

REDKNEE

REDKNEE SOLUTIONS INC.
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED DECEMBER 31, 2008

DATED: February 12, 2009

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The following provides management's discussion and analysis ("MD&A") of Redknee Solutions Inc.'s (the "Company") consolidated results of operations and financial condition. This discussion should be read in conjunction with the Company's consolidated quarterly financial statements and accompanying notes for the first quarter of fiscal 2009 which ended on December 31, 2008. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in Canadian dollars. The information contained herein is dated as of December 31, 2008 and is current to that date, unless otherwise stated.

The Company's fiscal year commences October 1st of each year and ends on September 30th of the following year. The Company's current fiscal year, which ends on September 30, 2009, is referred to as the "current fiscal year," "fiscal 2009", "2009", or using similar words. The previous fiscal year, which ended on September 30, 2008, is referred to as "previous fiscal year," "fiscal 2008," "2008", or using similar words.

In this document, "we", "us", "our", "Company" and "Redknee" all refer to Redknee Solutions Inc. collectively with its subsidiaries. The content of this MD&A has been approved by the Board of Directors, on the recommendation of its Audit Committee.

Additional information relating to the Company including our most recently completed Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com and on the Company's website at www.redknee.com.

FORWARD-LOOKING STATEMENTS

Certain statements in this MD&A which are not historical facts may constitute forward-looking statements or forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). Any statements related to Redknee's projected revenues, earnings, growth rates, revenue mix, staffing and resources, and product plans are forward looking statements as are any statements relating to future events, conditions or circumstances. The use of terms such as "believes", "anticipated", "expected", "projected", "targeting", "estimate", "intend" and similar terms are intended to assist in identification of these forward-looking statements. Readers are cautioned not to place undue reliance upon any such forward-looking statements. Such forward-looking statements are not promises or guarantees of future performance and involve both known and unknown risks and uncertainties that may cause the actual results, performance, achievements or developments of Redknee to differ materially from the results, performance, achievements or developments expressed or implied by such forward-looking statements.

Forward-looking statements are based on management's current plans, estimates, projections, beliefs and opinions. Except as required by law, Redknee does not undertake any obligation to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change.

Many factors could cause the actual results of Redknee to differ materially from the results, performance, achievements or developments expressed or implied by such forward-looking statements, including, without limitation, each of the following factors, which are further discussed

in the section of the Company's AIF entitled Risk Factors. These factors include but are not limited to:

- The Company's revenues may fluctuate from quarter to quarter and year to year depending upon sales cycles, customer demand and the timing of customer order purchase decisions;
- The Company's gross margins may fluctuate from period to period depending upon a variety of factors including product mix in the quarter, competitive pricing pressures and the level of sales generated through indirect channels;
- The Company faces intense competition in markets where there are typically several different competing technologies and rapid technological changes;
- The Company's growth is dependent on the development of the market for communications billing software and the decisions of the Company's target customers to deploy and further invest in those technologies which decisions may be impacted upon by changing economic and industry conditions;
- The majority of the Company's expenses are denominated in Canadian dollars while its sales are generally denominated in U.S. dollars or Euros. The Company's earnings are impacted by fluctuations in the exchange rates between these and other currencies in which the Company trades;
- The introduction and sale of new products by the Company may impact the timing of revenue recognition which could raise greater revenue fluctuations from quarter to quarter than has been experienced historically;
- The Company is exposed to credit risk related to accounts receivable from customers and amounts owing from channel partners and other third parties that the Company engages in business with. Third parties may default on their obligations to the Company due to bankruptcy, lack of liquidity, operational failure or other reasons. A prolonged deterioration in economic conditions could increase and exacerbate the foregoing risk and could materially adversely affect the Company and
- The current economic conditions and the availability of credit may negatively impact the Company's customers and/or suppliers.

EXECUTIVE OVERVIEW

About the Company

Redknee markets, develops and licenses infrastructure software and provides related professional services for mobile communications service providers internationally. The Company's core products and services provide solutions for monetizing the value of events and transactions in mobile communications networks on a real-time basis and for personalizing communications service offerings for mobile subscribers. Redknee's solutions are designed to assist mobile communications service providers to price, bill and charge in real-time for all services and multi-media content, while managing subscribers' preferences and privacy.

