

# **Redknee Solutions Inc.**

Interim Consolidated Financial Statements  
(Unaudited)

**March 31, 2010**

(expressed in Canadian dollars)

**Redknee Solutions Inc.**  
Interim Consolidated Balance Sheet  
(Unaudited)

(expressed in Canadian dollars)

	<b>March 31, 2010</b>	<b>September 30 2009</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	19,776,406	25,663,047
Short-term investments	-	107,049
Trade accounts and other receivables	11,180,906	8,160,277
Unbilled revenue	4,740,785	2,670,431
Investment tax credits and income taxes receivable	400,000	600,000
Prepaid expenses	748,976	1,027,056
Goods in transit	239,354	242,099
	<u>37,086,427</u>	<u>38,469,959</u>
<b>Restricted cash</b> (note 7)	121,872	322,722
<b>Property and equipment</b>	498,344	623,567
<b>Intangible assets</b>	979,894	1,139,444
<b>Future income taxes</b>	336,322	334,513
<b>Other assets</b>	438,006	464,303
	<u>39,460,865</u>	<u>41,354,508</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	950,108	907,694
Accrued liabilities	3,893,537	5,899,843
Income taxes payable	2,142,443	2,529,923
Deferred revenue	5,793,988	6,988,512
	<u>12,780,076</u>	<u>16,325,972</u>
<b>Long-term deferred revenue</b>	379,239	1,005,164
	<u>13,159,315</u>	<u>17,331,136</u>
<b>Shareholders' equity</b>		
<b>Share capital</b> , net of employee share purchase loans	42,417,300	40,744,480
<b>Contributed surplus</b>	4,238,389	4,572,737
<b>Deficit</b>	(20,179,303)	(21,144,555)
<b>Accumulated other comprehensive loss</b> , net of income taxes	(174,836)	(149,290)
<b>Total deficit and accumulated other comprehensive loss</b>	<u>(20,354,139)</u>	<u>(21,293,845)</u>
	<u>26,301,550</u>	<u>24,023,372</u>
	<u>39,460,865</u>	<u>41,354,508</u>
<b>Guarantees and contingencies</b> (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 March 31,		Six months ended March 31,	
	2010 \$	2009 \$	2010 \$	2009 \$
<b>Revenue</b>				
Software, services and other	9,155,159	7,935,239	16,158,771	17,333,769
Support and Subscription	4,311,077	5,814,811	9,087,542	10,633,381
	13,466,236	13,750,050	25,246,313	27,967,150
<b>Cost of revenue</b>	3,733,881	2,922,273	6,453,176	6,292,204
<b>Gross profit</b>	9,732,355	10,827,777	18,793,137	21,674,946
<b>Operating expenses</b>				
Selling and marketing	3,522,365	3,895,255	6,678,936	8,275,201
General and administrative	1,710,959	2,611,329	3,371,542	4,981,463
Research and development (note 4)	2,631,224	3,316,527	5,374,547	6,659,864
Amortization of property and equipment and intangible assets	162,585	119,892	321,306	312,129
Foreign currency exchange (gain) loss	1,247,292	417,099	1,740,423	(2,220,860)
	9,274,425	10,360,102	17,486,754	18,007,797
<b>Income from operations</b>	457,929	467,675	1,306,383	3,667,149
Interest income	5,215	15,707	6,889	40,783
Interest expense	(4,713)	(2,170)	(17,508)	(4,199)
<b>Income before income taxes</b>	458,432	481,212	1,295,764	3,703,733
<b>Income taxes</b>				
Current	57,485	275,261	330,512	636,675
<b>Net income for the period</b>	400,947	205,951	965,252	3,067,058
<b>Net income per common share</b> (note 2)				
Basic	0.01	0.00	0.02	0.05
Diluted	0.01	0.00	0.02	0.05
<b>Weighted average number of common shares</b> (note 2)				
Basic	59,603,526	56,880,822	59,603,526	56,809,155
Diluted	61,738,910	57,210,822	61,259,237	57,210,822

