

Condensed Consolidated Interim Financial Statements
(Expressed in U.S. dollars)

REDKNEE SOLUTIONS INC.

Three months ended December 31, 2012 and 2011
(Unaudited)

REDKNEE SOLUTIONS INC.

DRAFT Condensed Consolidated Interim Statements of Financial Position

(Expressed in U.S. dollars)

(Unaudited)

	December 31, 2012	September 30, 2012
Assets		
Current assets:		
Cash and cash equivalents (note 3)	\$ 31,423,899	\$ 16,878,523
Trade accounts and other receivables	13,352,217	10,394,639
Unbilled revenue	12,281,498	12,125,089
Prepaid expenses	956,231	799,901
Other assets (note 4)	241,582	649,272
Inventory	266,832	580,171
Total current assets	58,522,259	41,427,595
Restricted cash (note 11(a))	920,873	913,270
Property and equipment	1,059,632	726,818
Deferred income taxes	663,391	659,260
Investment tax credits	543,778	550,000
Other assets (note 4)	3,847,612	3,170,308
Intangible assets	3,506,514	3,671,306
Goodwill	7,638,590	7,638,590
Total assets	\$ 76,702,649	\$ 58,757,147
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade payables	\$ 4,191,037	\$ 1,756,532
Accrued liabilities	5,236,708	7,156,844
Income taxes payable	2,162,168	2,036,864
Deferred revenue	6,044,265	7,258,759
Total current liabilities	17,634,178	18,208,999
Deferred revenue	1,054,213	78,002
Other liabilities	599,649	439,398
Loans and borrowings (note 6)	5,494,703	5,461,970
Deferred income taxes	372,121	408,156
Total liabilities	25,154,864	24,596,525
Shareholders' equity:		
Share capital, net of employee share purchase loans	65,515,926	46,543,100
Treasury stock (note 8)	(174,339)	(264,584)
Contributed surplus	4,850,473	4,787,549
Deficit	(18,657,744)	(16,918,912)
Accumulated other comprehensive income	13,469	13,469
Total shareholders' equity	51,547,785	34,160,622
Total liabilities and shareholders' equity	\$ 76,702,649	\$ 58,757,147

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

REDKNEE SOLUTIONS INC.

DRAFT Condensed Consolidated Interim Statements of Comprehensive Income (Loss)
 (Expressed in U.S. dollars)
 (Unaudited)

	Three months ended December 31,	
	2012	2011
Revenue:		
Software, services and other	\$ 8,274,738	\$ 7,623,792
Support	5,962,225	5,749,120
	<u>14,236,963</u>	<u>13,372,912</u>
Cost of revenue	5,319,408	4,585,236
Gross profit	8,917,555	8,787,676
Operating expenses:		
Sales and marketing	2,953,095	3,393,658
General and administrative	2,396,603	1,883,915
Research and development	3,199,661	2,418,650
Special charges (note 11(c))	2,278,472	—
	<u>10,827,831</u>	<u>7,696,223</u>
Income (loss) from operations	(1,910,276)	1,091,453
Foreign exchange gain (loss)	360,363	(561,415)
Finance income	12,181	18,072
Finance costs	(114,162)	(117,139)
Income (loss) before income taxes	(1,651,894)	430,971
Income taxes (recovery):		
Current	125,429	119,287
Deferred	(38,491)	(46,460)
	<u>86,938</u>	<u>72,827</u>
Net income (loss) and comprehensive income (loss)	<u>\$ (1,738,832)</u>	<u>\$ 358,144</u>
Net income (loss) per common share (note 8):		
Basic	(0.02)	0.01
Diluted	(0.02)	0.01
Weighted average number of common shares (note 8):		
Basic	75,446,243	64,221,515
Diluted	75,446,243	65,097,593

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

REDKNEE SOLUTIONS INC.