Redknee's solutions to enable mobile communications service providers to segment their subscriber base, create bundles of voice, data and content services and price such services based on their value and context. The solutions also enable new network-based value added service offerings, thereby extending and enhancing the service providers' offerings and business capabilities.

Currently over 70 network operators, which include some of the world's leading mobile network providers, have licensed Redknee's software products across more than 50 countries.

The Company classifies its operations in three main geographic areas:

- APAC – Asia Pacific
- Americas – primarily North America and the Caribbean and;
- EMEA – Europe, the Middle East and Africa.

Over the past five years, Redknee has made significant progress in several key areas. The Company's revenue grew from \$21.8 million in fiscal 2003 to \$50.7 million in fiscal 2008, a compound annual growth rate of 18%. This growth has resulted from Redknee's expansion of operations from Europe, Canada and the United States of America to include Asia Pacific, the Caribbean, Africa and the Middle East. Redknee has augmented its suite of technologies to enhance the end-to-end subscriber experience for communication. Redknee's commitment to Research and Development ("R&D") to maintain its position as a key industry innovator in the real-time OSS/BSS software space has been demonstrated by 10 issued patents, 50 pending applications and six further patent applications which are at various stages of the grant/issuance process.

Commencing in 2003, Redknee set up legal entities closer to its customers in the United Kingdom, Germany, India and Dubai. In 2004, Redknee opened a global support and operations center in Pune, India.

In February 2007, the Company listed its securities on the Alternative Investment Market ("AIM") of the London Stock Exchange. Redknee raised gross proceeds of \$39.9 million (£17.5 million), (\$34.8 million net of expenses) through the placing of 16,700,000 of the Company's common shares at 105 pence each, undertaken by Canaccord Adams Limited as Nominated Advisor and Broker. The placing was well received by institutional investors in the United Kingdom, Europe and North America. Immediately following the share offering, Redknee repaid the balance of a USD10.0 million debt facility provided by HSBC and MMV Financial in June 2005.

Redknee's admission to AIM enabled the Company to implement a disciplined growth strategy. The ability to develop the existing client base while adding new customers is central to the Company's success.

In February 2008, Redknee completed its first acquisition - the revenue assurance, interconnect and content settlement software solution and operations group of Argent Networks Pty Limited (Argent). InBill, as the software is branded, services over ten operators from offices in Australia and the United States of America. The acquisition provides opportunities to cross-sell and up-sell existing Redknee products and services into these accounts, as well as up-sell InBill products to Redknee's existing customers.

The Company established a credit facility with EDC for up to an aggregate amount of US\$10,000,000, to assist in financing (i) one or more acquisitions or (ii) working capital. As at December 31, 2008, there were no allocations or amounts drawn under the facility.

To improve liquidity and create a retail subscriber base, on October 21, 2008, Redknee's common shares were approved for listing on the Toronto Stock Exchange ("TSX") and, on October 22, 2008, the shares began trading under the symbol "RKN". The Company continues to be listed on AIM under the same symbol. As part of this process, the Company removed its mutual fund company status.

On February 11, 2009, the Company sought and was granted approval from the AIM Exchange of the London Stock Exchange to cancel the listing of the Company's Common Shares on the AIM market with effect from 7:00 a.m. GMT on Friday, March 13, 2009. The last trading day on AIM of the Common Shares will therefore be Thursday, March 12, 2009.

This decision follows a review of the AIM listing by the Company's Board of Directors (the "Board"). In coming to its conclusions, the Board considered in particular that the Company has a predominately Canadian resident shareholder base, is listed on the Toronto Stock Exchange ("TSX") and has experienced a low level of liquidity in respect of its Common Shares. These factors, together with the additional financial, regulatory and management burdens of maintaining an AIM listing, led the Board to conclude that the cancellation is in the best interests of the Company as a whole.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table displays selected consolidated financial information for the three-month period ended December 31, 2008 and December 31, 2007 respectively, which has been derived from the unaudited consolidated interim financial statements and accompanying notes. Each investor should read the following information in conjunction with those statements and related notes. The financial information for the three months ended December 31, 2008 and December 31, 2007 has been prepared by management in accordance with Canadian GAAP in a manner consistent with its annual financial statements.

