

# **Redknee Solutions Inc.**

Interim Consolidated Financial Statements  
(Unaudited)

**December 31, 2008**

(expressed in Canadian dollars)

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

(expressed in Canadian dollars)

	<b>December 31, 2008</b>	<b>September 30, 2008</b>
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	19,298,755	15,242,607
Short-term investments	4,566,965	56,363
Trade accounts and other receivables	9,902,682	11,192,182
Unbilled revenue	5,190,975	6,060,452
Investment tax credits and income taxes receivable	625,000	600,000
Prepaid expenses	1,067,759	1,066,584
Goods in transit	364,440	325,716
	<u>41,016,576</u>	<u>34,543,904</u>
<b>Restricted cash</b> (note 7)	481,160	409,919
<b>Property and equipment</b>	602,052	580,053
<b>Intangible assets</b>	1,313,423	1,388,761
<b>Other assets</b>	<u>576,199</u>	<u>528,294</u>
	<u>43,989,410</u>	<u>37,450,931</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	1,035,291	2,172,268
Accrued liabilities	10,258,108	8,678,539
Income taxes payable	2,467,023	2,100,785
Deferred revenue	7,747,559	5,084,287
Current portion of obligations under capital leases	-	619
	<u>21,507,981</u>	<u>18,036,498</u>
<b>Shareholders' Equity</b>		
<b>Share capital</b> , net of employee share purchase loans	<u>40,222,052</u>	<u>39,686,701</u>
<b>Contributed surplus</b>	<u>4,081,216</u>	<u>4,410,677</u>
<b>Deficit</b>	(21,610,880)	(24,471,986)
<b>Accumulated other comprehensive loss</b> , net of income taxes	<u>(210,959)</u>	<u>(210,959)</u>
<b>Total deficit and accumulated other comprehensive loss</b>	<u>(21,821,839)</u>	<u>(24,682,945)</u>
	<u>22,481,429</u>	<u>19,414,433</u>
	<u>43,989,410</u>	<u>37,450,931</u>

**Guarantees and contingencies** (note 7)

**Approved by the Board of Directors**

(signed) "Jim Pelot" Director

(signed) "Colley Clarke" Director

# Redknee Solutions Inc.

## Interim Consolidated Statement of Operations

(Unaudited)

For the three months ended December 31

(expressed in Canadian dollars)

	2008 \$	2007 \$
<b>Revenue</b>		
Software, services and other	9,398,531	8,219,240
Support	4,818,570	3,258,503
	<u>14,217,101</u>	<u>11,477,743</u>
<b>Cost of revenue</b>	<u>3,369,931</u>	<u>3,742,016</u>
<b>Gross profit</b>	<u>10,847,170</u>	<u>7,735,727</u>
<b>Operating expenses</b>		
Selling and marketing	4,379,946	3,776,585
General and administrative	2,370,134	2,614,316
Research and development (note 4)	3,343,337	3,281,274
Amortization of property and equipment and intangible assets	192,237	62,678
Foreign currency exchange (gain) loss	(2,637,959)	109,400
	<u>7,647,695</u>	<u>9,844,253</u>
<b>Income (loss) from operations</b>	3,199,475	(2,108,526)
<b>Interest income</b>	(25,076)	(202,792)
<b>Interest expense</b>	<u>2,030</u>	<u>1,003</u>
<b>Income (loss) before income taxes</b>	3,222,521	(1,906,737)
<b>Income taxes</b>		
Current	<u>361,415</u>	<u>291,681</u>
<b>Net income (loss) for the period</b>	<u>2,861,106</u>	<u>(2,198,418)</u>
<b>Net income (loss) per common share</b> (note 2)		
Basic	0.05	(0.04)
Diluted	0.05	(0.04)
<b>Weighted average number of common shares</b> (note 2)		
Basic	56,643,532	56,328,674
Diluted	57,111,032	56,328,674

# Redknee Solutions Inc.

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

**For the three months ended December 31**

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(expressed in Canadian dollars)

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>Net income (loss) for the period</b>	2,861,106	(2,198,418)
<b>Other comprehensive income</b> , net of income taxes		
Foreign currency translation adjustment	-	-
<b>Comprehensive income (loss) for the period</b>	<u>2,861,106</u>	<u>(2,198,418)</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 \$	\$	\$	\$	\$	\$
<b>2008</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)	-	-	-	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
<b>2007</b>							
	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)	-	-	-	203,495	-	-	203,495
Loss for the period	-	-	-	-	(2,198,418)	-	(2,198,418)
Employee share purchase loans	-	-	(86,317)	(9,910)	-	-	(96,227)
Balance - December 31, 2007	58,350,626	40,663,829	(981,848)	3,714,423	(22,259,200)	(210,959)	20,926,245

# Redknee Solutions Inc.

## Interim Consolidated Statement of Cash Flows

(Unaudited)

For the three months ended December 31

(expressed in Canadian dollars)