DRAFT Condensed Consolidated Interim Statements of Changes in Shareholders' Equity
(Expressed in U.S. dollars)

Three months ended December 31, 2012 and 2011
(Unaudited)

	Share capital		Treasury stock	Contributed surplus	Deficit	Accumulated other comprehensive income	Total shareholders' equity
	Number outstanding	Amount	(note 8(c))				
Balance, September 30, 2012	64,493,004	\$ 46,543,100	\$ (264,584)	\$ 4,787,549	\$ (16,918,912)	\$ 13,469	\$ 34,160,622
Net loss for the period	–	–	–	–	(1,738,832)	–	(1,738,832)
Share-based compensation	–	–	–	212,555	–	–	212,555
Treasury stock issued	–	–	90,245	(90,245)	–	–	–
Stock options exercised	165,355	241,436	–	(59,386)	–	–	182,050
Issuance of share capital (note 8(b))	14,950,000	18,731,390	–	–	–	–	18,731,390
Balance, December 31, 2012	79,608,359	\$ 65,515,926	\$ (174,339)	\$ 4,850,473	\$ (18,657,744)	\$ 13,469	\$ 51,547,785
Balance, September 30, 2011	64,197,904	\$ 46,312,920	\$ –	\$ 4,739,437	\$ (22,220,969)	\$ 13,469	\$ 28,844,857
Net income for the period	–	–	–	–	358,144	–	358,144
Share-based compensation	–	–	–	142,084	–	–	142,084
Stock options exercised	212,500	156,800	–	(62,141)	–	–	94,659
Balance, December 31, 2011	64,410,404	\$ 46,469,720	\$ –	\$ 4,819,380	\$ (21,862,825)	\$ 13,469	\$ 29,439,744

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REDKNEE SOLUTIONS INC.

DRAFT Condensed Consolidated Interim Statements of Cash Flows
 (Expressed in U.S. dollars)
 (Unaudited)

	Three months ended December 31,	
	2012	2011
Cash provided by (used in):		
Operating activities:		
Net income (loss)	\$ (1,738,832)	\$ 358,144
Adjustments for:		
Depreciation of property and equipment	71,158	43,138
Amortization of intangible assets	164,792	191,333
Finance income	(12,181)	(18,072)
Finance costs	114,162	117,139
Income tax expense	86,938	72,827
Unrealized foreign exchange loss	66,462	42,923
Share-based compensation	392,654	129,325
Other	–	(30,852)
Changes in non-cash operating working capital (note 9)	(2,841,741)	405,805
	(3,696,588)	1,311,710
Interest paid	(87,236)	8,398
Interest received	12,195	(22,096)
Income taxes paid	(118,398)	(6,102)
	(3,890,027)	1,291,910
Financing activities:		
Issuance of share capital (note 8(b))	18,731,390	–
Proceeds from exercise of stock options	182,050	94,659
Repayment of loans and borrowings	–	(354,253)
	18,913,440	(259,594)
Investing activities:		
Purchase of property and equipment	(403,972)	(100,454)
Purchase of intangible assets	–	(42,357)
Increase (decrease) in restricted cash	(7,603)	73,844
	(411,575)	(69,967)
Effect of foreign exchange rate changes on cash and cash equivalents	(66,462)	(42,923)
Increase in cash and cash equivalents	14,545,376	920,426
Cash and cash equivalents, beginning of period	16,878,523	14,879,940
Cash and cash equivalents, end of period	\$ 31,423,899	\$ 15,800,366

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

REDKNEE SOLUTIONS INC.

DRAFT Notes to Condensed Consolidated Interim Financial Statements
(Expressed in U.S. dollars)

Three months ended December 31, 2012 and 2011
(Unaudited)

Redknee Solutions Inc. (the "Company" or "Redknee") was incorporated under the Ontario Business Corporations Act in Canada on March 29, 1999. The Company's registered head office is located at 2560 Matheson Blvd East, Suite 500, Mississauga, Ontario, Canada.

The Company is a leading provider of revenue generating software products, solutions and services to some of the largest network operators throughout the world, including wireless, wireline, broadband and satellite. The Company delivers solutions in the areas of converged billing, interconnect billing, customer care, real-time rating, charging and policy management for voice, messaging and next-generation data services to network operators globally. 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. **Statement of compliance:**

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, and do not include all of the information required for full annual consolidated financial statements.

These condensed consolidated interim financial statements for the three months ended December 31, 2012 were authorized for issuance by the Board of Directors of the Company on February 13, 2013.

REDKNEE SOLUTIONS INC.