Consolidated Statement of Operations (all amounts in thousands, except per share amounts) (unaudited)	Three Months Ended December 31,			
	2008	2007	\$ Change	% Change
Revenue				
Software and services	\$9,398	\$8,219	\$1,179	14%
Support and Subscriptions	4,819	3,259	1,560	48%
	14,217	11,478	2,739	24%
Cost of revenue	3,370	3,742	(372)	-10%
Gross profit	10,847	7,736	3,111	40%
Operating expenses				
Selling and marketing	4,380	3,777	603	16%
General and administrative	2,370	2,614	(244)	-9%
Research and development	3,344	3,281	63	2%
Amortization of property, equipment and intangible	192	63	129	205%
Foreign exchange loss (gain)	(2,638)	109	(2,747)	-2,520%
	7,648	9,844	(2,196)	-22%
Income (Loss) from operations	3,199	(2,108)	5,307	252%
Interest income	25	203	(178)	-88%
Interest expense	(2)	(1)	(1)	100%
Income (Loss) before income taxes	3,222	(1,906)	5,128	269%
Income taxes	361	292	69	24%
Income (Loss) for the period	\$ 2,861	\$ (2,198)	\$ 5,059	230%
Income (Loss) per Common Share				
Basic	\$ 0.05	\$(0.04)	0.09	225%
Diluted	\$ 0.05	\$(0.04)	0.09	225%
Weighted average number of common shares				
Basic (thousands)	56,644	56,329	315	1%
Diluted (thousands)	57,111	56,329	782	1%

Balance Sheet Data	As at	As at	\$ Change	% Change
	December 31, 2008	September 30, 2008		
Cash and Cash Equivalents	\$ 19,299	\$15,243	\$ 4,056	27%
Short-Term Investments	\$ 4,567	\$ 56	\$ 4,511	8,055%
Total Assets	\$ 43,989	\$ 37,451	\$ 6,538	17%
Accounts Payable and Accrued Liabilities	\$ 11,293	\$ 10,851	\$ 442	4%
Long-Term Debt and Other obligations	\$ -	\$ -	\$ -	0%
Shareholders' Equity	\$ 22,481	\$ 19,414	\$ 3,067	16%

CURRENT PERIOD OPERATING RESULTS

Revenue

The following tables set forth the Company's revenues by type and as a percentage of total revenue for the periods indicated:

\$Cdn Millions (unaudited)	Three Months Ended			
	2008	2007	\$ Change	% Change
Software & Services	9.0	7.8	1.2	15%
Third Party Software & Hardware	0.4	0.4	-	0%
Support and Subscription	4.8	3.3	1.6	48%
Total	14.2	11.5	2.7	24%

Percentage of Total Revenue	Three Months Ended	
	2008	2007
Software & Services	63%	68%
Third Party Software & Hardware	3%	3%
Support and Subscription	34%	29%
Total	100%	100%

The Company recognizes revenue from the sale of software licenses including initial licenses, capacity increases and upgrades; professional services; third party hardware and software components; and customer support contracts. The majority of the Company's revenue is denominated in U.S. dollars and thus revenues may be impacted by exchange rate fluctuations. During the first quarter of fiscal 2009, the Company's revenue grew by 24% to \$14.2 million compared to \$11.5 million in the first quarter of fiscal 2008. As more fully explained below, Software and Services revenue increased by 15% and Support and Subscription revenue increased by 48%, both of which were positively impacted by the devaluation of the Canadian dollar against the US dollar.

Software and Services Revenue

Software and services revenue consists of fees earned from the licensing and integration of software products to our customers, as well as the revenues resulting from consulting and training services contracts related to the software products.