	2008	2007
	\$	\$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income (loss) for the period	2,861,106	(2,198,418)
Items not involving cash		
Amortization of property and equipment	116,899	62,678
Amortization of intangible assets	75,338	-
Unrealized foreign currency exchange gain	(2,517,090)	(47,034)
Stock-based compensation (note 3)	188,239	203,495
Change in non-cash operating working capital (note 5)	6,831,323	(3,823,842)
	<u>7,555,815</u>	<u>(5,803,121)</u>
<b>Financing activities</b>		
Employee loans	17,651	-
Repayment of obligations under capital leases	(619)	(15,051)
	<u>17,032</u>	<u>(15,051)</u>
<b>Investing activities</b>		
(Purchase of) proceeds from short-term investments	(4,510,602)	4,133,863
Purchase of property and equipment	(138,898)	(66,343)
Increase in other assets	(47,905)	(559,667)
Loan to Argent Networks	-	(529,463)
Increase in restricted cash	(1,241)	-
	<u>(4,698,646)</u>	<u>2,978,390</u>
<b>Effect of foreign currency exchange rate changes on cash and cash equivalents</b>	<u>1,181,947</u>	<u>49,850</u>
<b>Increase (decrease) in cash and cash equivalents during the period</b>	4,056,148	(2,789,932)
<b>Cash and cash equivalents - Beginning of period</b>	<u>15,242,607</u>	<u>8,927,770</u>
<b>Cash and cash equivalents - End of period</b>	<u>19,298,755</u>	<u>6,137,838</u>
<b>Supplemental cash flow information</b>		
Interest paid	2,030	1,003
Interest received	25,076	202,792
Cash taxes / investment tax credits received, net of income taxes paid	173,184	-

# Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements  
(Unaudited)

**For the three months ended December 31, 2008**

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(expressed in Canadian dollars, except as otherwise indicated)

## **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 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, 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 Accounting Guideline 15, Consolidation of Variable Interest Entities.

# Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements  
(Unaudited)

**For the three months ended December 31, 2008**

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(expressed in Canadian dollars, except as otherwise indicated)

**c) Changes in accounting policies**

Financial statement presentation

In April 2007, The Canadian Institute of Chartered Accountants (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.

## **2 Net income (loss) per common share**

As a result of the loss for the three-month period ended December 31, 2007, 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 8,539,879 shares were considered anti-dilutive.

For the three-month period ended December 31, 2008, 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 7,739,065 shares have been excluded because the impact would be anti-dilutive.

# Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements  
(Unaudited)

**For the three months ended December 31, 2008**

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(expressed in Canadian dollars, except as otherwise indicated)

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

	<b>2008</b>	<b>2007</b>
Weighted average number of shares outstanding	58,628,959	58,350,626
Less: Shares associated with outstanding share purchase loans	1,985,427	2,021,952
	<hr/>	<hr/>
Basic weighted average number of shares outstanding	56,643,532	56,328,674
Add: Unvested restricted share units	467,500	-
	<hr/>	<hr/>
Diluted weighted average shares outstanding	57,111,032	56,328,674
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### 3 Stock-based compensation

During the three months ended December 31, 2008, 75,000 (2007 - nil) stock options, with a weighted fair value of \$0.17 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:

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 \$121,898 (2007 - \$134,908) relating to the Company's stock options.

The Company also recorded a stock-based compensation expense of \$66,341 (2007 - \$68,587) 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 months ended December 31, the research and development expenses were as follows:

	<b>2008</b>	<b>2007</b>
	\$	\$
Gross research and development expenses	3,368,337	3,331,274
Less: Investment tax credits recognized	25,000	50,000
	<hr/>	<hr/>
	3,343,337	3,281,274
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In 2007 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.

Notes to Interim Consolidated Financial Statements  
(Unaudited)

**For the three months ended December 31, 2008**

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(expressed in Canadian dollars, except as otherwise indicated)

## 5 Change in non-cash operating working capital

	<b>2008</b>	<b>2007</b>
	\$	\$
Trade accounts and other receivables	2,637,858	(6,007,211)
Unbilled revenue	886,880	716,546
Investment tax credits and income taxes receivable	(25,000)	(50,000)
Prepaid expenses	(1,175)	170,355
Accounts payable	(1,237,595)	(769,490)
Accrued liabilities	1,579,569	1,099,349
Deferred revenue	2,663,272	985,293
Income taxes payable	366,238	158,237
Goods in transit	(38,724)	(126,921)
	<u>6,831,323</u>	<u>(3,823,842)</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:

	<b>2008</b>	<b>2007</b>
	\$	\$
Europe, Middle East and Africa	4,235,657	4,683,264
Americas	7,779,408	4,828,035
Asia and Pacific Rim	2,202,036	1,966,444
	<u>14,217,101</u>	<u>11,477,743</u>

# Redknee Solutions Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

**For the three months ended December 31, 2008**

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(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 \$34,490 and \$361,768 for each of 2008 and 2007, respectively.

	2008 \$	2007 \$
Revenue by type		
Software and services	9,033,225	7,858,080
Third party software and hardware	365,306	361,160
Support	4,818,570	3,258,503
	<u>14,217,101</u>	<u>11,477,743</u>

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

	December 31, 2008 \$	September 30, 2008 \$
Australia	6,302	-
Canada	519,274	460,569
Ireland/United Kingdom	74,499	95,680
India	-	7,829
Other	1,977	15,975
	<u>602,052</u>	<u>580,053</u>

In the period ended December 31, 2008, one customer accounted for approximately 39% of revenue (2007 - two customers accounted for 13% and 14%).

## 7 Guarantees and contingencies

### a) Letters of credit

As at December 31, 2008, the Company had outstanding letters of credit of \$481,160 (September 30 - \$409,919) relating to customer contracts, which are secured by restricted cash in the consolidated balance sheet.

### b) Line of credit

As at December 31, 2008, 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, 2008, there were no allocations or amounts drawn.

# **Redknee Solutions Inc.**

Notes to Interim Consolidated Financial Statements

(Unaudited)

**For the three months ended December 31, 2008**

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(expressed in Canadian dollars, except as otherwise indicated)

## **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 condition or results of operations.