DRAFT Notes to Condensed Consolidated Interim Financial Statements (continued)
(Expressed in U.S. dollars)

Three months ended December 31, 2012 and 2011
(Unaudited)

2. Summary of significant accounting policies:

(a) Basis of measurement and presentation:

The notes presented in these unaudited condensed consolidated interim financial statements include in general only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual audited consolidated financial statements, including the notes thereto, for the year ended September 30, 2012 (the "2012 financial statements"). These unaudited condensed consolidated interim financial statements follow the same accounting policies and methods of application as the 2012 financial statements.

As disclosed in the 2012 financial statements, as part of the revenue cut off procedures, the Company determined that revenues for three months ended December 31, 2011 were overstated by \$591,292. The 2012 comparative amounts have been recast to adjust for the correction of this immaterial error.

(b) Principles of consolidation:

The condensed consolidated interim financial statements include the financial statements of Redknee and its wholly owned subsidiary companies, of which the principal subsidiaries are Redknee (Ireland) Ltd., Redknee (Germany) GmbH, Redknee (UK) Limited, Redknee (ME) FZ-LLC (Dubai), Redknee (US) Limited, Redknee (India) Technologies Pvt. Limited, Redknee Solutions (UK) Limited, Redknee MEA SAL (offshore) (Lebanon), Redknee Singapore PTE Limited, Redknee Spain SAL, S.L.U., and Nimbus Systems S.L. and NMB Lda (collectively "Nimbus"). All significant intercompany balances and transactions have been eliminated on consolidation.

REDKNEE SOLUTIONS INC.

DRAFT Notes to Condensed Consolidated Interim Financial Statements (continued)
(Expressed in U.S. dollars)

Three months ended December 31, 2012 and 2011
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2. Summary of significant accounting policies (continued):

(c) Functional currency:

The condensed consolidated interim financial statements are presented in U.S. dollars, which is the Company's functional currency.

Transactions in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities not denominated in the functional currency are translated at the period-end rates of exchange. Foreign exchange gains and losses are recognized in the interim condensed consolidated statements of comprehensive income (loss).

3. Cash and cash equivalents:

	December 31, 2012	September 30, 2012
Cash	\$ 31,119,183	\$ 16,567,900
Cash equivalents	304,716	310,623
	<u>\$ 31,423,899</u>	<u>\$ 16,878,523</u>

4. Other assets:

Other assets comprise the following:

	December 31, 2012	September 30, 2012
Deferred contract costs - current (a)	\$ 241,582	\$ 649,272
Deferred contract costs - non-current (a)	3,440,967	2,760,814
Lease deposits - non-current	406,645	409,494
	<u>3,847,612</u>	<u>3,170,308</u>
	<u>\$ 4,089,194</u>	<u>\$ 3,819,580</u>

REDKNEE SOLUTIONS INC.

DRAFT Notes to Condensed Consolidated Interim Financial Statements (continued)
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4. Other assets (continued):

(a) The Company recognized upfront direct costs related to future activity on two contracts as an asset as it is probable that these assets will be recovered through future minimum contractual payment terms. The costs are being amortized over the pattern of recognition of the related contract revenues. During the three months ended December 31, 2012, \$47,302 (2011 - \$nil) was amortized.

5. Related party transactions:

In August 2011, the Company entered into a consulting agreement with a member of the Board of Directors. For the three months ended December 31, 2012, the Company has incurred \$15,000 (2011 - \$15,000), in consulting expense related to this arrangement.

6. Loans and borrowings:

	December 31, 2012	September 30, 2012
Line of credit, bearing interest at LIBOR floor of 1.25% plus applicable margin, due September 25, 2017 (a)	\$ 5,911,493	\$ 5,911,493
Less unamortized deferred financing costs	416,790	449,523
Long-term portion of loans and borrowings	\$ 5,494,703	\$ 5,461,970

(a) Wells Fargo Credit Facility:

The Company has a senior secured credit facility with Wells Fargo Capital Finance, part of Wells Fargo & Company, for a revolving line of credit for up to \$20,000,000.

The Company uses the credit facility for working capital, general corporate purposes and potential acquisitions. A portion of the credit facility with Wells Fargo & Company was used in the year ended September 30, 2012 to repay the full outstanding credit facility the Company had with Export Development Canada. The credit facility is secured by Redknee Inc. and Redknee Solutions (UK) Limited's assets ("Redknee UK"). The Company and Redknee UK have guaranteed the obligations of Redknee Inc. The Company's guarantee is secured by a pledge of all of its shares in Redknee Inc.