Software and Services revenue for first quarter of fiscal 2009 grew by 15% to \$9.0 million, or 63% of total revenue, compared to \$7.8 million, or 68% of total revenue, for the same period last year.

The increase in the software and service revenue as compared to the same period last year relates to an increase in the amount of revenue earned from new product sales, capacity increases and professional services as compared to the first quarter of fiscal 2008.

Third Party Revenue

Third party revenue consists of revenue from the sale of other vendor's hardware and software components as part of Redknee's solutions, including server platforms, database software and other ancillary components.

Third party software and hardware revenue for the first quarter of 2009 was consistent between the two periods at approximately 3% of total revenue. Third party revenue may vary from period to period, reflecting the changing requirements from Redknee's customers to obtain third party hardware and software as part of a turnkey solution supplied by Redknee.

Support and Subscription Revenue (excluding Third Party revenue)

Support revenue, excluding Third Party revenue, consists of revenue from our customer support, subscription and maintenance contracts. These recurring revenue agreements allow customers to receive technical support and upgrades in the case of subscription agreements. Support revenue is generated from such agreements relative to current year sales and the renewal of existing agreements for software licenses sold in prior periods. Typically, support contracts commence for a period of one or more years upon completion of acceptance testing and then renew annually thereafter.

Support and subscription revenue for the first quarter of 2009 grew by 48% to \$4.8 million, or 34% of total revenue, compared to \$3.3 million, or 29% of total revenue, for the same period last year. Support revenue growth reflects an increase in our installed base as well as maintenance contract renewals from existing customers and InBill support since the acquisition of those operations in February of 2008.

Revenue by Geography

Revenue is attributed to geographic locations based on the location of the customer. The following tables set forth revenues by main geographic area and as a percentage of total revenue for the periods indicated:

\$Cdn Millions	Three Months Ended			
	December 31,			
(Unaudited)	2008	2007	\$ Change	% Change
Asia and Pacific Rim	2.2	2.0	0.2	10%
North America, Latin America and Caribbean	7.8	4.8	3.0	63%
Europe, Middle East and Africa	4.2	4.7	(0.5)	-11%
Total	14.2	11.5	2.7	24%

Percentage of Total Revenue	Three Months Ended	
	December 31,	
	2008	2007
Asia and Pacific Rim	15%	17%
North America, Latin America and Caribbean	55%	42%
Europe, Middle East and Africa	30%	41%
Total	100%	100%

For the first quarter of fiscal 2009, revenue from the North America, Latin America and Caribbean market increased due primarily to the completion of projects with a Tier 1 operator in the US.

Cost of Sales and Gross Margin

Cost of sales consists of the expense of personnel providing professional services to implement and provide post sales technical support for our solutions, and the costs of third party hardware and software components sold as part of Redknee's solution. It also includes an allocation of certain direct and indirect costs attributable to these activities.

For the first quarter of fiscal 2009, cost of sales decreased by \$0.4 million compared to the same period in fiscal 2008. The primary reason for the decline between the quarters related to the mix of higher margin Redknee products and greater third party expenses that occurred in the first quarter of fiscal 2008 for increased support costs and commissions paid to a reseller. The gross margin increase to 76% in the first quarter of fiscal 2009 as compared to 67% for the first quarter of 2008 is primarily

due to the mix of higher margin products sold in the three months ending December 31, 2008, as well as the reduction in expenses to third parties in the first quarter of fiscal 2009 as described above.

Operating Expenses

The following tables set forth total operating expenses by function and as a percentage of total revenue for the periods indicated:

(\$ Cdn Millions) (Unaudited)	Three Months Ended December 31,			
	2008	2007	\$ Change	% Change
Sales and Marketing	4.4	3.8	0.6	16%
General and Administrative	2.4	2.6	(0.2)	-8%
Research and Development	3.3	3.3	-	0%
Amortization	0.2	0.1	0.1	100%
Foreign Exchange loss (gain)	(2.6)	0.1	(2.7)	-2,700%
Total Operating Expenses	7.7	9.9	(2.2)	-22%

Percentage of Total Revenue	Three Months Ended December 31,	
	2008	2007
Sales and Marketing	31%	33%
General and Administrative	17%	23%
Research and Development	23%	29%
Amortization	1%	1%
Foreign Exchange loss (gain)	-18%	1%
Total Operating Expenses	54%	87%

Total operating expenses in the first quarter of fiscal 2009 declined to \$7.7 million from \$9.9 million in the first quarter of fiscal 2008 primarily due to the foreign exchange gain in fiscal 2009.

