Redknee Solutions Inc.

Interim Consolidated Financial Statements
(Unaudited)
March 31, 2009
(expressed in Canadian dollars)

Redknee Solutions Inc.
Interim Consolidated Balance Sheet
(Unaudited)

(expressed in Canadian dollars)

	March 31, 2009 $	September 30 2008 $
Assets		
Current assets		
Cash and cash equivalents	11,074,779	15,242,607
Short-term investments	9,094,198	56,363
Trade accounts and other receivables	11,964,465	11,192,182
Unbilled revenue	3,150,512	6,060,452
Investment tax credits and income taxes receivable	650,000	600,000
Prepaid expenses	749,798	1,066,584
Goods in transit	528,628	325,716
	37,212,380	34,543,904
Restricted cash (note 7)	656,685	409,919
Property and equipment	693,998	580,053
Intangible assets	1,275,631	1,388,761
Other assets	565,529	528,294
	40,404,223	37,450,931
Liabilities		
Current liabilities		
Accounts payable	1,385,073	2,172,268
Accrued liabilities	7,617,854	8,678,539
Income taxes payable	2,685,858	2,100,785
Deferred revenue	5,851,795	5,084,287
Current portion of obligations under capital leases	-	619
	17,540,580	18,036,498
Shareholders' Equity		
Share capital, net of employee share purchase loans	40,263,430	39,686,701
Contributed surplus	4,216,100	4,410,677
Deficit	(21,404,928)	(24,471,986)
Accumulated other comprehensive loss, net of income taxes	(210,959)	(210,959)
Total deficit and accumulated other comprehensive loss	(21,615,887)	(24,682,945)
	22,863,643	19,414,433
	40,404,223	37,450,931

Guarantees and contingencies (note 7)

Approved by the Board of Directors

(signed) "Jim Pelot" 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,	
	2009 $	2008 $	2009 $	2008 $
Revenue				
Software, services and other	7,935,239	9,127,667	17,333,769	17,346,907
Support	5,814,811	3,482,729	10,633,381	6,741,232
	13,750,050	12,610,396	27,967,150	24,088,139
Cost of revenue	2,922,273	3,644,074	6,292,204	7,386,090
Gross profit	10,827,777	8,966,322	21,674,946	16,702,049
Operating expenses				
Selling and marketing	3,895,255	4,334,486	8,275,201	8,111,071
General and administrative	2,611,329	2,225,235	4,981,463	4,839,551
Research and development (note 4)	3,316,527	3,239,860	6,659,864	6,521,134
Amortization of property and equipment and intangible assets	119,892	64,417	312,129	127,095
Foreign currency exchange (gain) loss	417,099	(1,818,404)	(2,220,860)	(1,709,004)
	10,360,102	8,045,594	18,007,797	17,889,847
Income (loss) from operations	467,675	920,728	3,667,149	(1,187,798)
Interest income	15,707	133,422	40,783	334,208
Interest expense	(2,170)	(10,595)	(4,199)	(9,592)
Income (loss) before income taxes	481,212	1,043,555	3,703,733	(863,182)
Income taxes				
Current	275,261	300,694	636,675	592,375
Net income (loss) for the period	205,951	742,861	3,067,058	(1,455,557)
Net income (loss) per common share (note 2)				
Basic	0.00	0.01	0.05	(0.03)
Diluted	0.00	0.01	0.05	(0.03)
Weighted average number of common shares (note 2)				
Basic	56,880,822	56,318,907	56,809,155	56,318,907
Diluted	57,210,822	57,203,907	57,210,822	57,203,907

Redknee Solutions Inc.

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

(expressed in Canadian dollars)

	Three months ended March 31,		Six months ended March 31,	
	2009 **$**	**2008** **$**	**2009** **$**	**2008** **$**
Net income (loss) for the period	205,951	742,861	3,067,058	(1,455,557)
Other comprehensive income, net of income taxes				
Foreign currency translation adjustment	-	-	-	-
Comprehensive income (loss) for the period	205,951	742,861	3,067,058	(1,455,557)

Redknee Solutions Inc.

Interim Consolidated Statement of Shareholders' Equity
(Unaudited)

For the six months ended March 31,

(expressed in Canadian dollars)

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)	-	-	-	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	430,000	517,700	-	(517,700)	-	-	-
Balance - March 31, 2009	58,780,626	41,181,529	(918,099)	4,216,100	(21,404,928)	(210,959)	22,863,643

2008

	Share capital		Employee share purchase loans	Contributed surplus	Deficit	Accumulated other comprehensive loss	Total shareholders' equity
	Number	**Amount $**	**$**	**$**	**$**	**$**	**$**
Balance - September 30, 2007	58,350,626	40,663,829	(895,531)	3,520,838	(20,060,782)	(210,959)	23,017,395
Stock-based compensation (note 3)	-	-	-	477,594	-	-	477,594
Loss for the period	-	-	-	-	(1,455,557)	-	(1,455,557)
Employee share purchase loans	-	-	(86,317)	(9,910)	-	-	(96,227)
Balance - March 31, 2008	58,350,626	40,663,829	(981,848)	3,988,522	(21,516,339)	(210,959)	21,943,205

Redknee Solutions Inc.