REDKNEE SOLUTIONS INC.

DRAFT Notes to Condensed Consolidated Interim Financial Statements (continued)
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Three months ended December 31, 2012 and 2011
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6. Loans and borrowings (continued):

As at December 31, 2012, \$5,911,493 is outstanding and interest is payable monthly over the term of five years. The Company had incurred \$449,523 of transaction costs and has recorded these costs as deferred costs that are being amortized over the expected term of the loan, which management has estimated to be two years, using the effective interest rate method. During the three months ended December 31, 2012, \$32,733 (2011 - nil) was amortized.

Interest is at LIBOR plus an applicable margin which was 3.50% at December 31, 2012 and at September 30, 2012. LIBOR is defined to have a floor of no less than 1.25% which has been determined to be an embedded derivative. The fair value of the embedded derivative liability is estimated at \$93,996 at December 31, 2012 (September 30, 2012 - \$107,400), using the assumption that the expected repayment of this loan will be on September 25, 2014. The fair value of the embedded derivative asset is estimated to be insignificant and, consequently, it is not separately presented in the condensed consolidated interim statement of financial position as at December 31, 2012 or September 30, 2012.

The prepayment option is determined to be an embedded derivative known as the call option for the Company. The fair value of the embedded derivative asset is estimated to be insignificant and, consequently, it is not separately presented in the condensed consolidated statement of financial position as at December 31, 2012 or September 30, 2012.

Certain financial and non-financial covenants exist under the agreement, which, if interpreted to be violated by the lender, could result in the amounts borrowed being due and payable to the lender on demand. The Company has assessed their debt covenants as at December 31, 2012 and determined they are in compliance.

(b) Export Development Canada ("EDC") Facility:

Effective September 25, 2012, the Company's credit facility with EDC was discharged and extinguished by the repayment of the outstanding credit amount of \$5,618,436. The Company had borrowed against this credit facility for the Nimbus acquisition. The interest on this credit facility was LIBOR plus 4% and was payable semi-annually.

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DRAFT Notes to Condensed Consolidated Interim Financial Statements (continued)
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6. Loans and borrowings (continued):

For the three months ended December 31, 2012, interest expense of \$81,468 (2011 - \$91,822) in connection with loans payable has been recognized in the condensed consolidated interim statements of comprehensive income.

7. Net income (loss) per common share:

A reconciliation of the number of common shares used for purposes of calculating basic and diluted net income (loss) per common share for the three months ended December 31 is as follows:

	2012	2011
Basic weighted average number of common shares outstanding	75,446,243	64,221,515
Add dilutive stock options outstanding	–	876,078
Diluted weighted average number of common shares outstanding	75,446,243	65,097,593

The total number of anti-dilutive options that were out of the money and, therefore, excluded from the calculation for the three months ended December 31, 2012 are 6,464,432 (2011 - 4,250,934).

8. Share capital:

(a) Normal course issuer bid:

On March 8, 2012, the Company announced a normal course issuer bid ("NCIB") under which it may purchase up to 4,701,696 of its common shares, commencing on March 12, 2012 and terminating on March 11, 2013 or on such earlier date as the Company may complete its purchases pursuant to the notice of intention to make a NCIB filed with the Toronto Stock Exchange ("TSX"). Purchases will be made on the open market by the Company through the facilities of the TSX in accordance with TSX requirements. The prices that the Company will pay for any purchased common shares will be the market price of such shares on the TSX at the time of acquisition. As of December 31, 2012, the Company has not purchased any common shares under this NCIB.

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DRAFT Notes to Condensed Consolidated Interim Financial Statements (continued)
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8. Share capital (continued):

(b) Bought deal financing:

October 23, 2012, the Company completed an offering of 13,000,000 common shares (the "Common Shares") of the Company at price of CAD \$1.35 per Common Share (the "Offering Price") for aggregate gross proceeds of CAD \$17,550,000 (the "Offering").

The Offering was completed on a bought deal basis and was underwritten by a syndicate of underwriters led by GMP Securities L.P., and including Canaccord Genuity Corp. and TD Securities Inc. (collectively, the "Underwriters").

The Common Shares were offered by way of a short form prospectus filed in all provinces of Canada (except Québec).