# Redknee Solutions Inc.

## Interim Consolidated Statement of Comprehensive Income (Loss) (Unaudited)

---

(expressed in Canadian dollars)

	<b>Three months ended March 31,</b>		<b>Six months ended March 31,</b>	
	<b>2010 \$</b>	<b>2009 \$</b>	<b>2010 \$</b>	<b>2009 \$</b>
<b>Net income for the period</b>	400,947	205,951	965,252	3,067,058
<b>Other comprehensive income</b> , net of income taxes				
Foreign currency translation adjustment	(16,314)	-	(25,546)	-
<b>Comprehensive income for the period</b>	<b>384,633</b>	<b>205,951</b>	<b>939,706</b>	<b>3,067,058</b>

# Redknee Solutions Inc.

## Interim Consolidated Statement of Shareholders' Equity (Unaudited)

For the six months ended March 31,

(expressed in Canadian dollars)

	<b>2010</b>						
	<b>Share capital</b>		<b>Employee share purchase loans</b>	<b>Contributed surplus</b>	<b>Deficit</b>	<b>Accumulated other comprehensive loss</b>	<b>Total shareholders' equity</b>
	<b>Number</b>	<b>Amount</b>					
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
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)	-	-	-	138,247	-	-	138,247
Net income for the period	-	-	-	-	965,252	-	965,252
Collection of employee share purchase loans	2,750	-	466,608	-	-	-	466,608
Option Exercise	680,814	1,001,612	-	(267,995)	-	-	733,617
Restricted share units vested and exercised	165,000	204,600	-	(204,600)	-	-	-
Other comprehensive income	-	-	-	-	-	(25,546)	(25,546)
<b>Balance - March 31, 2010</b>	<b>59,657,315</b>	<b>42,443,294</b>	<b>(25,994)</b>	<b>4,238,389</b>	<b>(20,179,303)</b>	<b>(174,836)</b>	<b>26,301,550</b>

  

	<b>2009</b>						
	<b>Share capital</b>		<b>Employee share purchase loans</b>	<b>Contributed surplus</b>	<b>Deficit</b>	<b>Accumulated other comprehensive loss</b>	<b>Total shareholders' equity</b>
	<b>Number</b>	<b>Amount</b>					
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
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)	-	-	-	323,123	-	-	323,123
Net income for the period	-	-	-	-	3,067,058	-	3,067,058
Collection of employee share purchase loans	-	-	59,029	-	-	-	59,029
Restricted share units vested and exercised	417,500	517,700	-	(517,700)	-	-	-
<b>Balance - March 31, 2009</b>	<b>58,780,626</b>	<b>41,181,529</b>	<b>(918,099)</b>	<b>4,216,100</b>	<b>(21,404,928)</b>	<b>(210,959)</b>	<b>22,863,643</b>

# Redknee Solutions Inc.

## Interim Consolidated Statement of Cash Flows (Unaudited)

(expressed in Canadian dollars)

