model with the following assumptions:

	2010	2009
Risk free interest rate	3.38%	2.91%
Expected volatility	66.63%	78.77%
Expected life	7 years	7 years
Expected dividends	\$nil	\$nil

The stock-based compensation expense during the nine month period was \$122,239 (2009 - \$359,608) relating to the Company’s stock options.

The Company also recorded a stock-based compensation expense of \$153,450 (2009 - \$153,450) relating to the Company’s restricted share plan during the nine month period. No restricted shares were granted during the period, as the plan was cancelled in November 2006.

4 Research and development expenses

During the three and nine months ended June 30, the research and development expenses were as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2010 \$	2009 \$	2010 \$	2009 \$
Gross research and development expenses	2,610,904	2,956,780	7,785,452	9,666,644
Less: Investment tax credits recognized/(reversed)	(200,000)	25,000	(400,000)	75,000
	<u>2,810,904</u>	<u>2,931,780</u>	<u>8,185,452</u>	<u>9,591,644</u>

Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2010

5 Change in non-cash operating working capital

	Three months ended June 30,		Nine months ended June 30,	
	2010 \$	2009 \$	2010 \$	2009 \$
Trade accounts and other receivables	823,951	(2,442,124)	(2,541,278)	(1,698,550)
Unbilled revenue	177,001	694,762	(2,041,636)	4,456,803
Investment tax credits and income taxes receivable	200,000	(25,000)	400,000	(75,000)
Prepaid expenses	(252,108)	(338,529)	25,972	(21,743)
Accounts payable	82,374	(111,459)	132,174	(1,005,530)
Accrued liabilities	(645,237)	343,079	(2,643,231)	(489,717)
Deferred revenue	(701,709)	1,130,496	(2,522,158)	1,898,003
Income taxes payable	142,254	328,350	(204,496)	673,179
Goods in transit	154,238	2,559	156,983	(200,353)
	(19,236)	(417,866)	(9,237,670)	3,537,092

6 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 for the three and nine months ended June 30 by geographic area is as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2010 \$	2009 \$	2010 \$	2009 \$
Europe, Middle East and Africa	5,303,937	8,474,559	15,559,395	17,070,209
Americas	3,681,538	3,925,143	11,306,733	17,653,834
Asia and Pacific Rim	1,646,184	2,080,184	9,011,842	7,722,993
	10,631,658	14,479,886	35,877,970	42,447,036

Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2010

Revenue is attributed to geographic locations based on the location of the external customer. Sales related to Canadian customers were \$450,189 and \$60,450 for the nine months ending June 30, 2010 and 2009, respectively.

	Three months ended June 30,		Nine months ended June 30,	
	2010 \$	2009 \$	2010 \$	2009 \$
Revenue by type				
Software and services	4,942,120	8,094,146	19,711,025	24,774,417
Support and Subscription	4,892,963	5,618,489	13,980,505	16,251,870
Third party software and hardware	796,575	767,251	2,186,441	1,420,749
	<u>10,631,658</u>	<u>14,479,886</u>	<u>35,877,971</u>	<u>42,447,036</u>

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

	June 30, 2010 \$	September 30, 2009 \$
Canada	396,982	565,057
United Kingdom	17,024	42,639
India	13,943	10,641
Other	4,360	5,230
	<u>432,309</u>	<u>623,567</u>

In the nine-month period ended June 30, 2010, one customer accounted for approximately 13% of revenue (June 30, 2009 - one customer accounted for 20%).

7 Guarantees and contingencies

a) Letters of credit

As at June 30, 2010, the Company had outstanding letters of credit of \$127,272 (September 30, 2009 - \$322,722) relating to customer contracts, which are secured by restricted cash in the consolidated balance sheet.

Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2010

b) Line of credit

As at June 30, 2010, the Company has a credit facility with Export Development Corporation for up to an aggregate principal amount of US\$10,000,000, to assist in financing (i) one or more acquisitions or (ii) working capital. A commitment fee is payable equal to 1% per annum of all amounts that have been allocated but not drawn. As at June 30, 2010, there were no allocations or amounts drawn.

c) Guarantees

The Company has provided routine indemnifications to its customers against liability if the Company's products infringe on a third party's intellectual property rights. The maximum exposure from these indemnifications cannot be reasonably estimated. In some cases, the Company has recourse against other parties to mitigate its risk of loss from these guarantees. The Company is not subject to any pending litigation in these matters.

d) Litigation and claims

The Company is 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 a loss and, when the amount of the loss is quantifiable, provisions for loss are made, based on management's assessment of the most likely outcome. Management does not provide claims for which 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. The Company is not currently a party to, or has any of its property as the subject of, legal proceedings, which would be material to the Company's financial condition or results of operations.

The Company is currently involved in a legal dispute with one of its customers. The Company has expensed approximately US\$200,000 of costs to date and has reduced the outstanding receivable from this customer and the related deferred revenue by US \$100,000. The maximum remaining exposure is US\$300,000 on this contingency.

8 Business acquisition

Redknee intends to acquire 100% of Nimbus Systems' issued and outstanding shares in fiscal 2010 and intends to pay approximately 11,250,000 EUR consisting of 7,000,000 EUR cash and the balance in common shares of Redknee. If the transaction closes, the transaction will be accounted for as a purchase and will be included in the operations of the Company from the date of closing.

Established in 2001, Nimbus Systems has been engaged in analysis, control and management solutions, with a particular focus on customer relationship management systems and billing, rating and partner relationship management. Nimbus Systems currently supports group operators and non-telecommunications clients engaged in one of the world's leading transaction credit and loyalty card infrastructure companies.