

Redknee Solutions Inc.

Interim Consolidated Financial Statements

(Unaudited)

June 30, 2009

(expressed in Canadian dollars)

Redknee Solutions Inc.

Interim Consolidated Balance Sheet

(Unaudited)

(expressed in Canadian dollars)

	June 30, 2009 \$	September 30, 2008 \$
Assets		
Current assets		
Cash and cash equivalents	18,274,398	15,242,607
Short-term investments	4,135,288	56,363
Trade accounts and other receivables	13,122,935	11,192,182
Unbilled revenue	2,280,758	6,060,452
Investment tax credits and income taxes receivable	675,000	600,000
Prepaid expenses	1,088,326	1,066,584
Goods in transit	526,069	325,716
	<u>40,102,774</u>	<u>34,543,904</u>
Restricted cash (note 7)	605,774	409,919
Property and equipment	669,972	580,053
Intangible assets	1,217,849	1,388,761
Other assets	557,411	528,294
	<u>43,153,780</u>	<u>37,450,931</u>
Liabilities		
Current liabilities		
Accounts payable	1,232,850	2,172,268
Accrued liabilities	8,349,682	8,678,539
Income taxes payable	2,844,527	2,100,785
Deferred revenue	6,982,290	5,084,287
Current portion of obligations under capital leases	-	619
	<u>19,409,349</u>	<u>18,036,498</u>
Shareholders' Equity		
Share capital , net of employee share purchase loans	40,388,274	39,686,701
Contributed surplus	4,406,035	4,410,677
Deficit	(20,896,913)	(24,471,986)
Accumulated other comprehensive loss , net of income taxes	(152,965)	(210,959)
Total deficit and accumulated other comprehensive loss	<u>(21,049,878)</u>	<u>(24,682,945)</u>
	<u>23,744,431</u>	<u>19,414,433</u>
	<u>43,153,780</u>	<u>37,450,931</u>

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 June 30,		Nine months ended June 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Revenue				
Software, services and other	8,861,397	8,078,812	26,195,166	25,425,719
Support and subscription	5,618,489	3,860,394	16,251,870	10,601,626
	14,479,886	11,939,206	42,447,036	36,027,345
Cost of revenue	3,008,663	4,284,895	9,300,867	11,670,985
Gross profit	11,471,223	7,654,311	33,146,169	24,356,360
Operating expenses				
Selling and marketing	3,765,183	4,005,832	12,040,384	12,116,903
General and administrative	2,470,037	2,726,886	7,451,500	7,566,437
Research and development (note 4)	2,931,780	3,731,752	9,591,644	10,252,886
Amortization of property and equipment and intangible assets	169,897	91,848	482,026	218,943
Foreign currency exchange (gain) loss	1,311,451	665,267	(909,409)	(1,043,737)
	10,648,348	11,221,585	28,656,145	29,111,432
Income (loss) from operations	822,875	(3,567,274)	4,490,024	(4,755,072)
Interest income	4,968	57,292	45,751	391,500
Interest expense	(10,681)	(102,890)	(14,880)	(112,482)
Income (loss) before income taxes	817,162	(3,612,872)	4,520,895	(4,476,054)
Income taxes				
Current	309,147	241,406	945,822	833,781
Net income (loss) for the period	508,015	(3,854,278)	3,575,073	(5,309,835)
Net income (loss) per common share (note 2)				
Basic	0.01	(0.07)	0.06	(0.09)
Diluted	0.01	(0.07)	0.06	(0.09)
Weighted average number of common shares (note 2)				
Basic	57,107,659	56,347,051	57,107,659	56,347,051
Diluted	59,122,135	57,232,051	58,226,223	57,232,051

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,	
	2009 \$	2008 \$	2009 \$	2008 \$
Net income (loss) for the period	508,015	(3,854,278)	3,575,073	(5,309,835)
Other comprehensive income , net of income taxes				
Foreign currency translation adjustment	57,994	-	57,994	-
Comprehensive income (loss) for the period	566,009	(3,854,278)	3,633,067	(5,309,835)

Redknee Solutions Inc.