	Three months ended March 31,		Six months ended March 31,	
	2010 \$	2009 \$	2010 \$	2009 \$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income for the period	400,947	205,951	965,252	3,067,058
Items not involving cash				
Amortization of property and equipment	86,687	82,100	185,998	198,999
Amortization of intangible assets	59,410	37,792	118,820	113,130
Unrealized foreign currency exchange loss (gain)	1,141,350	(930,918)	1,642,856	(3,448,008)
Stock-based compensation (note 3)	(24,737)	134,885	138,247	323,123
Change in non-cash operating working capital (note 5)	(5,332,574)	(2,876,365)	(9,218,434)	3,954,958
	(3,668,917)	(3,346,555)	(6,167,261)	4,209,260
<b>Financing activities</b>				
Collection of employee loans	32,500	41,378	466,608	59,029
Proceeds from exercise of stock options	733,617	-	733,617	-
Repayment of obligations under capital leases	-	-	-	(619)
	766,117	41,378	1,200,225	58,410
<b>Investing activities</b>				
(Purchase of) proceeds from short-term investments	278,210	(4,527,233)	107,049	(9,037,835)
Purchase of property and equipment	(29,793)	(174,047)	(60,776)	(312,945)
(Increase) decrease in other assets	27,768	10,671	26,298	(37,234)
Increase in restricted cash	29,799	(245,524)	200,850	(246,765)
	305,984	(4,936,133)	273,421	(9,634,779)
<b>Effect of foreign currency exchange rate changes on cash and cash equivalents</b>	(860,343)	17,334	(1,193,026)	1,199,281
<b>Increase (decrease) in cash and cash equivalents during the period</b>	(3,457,159)	(8,223,976)	(5,886,641)	(4,167,828)
<b>Cash and cash equivalents - Beginning of period</b>	23,233,565	19,298,755	25,663,047	15,242,607
<b>Cash and cash equivalents - End of period</b>	19,776,406	11,074,779	19,776,406	11,074,779
<b>Supplemental cash flow information</b>				
Interest paid	4,712	2,169	17,508	4,199
Interest received	5,215	15,705	6,889	40,781
Cash taxes/investment tax credits received, net of income taxes paid	86,071	53,753	170,646	226,937

# Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements  
(Unaudited)  
March 31, 2010

---

(expressed in Canadian dollars, except as otherwise indicated)

## **Nature of operations**

Redknee Solutions Inc. (the Company) commenced operations on March 29, 1999. 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 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 consideration of the Company's own credit risk and the credit risk of the Company's counterparty when

# Redknee Solutions Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2010

---

(expressed in Canadian dollars, except as otherwise indicated)

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



# Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements  
(Unaudited)

March 31, 2010

---

(expressed in Canadian dollars, except as otherwise indicated)

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 (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 is 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:

	<b>Three months ended March 31,</b>		<b>Six months ended March 31,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Weighted average number of shares outstanding	59,657,315	58,780,626	59,657,315	58,708,959
Less: Shares associated with outstanding share purchase loans	53,789	1,899,804	53,789	1,899,804
Basic weighted average number of shares outstanding	59,603,526	56,880,822	59,603,526	56,809,155
Add: Dilutive stock options outstanding	1,970,384	-	1,490,710	-

# Redknee Solutions Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2010

(expressed in Canadian dollars, except as otherwise indicated)

Unvested restricted share units	165,000	330,000	165,000	401,667
Diluted weighted average shares outstanding	61,738,910	57,210,822	61,259,237	57,210,822

The dilutive stock options outstanding are based on the quarter and year-to date average share price at March 31, 2010 and March 31, 2009 that were “in the money”. The average trade value for the six months ended March 31, 2010 was \$1.17.

### 3 Stock-based compensation

During the six months ended March 31, 2010, no stock options were granted. During the six months ended March 31, 2009, 2,591,500 stock options were granted and issued to employees with a weighted average fair value of \$0.27 per common share. The fair value of the stock options was determined using a Black-Scholes option pricing model with the following assumptions:

	<b>2009</b>
Risk free interest rate	3.70%
Expected volatility	79.85%
Expected life	7 years
Expected dividends	\$nil

The stock-based compensation expense during the six period was \$35,947 (2009 - \$220,823) relating to the Company’s stock options.

The Company also recorded a stock-based compensation expense of \$102,300 (2009 - \$102,300) relating to the Company’s restricted share plan during the six 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 six months ended March 31, the research and development expenses were as follows:

	<b>Three months ended March 31,</b>		<b>Six months ended March 31,</b>	
	<b>2010 \$</b>	<b>2009 \$</b>	<b>2010 \$</b>	<b>2009 \$</b>
Gross research and development expenses	2,431,224	3,341,527	5,174,547	6,709,864

# Redknee Solutions Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2010

(expressed in Canadian dollars, except as otherwise indicated)

Less: Investment tax credits recognized	(200,000)	25,000	(200,000)	50,000
	2,631,224	3,316,527	5,374,547	6,659,864

