

Redknee Solutions Inc.

Interim Consolidated Financial Statements

(Unaudited)

December 31, 2009

(expressed in Canadian dollars)

Redknee Solutions Inc.
Interim Consolidated Balance Sheet
(Unaudited)

(expressed in Canadian dollars)

	December 31, 2009	September 30, 2009
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	23,233,565	25,663,047
Short-term investments	278,211	107,049
Trade accounts and other receivables	9,709,663	8,160,277
Unbilled revenue	3,090,894	2,670,431
Investment tax credits and income taxes receivable	600,000	600,000
Prepaid expenses	939,376	1,027,056
Goods in transit	140,118	242,099
	<hr/>	<hr/>
	37,991,827	38,469,959
Restricted cash (note 7)	151,671	322,722
Property and equipment	555,239	623,567
Intangible assets	1,055,792	1,139,444
Future income taxes	336,322	334,513
Other assets	465,772	464,303
	<hr/>	<hr/>
	40,556,623	41,354,508
Liabilities		
Current liabilities		
Accounts payable	781,883	907,694
Accrued liabilities	4,724,322	5,899,843
Income taxes payable	2,498,541	2,529,923
Deferred revenue	6,693,351	6,988,512
	<hr/>	<hr/>
	14,698,097	16,325,972
Long-term deferred revenue	682,990	1,005,164
	<hr/>	<hr/>
	15,381,087	17,331,136
Shareholders' Equity		
Share capital , net of employee share purchase loans	41,383,188	40,744,480
Contributed surplus	4,531,121	4,572,737
Deficit	(20,580,250)	(21,144,555)
Accumulated other comprehensive loss , net of income taxes	(158,523)	(149,290)
Total deficit and accumulated other comprehensive loss	<hr/>	<hr/>
	(20,738,773)	(21,293,845)
	<hr/>	<hr/>
	25,175,536	24,023,372
	<hr/>	<hr/>
	40,556,623	41,354,508

Guarantees and contingencies (note 7)

Approved by the Board of Directors

(signed) "Jim Pelot" Director

(signed) "Lucas Skoczowski" Director

Redknee Solutions Inc.

Interim Consolidated Statement of Operations
(Unaudited)

For the three months ended December 31

(expressed in Canadian dollars)

	2009 \$	2008 \$
Revenue		
Software, services and other	7,003,612	9,398,531
Support and Subscription	4,776,465	4,818,570
	<hr/> 11,780,077	<hr/> 14,217,101
Cost of revenue	<hr/> 2,719,296	<hr/> 3,369,931
Gross profit	<hr/> 9,060,781	<hr/> 10,847,170
Operating expenses		
Selling and marketing	3,156,571	4,379,946
General and administrative	1,660,581	2,370,134
Research and development (note 4)	2,743,323	3,343,337
Amortization of property and equipment and intangible assets	158,721	192,237
Foreign currency exchange (gain) loss	493,131	(2,637,959)
	<hr/> 8,212,327	<hr/> 7,647,695
Income from operations	848,454	3,199,475
Interest income	1,674	25,076
Interest expense	<hr/> (12,796)	<hr/> (2,030)
Income before income taxes	837,332	3,222,521
Income taxes		
Current	<hr/> 273,027	<hr/> 361,415
Net income for the period	<hr/> 564,305	<hr/> 2,861,106
Net income per common share (note 2)		
Basic	0.01	0.05
Diluted	0.01	0.05
Weighted average number of common shares (note 2)		
Basic	58,800,461	56,643,532
Diluted	60,923,165	57,111,032

Redknee Solutions Inc.

Interim Consolidated Statement of Comprehensive Income
(Unaudited)

For the three months ended December 31

(expressed in Canadian dollars)

	2009	2008
	\$	\$
Net income for the period	564,305	2,861,106
Other comprehensive income , net of income taxes		
Foreign currency translation adjustment	(9,233)	-
Comprehensive income for the period	<u>555,072</u>	<u>2,861,106</u>

Redknee Solutions Inc.