Interim Consolidated Statement of Shareholders' Equity (Unaudited)

For the nine months ended June 30,

(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, 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	-	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	58,780,626	41,196,752	(808,478)	4,406,035	(20,896,913)	(152,965)	23,744,431
2008							
	Number	Amount \$	Employee share purchase loans \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive loss \$	Total Shareholders' equity \$
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)	-	-	-	766,214	-	-	766,214
Loss for the period	-	-	-	-	(5,309,835)	-	(5,309,835)
Employee share purchase loans	-	-	(72,717)	(9,910)	-	-	(82,627)
Balance - June 30, 2008	58,350,626	40,663,829	(968,248)	4,277,142	(25,370,617)	(210,959)	18,391,147

Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2009

(expressed in Canadian dollars, except as otherwise indicated)

	Three months ended June 30,		Nine months ended June 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Cash provided by (used in)				
Operating activities				
Net income (loss) for the period	508,015	(3,854,278)	3,575,073	(5,309,835)
Items not involving cash				
Amortization of property and equipment	112,115	91,848	311,114	218,943
Amortization of intangible assets	57,782		170,912	
Unrealized foreign currency exchange (gain) loss	2,114,121	275,041	(1,333,887)	(1,176,950)
Stock-based compensation (note 3)	189,935	288,620	513,058	766,214
Change in non-cash operating working capital (note 5)	(417,866)	282,355	3,537,092	(3,660,586)
	2,564,102	(2,916,414)	6,773,362	(9,162,214)
Financing activities				
Collection of employee loans	109,621	-	168,650	-
Proceeds from exercise of options	15,224	-	15,224	-
Repayment of obligations under capital leases		(18,585)	(619)	(43,672)
	124,845	(18,585)	183,255	(43,672)
Investing activities				
(Purchase of) proceeds from short-term investments	4,958,910	1,300,497	(4,078,925)	8,701,591
Purchase of property and equipment	(88,088)	(163,939)	(401,033)	(340,144)
(Increase) decrease in other assets	8,118	96,407	(29,116)	(261,744)
Loan to Argent Networks PTY Ltd.	-	-	-	(529,463)
Collection of loan from Argent Networks PTY Ltd.			-	526,754
Increase in restricted cash	50,911	464	(195,854)	(378,722)
Acquisition of Argent Networks PTY Ltd., net of cash acquired	-	-	-	(1,084,255)
	4,929,851	1,233,429	(4,704,928)	6,634,017
Effect of foreign currency exchange rate changes on cash and cash equivalents	(419,179)	(239,000)	780,102	382,000
Increase (decrease) in cash and cash equivalents during the period	7,199,619	(1,940,570)	3,031,791	(2,189,869)
Cash and cash equivalents - Beginning of period	11,074,779	8,678,471	15,242,607	8,927,770
Cash and cash equivalents - End of period	18,274,398	6,737,901	18,274,398	6,737,901
Supplemental cash flow information				
Interest paid	10,681	235	14,880	1,795
Interest received	4,968	56,888	45,751	390,645
Cash taxes/investment tax credits received, net of income taxes paid	130,895	174,909	328,531	364,499

Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements

(Unaudited)

June 30, 2009

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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. 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. Redknee (India) Technologies Pvt. Ltd., and Redknee Solutions Limited. 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.

Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements
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(expressed in Canadian dollars, except as otherwise indicated)

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 Financial 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.

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 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.

Redknee Solutions Inc.

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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.

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 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 nine months ended June 30, 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 8,461,269 shares were considered anti-dilutive.

For the three and nine months ended June 30, 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 8,010,267 and 8,906,179 shares respectively have been excluded because the impact would be anti-dilutive for the three and nine months ended June 30, 2009 respectively.