Interim Consolidated Statement of Cash Flows
(Unaudited)

(expressed in Canadian dollars)

	Three months ended March 31,		Six months ended March 31,	
	2009 **$**	**2008** **$**	**2009** **$**	**2008** **$**
Cash provided by (used in)				
Operating activities				
Net income (loss) for the period	205,951	742,861	3,067,058	(1,455,557)
Items not involving cash				
Amortization of property and equipment	82,100	64,417	198,999	127,095
Amortization of intangible assets	37,792	-	113,130	-
Unrealized foreign currency exchange gain	(930,918)	(1,404,957)	(3,448,008)	(1,451,991)
Stock-based compensation (note 3)	134,885	274,099	323,123	477,594
Change in non-cash operating working capital (note 5)	(2,876,365)	(119,099)	3,954,958	(3,942,941)
	(3,346,555)	(442,679)	4,209,260	(6,245,800)
Financing activities				
Collection of employee loans	41,378	-	59,029	-
Repayment of obligations under capital leases	-	(10,036)	(619)	(25,087)
	41,378	(10,036)	58,410	(25,087)
Investing activities				
(Purchase of) proceeds from short-term investments	(4,527,233)	3,267,231	(9,037,835)	7,401,094
Purchase of property and equipment	(174,047)	(109,862)	(312,945)	(176,205)
(Increase) decrease in other assets	10,671	201,516	(37,234)	(358,151)
Loan to Argent Networks PTY Ltd.	-	-	-	(529,463)
Collection of loan from Argent Networks PTY Ltd.	-	526,754	-	526,754
Increase in restricted cash	(245,524)	(379,186)	(246,765)	(379,186)
Acquisition of Argent Networks PTY Ltd., net of cash acquired	-	(1,084,255)	-	(1,084,255)
	(4,936,133)	2,422,198	(9,634,779)	5,400,588
Effect of foreign currency exchange rate changes on cash and cash equivalents	17,334	571,150	1,199,281	621,000
Increase (decrease) in cash and cash equivalents during the period	(8,223,976)	2,540,633	(4,167,828)	(249,299)
Cash and cash equivalents - Beginning of period	19,298,755	6,137,838	15,242,607	8,927,770
Cash and cash equivalents - End of period	11,074,779	8,678,471	11,074,779	8,678,471
Supplemental cash flow information				
Interest paid	2,169	8,589	4,199	9,592
Interest received	15,705	131,416	40,781	334,208
Cash taxes/investment tax credits received, net of income taxes paid	53,753	-	226,937	-

Nature of operations

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., as a wholly owned subsidiary of the Company. The above transaction is considered to be among companies under common control and the interim consolidated 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 create new revenue streams 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 period ended September 30, 2008, except as described below. Certain of the prior period's amounts have been reclassified to conform with the current period's presentation.

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. and Redknee (India) Technologies Pvt. Ltd. All significant intercompany balances and transactions have been eliminated on consolidation. The Company does not have any entities to be consolidated under The Canadian Institute of Chartered Accountants' (CICA) Accounting Guideline 15, Consolidation of variable interest entities.

c) Changes in accounting policies

Financial statement presentation

In April 2007, CICA Accounting Standards Board amended Handbook Section 1400, General Standards of Financial Statement Presentation. These amendments require management to disclose any uncertainties that cast significant doubt on the entity's ability to continue as a going concern. In assessing whether the going concern assumption is appropriate, management must take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date. The standard is effective for years beginning on or after January 1, 2008. The Company adopted this standard on October 1, 2008 and it did not have an impact on the interim consolidated financial statements.

Goodwill and other intangible assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which replaces Handbook Sections 3062, Goodwill and Other Intangible Assets and 3450, Research and Development Costs. This standard establishes the standards for the recognition, measurement and disclosure of goodwill and intangible assets. The standard becomes effective for years beginning on or after October 1, 2008. The Company adopted this standard on October 1, 2008 and it did not have an impact on the interim consolidated financial statements.

d) Future changes in accounting standards

International Financing Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards (IFRS) will be required for fiscal years beginning on or after January 1, 2011 for publicly accountable profit-oriented enterprises. IFRS will replace current Canadian GAAP. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company is currently evaluating the impact of adopting IFRS on its consolidated financial statements.

e) New accounting standard

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 a new section 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. The Company is currently assessing the effect these standards may have on the Company's results of operations and consolidated financial position.