Interim Consolidated Statement of Shareholders' Equity (Unaudited)

For the three months ended December 31

(expressed in Canadian dollars)

	Share capital		Employee share purchase loans	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total shareholders' equity
	Number	Amount \$	\$	\$	\$	\$	\$
2009							
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)	-	-	-	162,984	-	-	162,984
Net income for the period	-	-	-	-	564,305	-	564,305
Collection of employee share purchase loans	2,750	-	434,108	-	-	-	434,108
Restricted share units vested and exercised (note 3)	165,000	204,600	-	(204,600)	-	-	-
Other comprehensive income	-	-	-	-	-	(9,233)	(9,233)
Balance - December 31, 2009	58,976,501	41,441,682	(58,494)	4,531,121	(20,580,250)	(158,523)	25,175,536
2008							
	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)	-	-	-	188,239	-	-	188,239
Net income for the period	-	-	-	-	2,861,106	-	2,861,106
Collection of employee share purchase loans	-	-	17,651	-	-	-	17,651
Restricted share units vested and exercised (note 3)	417,500	517,700	-	(517,700)	-	-	-
Balance - December 31, 2008	58,768,126	41,181,529	(959,477)	4,081,216	(21,610,880)	(210,959)	22,481,429

Redknee Solutions Inc.

Interim Consolidated Statement of Cash Flows
(Unaudited)

For the three months ended December 31

(expressed in Canadian dollars)

	2009	2008
	\$	\$
Cash provided by (used in)		
Operating activities		
Net income for the period	564,305	2,861,106
Items not involving cash		
Amortization of property and equipment	99,311	116,899
Amortization of intangible assets	59,410	75,338
Unrealized foreign currency exchange loss (gain)	501,505	(2,517,090)
Stock-based compensation (note 3)	162,984	188,239
Change in non-cash operating working capital (note 5)	(3,885,860)	6,831,323
	<u>(2,498,345)</u>	<u>7,555,815</u>
Financing activities		
Collection of employee share purchase loans	434,108	17,651
Repayment of obligations under capital leases	-	(619)
	<u>434,108</u>	<u>17,032</u>
Investing activities		
Purchase of short-term investments	(171,161)	(4,510,602)
Purchase of property and equipment	(30,983)	(138,898)
Increase in other assets	(1,469)	(47,905)
Increase (decrease) in restricted cash	171,051	(1,241)
	<u>(32,562)</u>	<u>(4,698,646)</u>
Effect of foreign currency exchange rate changes on cash and cash equivalents	<u>(332,683)</u>	<u>1,181,947</u>
Increase (decrease) in cash and cash equivalents during the period	(2,429,482)	4,056,148
Cash and cash equivalents - Beginning of period	<u>25,663,047</u>	<u>15,242,607</u>
Cash and cash equivalents - End of period	<u>23,233,565</u>	<u>19,298,755</u>
Supplemental cash flow information		
Interest paid	1,674	2,030
Interest received	12,796	25,076
Cash taxes / investment tax credits received, net of income taxes paid	84,575	173,184

Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements
(Unaudited)

For the three months ended December 31, 2009

(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) Ltd, 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
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For the three months ended December 31, 2009

(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 vendor-specific objective evidence ("VSOE") or third-party evidence of selling price, that the entity

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Notes to Interim Consolidated Financial Statements
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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

The Company computes earnings per common share, whereby basic earnings per common share is computed by dividing net income attributable to all classes of common shareholders by the weighted average number of shares outstanding during the applicable period. Diluted earnings per common share is determined in the same manner as basic earnings per share, except that the number of common shares is increased to assume the exercise of dilutive stock options, restricted share units, and number of common shares associated with outstanding share purchase loans, using the treasury stock method, unless the effect of such an increase would be anti-dilutive. For 2009, some stock options were dilutive. For 2008, all stock options were anti-dilutive. The criteria for stock options to be included in the calculation of diluted weighted average shares outstanding is: 1) net income is positive for the period, and 2) the stock options are "in the money"; otherwise they are considered anti-dilutive and are excluded from the calculation

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

	2009	2008
Weighted average number of shares outstanding	58,921,501	58,628,959
Less: Shares associated with outstanding share purchase loans	121,040	1,985,427
Basic weighted average number of shares outstanding	58,800,461	56,643,532
Add:		
Dilutive stock options outstanding (based on the share price of \$1.00 at December 31, 2009 and \$0.27 at December 31, 2008)	1,957,704	-
Restricted share units	165,000	467,500
Diluted weighted average shares outstanding	60,923,165	57,111,032

Redknee Solutions Inc.