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 June 30,		Nine months ended June 30,	
	2009	2008	2009	2008
Weighted average number of shares outstanding	58,780,626	58,350,626	58,780,626	58,350,626
Less: Shares associated with outstanding share purchase loans	1,672,967	2,003,575	1,672,967	2,003,575
Basic weighted average number of shares outstanding	57,107,659	56,347,051	57,107,659	56,347,051
Add: Stock options outstanding	1,684,476		788,564	

Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements (Unaudited)

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(expressed in Canadian dollars, except as otherwise indicated)

Add: Unvested restricted share units	330,000	885,000	330,000	885,000
Diluted weighted average shares outstanding	59,122,135	57,232,051	58,226,223	57,232,051

3 Stock-based compensation

During the nine months ended June 30, 2009, 2,673,750 (2008 – 1,185,000) stock options, with a weighted fair value of \$0.29 (2008 - \$0.86) 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	2.91%	3.62%
Expected volatility	78.77%	67.53%
Expected life	7 years	7 years
Expected dividends	\$nil	\$nil

The stock-based compensation expense during the period was \$359,608 (2008 - \$560,451) relating to the Company's stock options.

The Company also recorded a stock-based compensation expense of \$153,450 (2008 - \$205,762) 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 nine months ended June 30, the research and development expenses were as follows:

	Three months ended June 30,		Nine months ended June 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Gross research and development expenses	2,956,780	3,816,752	9,666,644	10,437,886
Less: Investment tax credits recognized	25,000	85,000	75,000	185,000
	2,931,780	3,731,752	9,591,644	10,252,886

Redknee Solutions Inc.

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(expressed in Canadian dollars, except as otherwise indicated)

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 financial statements.

5 Change in non-cash operating working capital

	Three months ended June 30,		Nine months ended June 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Trade accounts and other receivables	(2,442,124)	(2,480,352)	(1,698,550)	(6,406,249)
Unbilled revenue	694,762	561,564	4,456,803	(1,428,032)
Investment tax credits and income taxes receivable	(25,000)	50,000	(75,000)	(50,000)
Prepaid expenses	(338,529)	(193,605)	(21,743)	4,148
Accounts payable	(111,459)	(505,815)	(1,005,530)	(1,153,037)
Accrued liabilities	343,079	1,361,121	(489,717)	3,136,642
Deferred revenue	1,130,496	1,878,066	1,898,003	2,004,200
Income taxes payable	328,350	(285,495)	673,179	331,349
Goods in transit	2,559	(103,129)	(200,353)	(99,607)
	(417,866)	282,355	3,537,092	(3,660,586)

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,	
	2009 \$	2008 \$	2009 \$	2008 \$
Europe, Middle East and Africa	8,474,559	4,118,566	17,070,209	13,417,324
Americas	3,925,143	3,768,116	17,653,834	13,384,219
Asia and Pacific Rim	2,080,184	4,052,524	7,722,993	9,225,802
	14,479,886	11,939,206	42,447,036	36,027,345

Redknee Solutions Inc.

Notes to Interim Consolidated Financial Statements

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June 30, 2009

(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 \$60,450 and \$1,049,684 for each of 2009 and 2008, respectively.

	Three months ended June 30,		Nine months ended June 30,	
	2009 \$	2008 \$	2009 \$	2008 \$
Revenue by type				
Software and services	8,094,146	6,121,606	24,774,417	21,873,268
Third party software and hardware	767,251	1,957,206	1,420,749	3,552,451
Support and subscription	5,618,489	3,860,394	16,251,870	10,601,626
	<u>14,479,886</u>	<u>11,939,206</u>	<u>42,447,036</u>	<u>36,027,345</u>

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

	June 30, 2009 \$	September 30, 2008 \$
Australia	6,302	-
Canada	594,952	460,569
Ireland/United Kingdom	53,886	95,680
India	13,282	7,829
Other	1,550	15,975
	<u>669,972</u>	<u>580,053</u>

For the nine months ended June 30, 2009, one customer accounted for approximately 20% of revenue (June 30, 2008 - one customer accounted for 13%).

7 Guarantees and contingencies

a) Letters of credit

As at June 30, 2009, the Company had outstanding letters of credit of \$605,774 (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 June 30, 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 June 30, 2009, there were no allocations or amounts drawn.

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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.