Excluding Amortization and Foreign Exchange loss (gain), operating expenses grew by 4.1% from \$9.7 million in the first quarter of fiscal 2008 to \$10.1 million in the first quarter of fiscal 2009. As a

percentage of revenue, operating expenses declined to 71% of revenue in fiscal 2009 as compared to 84% of revenue in the first quarter of fiscal 2008. This low level of expense growth, relative to the increase in revenue, reflects management's ongoing efforts to manage expenses.

As discussed in the investor conference call on December 2, 2008, and in light of the current economic uncertainty, management initiated various cost reduction activities in the latter part of fiscal 2008 to reduce its operating costs. These actions included, among other measures, realigning some roles to increase proximity to customers, especially in the high growth markets. The Company also continues to evaluate its office facilities and has taken steps to reduce facility expenses in certain markets where it has reduced staff while looking to increase facilities in other jurisdictions.

Sales and Marketing Expenses

Sales and Marketing ("S&M") expenses consist primarily of salaries, variable compensation costs and other personnel costs, travel, advertising, marketing and conference costs plus the allocation of certain overhead costs to support the Company's sales and marketing activities.

For the first quarter of 2009, S&M expenditures increased by \$0.6 million to \$4.4 million, which represents a 16% increase from the \$3.8 million incurred for the same period last year. As a percentage of total revenue, S&M expenses decreased from 33% of revenue to 31% of revenue between the two periods. S&M expense increased as the Company continued to invest in building its sales organization in the Asia Pacific, Middle East and African regions to support ongoing growth efforts. Also, the Company incurred higher marketing costs compared to the first quarter fiscal 2008 as it continued to invest in marketing its solution portfolio.

General and Administrative Expenses

General and administrative ("G&A") expenses consist of the Company's support activities such as finance, human resources, information technology, and professional costs associated with tax, accounting, and legal expenditures. Certain overhead costs such as facilities, communications and computer costs are allocated to G&A and the other departments on a per headcount basis.

For the first quarter of 2009, general and administrative expenditures decreased from \$2.6 million to \$2.4 million. The G&A costs for the period reflect the Company's efforts to reduce these costs and achieve increased operating leverage.

Research and Development Expenses

R&D expenses consist primarily of personnel costs associated with product management and the development and testing of new products plus the allocation of certain overhead costs.

For the first quarter ended December 31, 2008, R&D expenditures remained the same as compared to the same period last year. As a percentage of total revenue, the R&D expenditures decreased from 29% to 23% between the two periods. R&D expenses were flat between the periods as the company increased the use of its India operations to reduce the costs of developing and testing its products.

Amortization

Amortization for the first quarter ended December 31, 2008 totaled \$0.2 million as compared to \$0.1 million in 2007. The increase is primarily related to the amortization of intangibles as a result of the acquisition of Argent Networks operations in fiscal 2008.

Redknee purchased certain intangible assets through the acquisition of Argent Networks. They are stated at fair market value as of the acquisition date and are amortized on a straight-line basis over their estimated useful lives.

Foreign Exchange Gain / Loss

The Company's currency of measure is the Canadian dollar and the financial statements are presented in Canadian dollars. With respect to other currencies such as the US dollar, the Euro and the British Pound, the Company is exposed to fluctuations in exchange rates. The Company's objective in managing its foreign currency risk is to minimize its net exposures to foreign currency cash flows by converting foreign-denominated cash balances into Canadian dollars to the extent practical to match Canadian dollar obligations. The Company conducts a significant portion of its business activities in foreign countries. The monetary assets and liabilities that are denominated in foreign currencies are affected by changes in the exchange rate between the Canadian dollar and these foreign currencies. For example, if the Company holds a foreign currency denominated monetary asset and the Canadian dollar depreciates in a given quarter, the value of that asset will increase in the Company's financial statements and will incur a foreign exchange gain.