On November 14, 2012, the Underwriters also exercised an over-allotment option to purchase an additional 1,950,000 Common Shares at the Offering Price. With this option now exercised in full, an additional CAD \$2,632,500 was raised pursuant to the Offering and the aggregate gross proceeds of the Offering is CAD \$20,182,500. Transaction costs directly associated with this issuance of shares of CAD \$267,755 have been recognized against the proceeds.

The Company plans to use the net proceeds from the Offering for working capital, or to expand its current business through strategic acquisitions, if such opportunities arise.

(c) Treasury stock:

During the year ended September 30, 2012, the Company paid \$714,608 to the trustee to purchase 568,906 of the Company's common shares in the open market to satisfy the delivery of common shares under the equity-based compensation plans. The Company classifies these shares as treasury stock until they are delivered pursuant to the awards. During the three months ended December 31, 2012, 71,845 shares with a cost of \$90,245 have been released. As of December 31, 2012, a total 430,113 shares with a cost of \$540,269 have been issued. The remaining number of treasury shares held by the Company is 138,793, with a cost of \$174,339.

REDKNEE SOLUTIONS INC.

DRAFT Notes to Condensed Consolidated Interim Financial Statements (continued)
(Expressed in U.S. dollars)

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9. Changes in non-cash operating working capital:

The changes in non-cash working capital for the three months ended December 31 are as follows:

	2012	2011
Trade accounts and other receivables	\$ (2,957,592)	\$ (1,417,274)
Unbilled revenue	(156,409)	243,171
Prepaid expenses	(156,330)	94,827
Other assets	(269,614)	(207,302)
Accounts payable	2,434,505	(14,919)
Accrued liabilities	(1,934,177)	(1,131,876)
Deferred revenue	(238,283)	2,230,794
Income taxes payable	122,820	494,931
Inventory	313,339	113,453
	<u>\$ (2,841,741)</u>	<u>\$ 405,805</u>

10. Segment reporting:

The Company has 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 Company's revenue by geographic area for the three months ended December 31 is as follows:

	2012	2011
Europe, Middle East and Africa	\$ 4,900,653	\$ 4,633,214
North America, Latin America and Caribbean	5,379,832	6,101,995
Asia and Pacific Rim	3,956,478	2,637,703
	<u>\$ 14,236,963</u>	<u>\$ 13,372,912</u>

Revenue is attributed to geographic locations, based on the location of the external customer.

REDKNEE SOLUTIONS INC.

DRAFT Notes to Condensed Consolidated Interim Financial Statements (continued)
(Expressed in U.S. dollars)

Three months ended December 31, 2012 and 2011
(Unaudited)

10. Segment reporting (continued):

	2012	2011
Revenue by type:		
Software and services	\$ 7,456,967	\$ 7,034,783
Support	5,962,225	5,749,120
Third party software and hardware	817,771	589,009
	<u>\$ 14,236,963</u>	<u>\$ 13,372,912</u>

11. Commitments, guarantees and contingent liabilities:

(a) Letters of credit:

As at December 31, 2012, the Company had \$920,873 (September 30, 2012 - \$913,270) in outstanding letters of credit relating to customer contracts, which are secured by restricted cash, shown separately in the interim condensed consolidated statements of financial position.

(b) 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.

REDKNEE SOLUTIONS INC.

DRAFT Notes to Condensed Consolidated Interim Financial Statements (continued)
(Expressed in U.S. dollars)

Three months ended December 31, 2012 and 2011
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11. Commitments, guarantees and contingent liabilities (continued):

(c) Acquisition agreement:

On December 5, 2012, the Company announced that it reached a definitive agreement to acquire Nokia Siemens Network's Business Support Systems ("BSS") business. The total consideration to be paid by Redknee for the BSS business will include €15 million in cash at closing, plus a maximum of €25 million for certain performance-based cash earn-outs expected to be paid over 12 to 36 months post-closing. Redknee expects to finance the transaction through a combination of cash and debt facilities. Such debt facilities are subject to conditions and will be entered into and subject to closing of the acquisition. The acquisition is anticipated to close in the first half of calendar year 2013. The acquisition is subject to applicable regulatory, exchange and third-party approvals, along with other customary terms and conditions. For the three months ended December 31, 2012, costs directly associated with the planned acquisition of \$2,278,472 has been recognized as special charges in the condensed consolidated interim statements of comprehensive income (loss).