2 Net income (loss) per common share

As a result of the loss for the three and six months ended March 31, 2008, all potentially dilutive securities, being stock options, unvested restricted share units and shares issued under the share purchase plan for which loans were given totalling 8,132,514 shares were considered anti-dilutive.

For the three and six months ended March 31, 2009, the diluted weighted average shares outstanding include unvested restricted share units. Shares relating to outstanding employee share purchase loans and outstanding stock options in the amount of 9,960,505 shares have been excluded because the impact would be anti-dilutive.

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

	Three months ended March 31,		**Six months ended March 31,**	
	2009	**2008**	**2009**	**2008**
Weighted average number of shares outstanding	58,780,626	58,350,626	58,708,959	58,350,626
Less: Shares associated with outstanding share purchase loans	1,899,804	2,031,719	1,899,804	2,031,719
Basic weighted average number of shares outstanding	56,880,822	56,318,907	56,809,155	56,318,907
Add: Unvested restricted share units	330,000	885,000	401,667	885,000
Diluted weighted average shares outstanding	57,210,822	57,203,907	57,210,822	57,203,907

3 Stock-based compensation

During the six months ended March 31, 2009, 2,591,500 (2008 - 874,500) stock options, with a weighted fair value of $0.27 (2008 - $0.49) per common share at the date of grant, were issued to employees. The fair value of the stock options was determined using a Black-Scholes option pricing model with the following assumptions:

	2009	2008
Risk free interest rate	3.70%	4.01%
Expected volatility	79.85%	67.53%
Expected life	7 years	7 years
Expected dividends	$nil	$nil

The stock-based compensation expense during the period was $220,823 (2008 - $340,419) relating to the Company’s stock options.

The Company also recorded a stock-based compensation expense of $102,300 (2008 - $137,175) relating to the Company’s restricted share plan. 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:

	Three months ended March 31,		Six months ended March 31,	
	2009 $	2008 $	2009 $	2008 $
Gross research and development expenses	3,341,527	3,289,860	6,709,864	6,621,134
Less: Investment tax credits recognized	25,000	50,000	50,000	100,000
	3,316,527	3,239,860	6,659,864	6,521,134

In 2008 and 2009, 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.

5 Change in non-cash operating working capital

	Three months ended March 31,		Six months ended March 31,	
	2009 **$**	**2008** **$**	**2009** **$**	**2008** **$**
Trade accounts and other receivables	(1,894,284)	2,081,314	743,574	(3,925,897)
Unbilled revenue	2,875,161	(2,706,142)	3,762,041	(1,989,596)
Investment tax credits and income taxes receivable	(25,000)	(50,000)	(50,000)	(100,000)
Prepaid expenses	317,961	27,398	316,786	197,753
Accounts payable	343,524	122,268	(894,071)	(647,222)
Accrued liabilities	(2,412,365)	676,172	(832,796)	1,775,521
Deferred revenue	(1,895,765)	(859,159)	767,507	126,134
Income taxes payable	(21,409)	458,607	344,829	616,844
Goods in transit	(164,188)	130,443	(202,912)	3,522
	(2,876,365)	(119,099)	3,954,958	(3,942,941)

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,	
	2009 **$**	**2008** **$**	**2009** **$**	**2008** **$**
Europe, Middle East and Africa	4,359,993	4,615,494	8,595,650	9,298,758
Americas	5,949,287	4,788,068	13,728,694	9,616,103
Asia and Pacific Rim	3,440,770	3,206,834	5,642,806	5,173,278
	13,750,050	12,610,396	27,967,150	24,088,139

Revenue is attributed to geographic locations based on the location of the external customer. Sales related to Canadian customers were $52,326 and $769,031 for each of 2009 and 2008, respectively.

	Three months ended March 31,		**Six months ended March 31,**	
	2009 $	**2008 $**	**2009 $**	**2008 $**
Revenue by type				
Software and services	7,647,046	7,893,581	16,680,271	15,751,662
Third party software and hardware	288,193	1,234,086	653,498	1,595,245
Support	5,814,811	3,482,729	10,633,381	6,741,232
	13,750,050	12,610,396	27,967,150	24,088,139

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

	March 31, 2009 $	**September 30, 2008 $**
Australia	6,302	-
Canada	605,931	460,569
Ireland/United Kingdom	65,132	95,680
India	14,793	7,829
Other	1,840	15,975
	693,998	580,053

In the period ended March 31, 2009, one customer accounted for approximately 27% of revenue (March 31, 2008 - one customer accounted for 14%).

7 Guarantees and contingencies

a) Letters of credit

As at March 31, 2009, the Company had outstanding letters of credit of $656,685 (September 30, 2008 - $409,919) relating to customer contracts, which are secured by restricted cash in the consolidated balance sheet.

b) Line of credit

As at March 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 one or more foreign acquisitions or related 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, 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 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