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(expressed in Canadian dollars, except as otherwise indicated)

3 Stock-based compensation

During the three months ended December 31, 2009, no stock options were granted. During the three months ended December 31, 2008, 75,000 stock options were granted and issued to employees with a weighted fair value of \$0.17 per common share. The fair value of the stock options was determined using a Black-Scholes option pricing model with the following assumptions:

	2008
Risk free interest rate	3.03%
Expected volatility	68.3%
Expected life	7 years
Expected dividends	nil

The stock-based compensation expense during the period was \$ 111,834 (2008 - \$121,898) relating to the Company's stock options.

The Company also recorded a stock-based compensation expense of \$51,150 (2008 - \$66,341) relating to the Company's restricted share plan. No restricted shares were granted during the period, and no further shares will be granted under the plan as the plan was cancelled in November 2006.

4 Research and development expenses

During the three months ended December 31, the research and development expenses were as follows:

	2009	2008
	\$	\$
Gross research and development expenses	2,743,323	3,368,337
Less: Investment tax credits recognized	-	25,000
	<u>2,743,323</u>	<u>3,343,337</u>

In 2009 and 2008, the Company continued to earn investment tax credits related to research and development expenses. However, due to the Company's past tax losses, the majority of the credits were not afforded asset recognition in the interim consolidated balance sheet.

Redknee Solutions Inc.

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(expressed in Canadian dollars, except as otherwise indicated)

5 Change in non-cash operating working capital

	2009 \$	2008 \$
Trade accounts and other receivables	(1,677,088)	2,637,858
Unbilled revenue	(486,681)	886,880
Investment tax credits and income taxes receivable	-	(25,000)
Prepaid expenses	87,680	(1,175)
Accounts payable	(120,065)	(1,237,595)
Accrued liabilities	(1,167,211)	1,579,569
Deferred revenue	(617,335)	2,663,272
Income taxes payable	(7,140)	366,238
Goods in transit	101,980	(38,724)
	<u>(3,885,860)</u>	<u>6,831,323</u>

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 months ended December 31 by geographic area is as follows:

	2009 \$	2008 \$
Europe, Middle East and Africa	5,234,704	4,235,657
Americas	3,957,255	7,779,408
Asia and Pacific Rim	2,588,118	2,202,036
	<u>11,780,077</u>	<u>14,217,101</u>

Revenue is attributed to geographic locations based on the location of the external customer. Sales related to Canadian customers were \$347,281 and \$34,490 for each of 2009 and 2008, respectively.

	2009 \$	2008 \$
Revenue by type		
Software and services	6,742,792	9,033,225
Support and Subscription	4,776,465	4,818,570
Third party software and hardware	260,820	365,306
	<u>11,780,077</u>	<u>14,217,101</u>

Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements
(Unaudited)

For the three months ended December 31, 2009

(expressed in Canadian dollars, except as otherwise indicated)

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

	December 31, 2009	September 30, 2009
	\$	\$
Canada	502,541	565,057
United Kingdom	33,211	42,639
India	14,547	10,641
Other	4,940	5,230
	<hr/>	<hr/>
	555,239	623,567

In the period ended December 31, 2009, one customer accounted for approximately 12.5% of revenue (2008 - one customer accounted for 39%).

7 Guarantees and contingencies

a) Letters of credit

As at December 31, 2009, the Company had outstanding letters of credit of \$ 151,671 (September 30 - \$322,722) relating to customer contracts, which are secured by restricted cash in the consolidated balance sheet.

b) Line of credit

As at December 31, 2009, 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 December 31, 2009, 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 has never been called to perform its obligations under these indemnifications and 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

Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements
(Unaudited)

For the three months ended December 31, 2009

(expressed in Canadian dollars, except as otherwise indicated)

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.

8 Subsequent event

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 anticipates that these changes will result in a charge against the second quarter 2010 results of approximately \$ 600,000.