### 5 Change in non-cash operating working capital

	Three months ended March 31,		Six months ended March 31,	
	2010 \$	2009 \$	2010 \$	2009 \$
Trade accounts and other receivables	(1,688,141)	(1,894,284)	(3,365,229)	743,574
Unbilled revenue	(1,731,956)	2,875,161	(2,218,637)	3,762,041
Investment tax credits and income taxes receivable	200,000	(25,000)	200,000	(50,000)
Prepaid expenses	190,400	317,961	278,080	316,786
Accounts payable	169,865	343,524	49,800	(894,071)
Accrued liabilities	(830,783)	(2,412,365)	(1,997,994)	(832,796)
Deferred revenue	(1,203,114)	(1,895,765)	(1,820,449)	767,507
Income taxes payable	(339,610)	(21,409)	(346,750)	344,829
Goods in transit	(99,235)	(164,188)	2,745	(202,912)
	(5,332,574)	(2,876,365)	(9,218,434)	3,954,958

### 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 six months ended March 31 by geographic area is as follows:

	Three months ended March 31,		Six months ended March 31,	
	2010 \$	2009 \$	2010 \$	2009 \$
Europe, Middle East and Africa	5,020,755	4,359,993	10,255,459	8,595,650
Americas	3,667,940	5,949,287	7,625,195	13,728,694
Asia and Pacific Rim	4,777,541	3,440,770	7,365,658	5,642,806

# **Redknee Solutions Inc.**

Notes to Interim Consolidated Financial Statements  
(Unaudited)

**March 31, 2010**

---

(expressed in Canadian dollars, except as otherwise indicated)

---

13,466,236	13,750,050	25,246,313	27,967,150
------------	------------	------------	------------

---

# Redknee Solutions Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2010

(expressed in Canadian dollars, except as otherwise indicated)

Revenue is attributed to geographic locations based on the location of the external customer. Sales related to Canadian customers were \$334,562 and \$52,326 for the six months ending March 31, 2010 and 2009, respectively.

	Three months ended March 31,		Six months ended March 31,	
	2010 \$	2009 \$	2010 \$	2009 \$
Revenue by type				
Software and services	8,026,113	7,647,046	14,768,904	16,680,271
Support and Subscription	4,311,077	5,814,811	9,087,542	10,633,381
Third party software and hardware	1,129,046	288,193	1,389,866	653,498
	<u>13,466,236</u>	<u>13,750,050</u>	<u>25,246,313</u>	<u>27,967,150</u>

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

	March 31, 2010 \$	September 30, 2009 \$
Canada	453,241	565,057
United Kingdom	25,117	42,639
India	15,336	10,641
Other	4,650	5,230
	<u>498,344</u>	<u>623,567</u>

In the six-month period ended March 31, 2010, one customer accounted for approximately 14% of revenue (March 31, 2009 - one customer accounted for 27%).

## 7 Guarantees and contingencies

### a) Letters of credit

As at March 31, 2009, the Company had outstanding letters of credit of \$121,872 (September 30, 2009 - \$322,722) relating to customer contracts, which are secured by restricted cash in the consolidated balance sheet.

### b) Line of credit

As at March 31, 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)

# **Redknee Solutions Inc.**

Notes to Interim Consolidated Financial Statements

(Unaudited)

**March 31, 2010**

---

(expressed in Canadian dollars, except as otherwise indicated)

working capital. A commitment fee is payable equal to 1% per annum of all amounts that have been allocated but not drawn. As at March 31, 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 by US \$100,000. The maximum remaining exposure is US\$300,000. The amount expensed (US\$200,000) and the reduction to the outstanding receivable (US\$100,000) represents the Company's best estimate of the remaining loss expected to be incurred on this contingency.

## **8 Business streamlining**

On February 10, 2010, the Company announced changes to its senior management team as part of change to its organizational structure in support of its strategic plan. The Company expensed approximately \$500,000 in operating expenses relating to this initiative in the second quarter of 2010. The Company has paid \$234,000 relating to this obligation in the second quarter and the remaining amount will be paid in fiscal 2010.