The period between October 1 and December 31, 2008 saw significant fluctuation in the exchange rates between our principal currencies – USD and Euro with CAD. For the quarter ended December 31, 2008, the Company recognized a foreign currency exchange gain of \$2.6 million, as compared to a foreign currency exchange loss of \$0.1 million in the same period of fiscal 2008. The gain in the first quarter of 2009 was primarily due to USD and Euro appreciating against the Canadian dollar.

Interest Income and Interest Expense

Interest income consists primarily of interest income (net of related expenses) earned on the Company's cash, cash equivalents and marketable securities.

Due to the current economic uncertainty all of the Company's excess cash has been invested in short term Government of Canada guaranteed investments. The interest rates offered on these products are at historic lows, which accounts for the substantial decrease in interest income for the Company.

Stock-Based Compensation

During the quarter ended December 31, 2008, 75,000 (2007 – 0) stock options with a weighted fair value of \$0.17 (2007 - \$0.0) 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. Stock-based compensation expense during this period was \$0.2 million (2007 - \$0.2 million) relating to the Company's stock options.

Income Taxes

The current income tax provision predominantly relates to current taxes owing by the Company's foreign subsidiaries.

SUMMARY OF RESULTS

All financial results are in thousands, unless otherwise stated, with the exception of gain/loss per share. The table below presents the first quarter of fiscal 2009 with comparative half-year figures for the preceding periods.

(Unaudited)	1Q 09	2H 08	1H 08	2H 07	1H 07	2H 06	1H 06
Revenue	\$ 14,217	\$ 26,613	\$ 24,088	\$ 17,932	\$ 20,684	\$ 19,997	\$ 16,975
Net Income (Loss)	\$ 2,861	\$ (2,956)	\$ (1,455)	\$ (7,243)	\$ (3,165)	\$ (10,048)	\$ (2,249)
Basic Income (Loss) per Share	\$ 0.05	\$ (0.05)	\$ (0.03)	\$ (0.14)	\$ (0.08)	\$ (0.27)	\$ (0.06)
Diluted Income (Loss) per Share	\$ 0.05	\$ (0.05)	\$ (0.03)	\$ (0.14)	\$ (0.08)	\$ (0.27)	\$ (0.06)
Weighted average shares outstanding – Basic	56,644	56,329	56,329	51,898	41,601	37,442	37,388
Weighted average shares outstanding - Diluted	57,111	56,329	56,329	51,898	41,601	37,442	37,388

In the past, the Company's basic and fully diluted shares outstanding have been equivalent because options are anti-dilutive during loss periods. As the Company is profitable this quarter, there is a difference between the basic and fully diluted weighted average shares outstanding.

LIQUIDITY AND CAPITAL RESOURCES

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its organic growth strategy, to fund Sales and Marketing and Research & Development, and undertake selective acquisitions, while at the same time taking a conservative approach toward financial leverage and management of financial risk. The Company currently funds its operations, increases in non-cash working capital and capital expenditures from internally generated cash flows and cash raised through past share issuances.

The table below outlines a summary of cash inflows and outflows by activity.

Statement of Cash Flows Summary (\$ Cdn Millions) (Unaudited)	Three Months ended	
	December 31,	
	2008	2007
Cash inflows and (outflows) by activity:		
Operating activities	7,556	(5,803)
Investing activities	(4,699)	2,978
Financing activities	17	(15)
Effect of foreign currency exchange rate changes on cash and cash equivalents	1,182	50
Net cash inflows (outflows)	4,056	(2,790)
Cash and cash equivalents, beginning of period	15,243	8,928
Cash and cash equivalents, end of period	19,299	6,138
Key Ratios	December 31, 2008	September 30, 2008
Working Capital	\$19,509	\$16,507
Day Sales Outstanding	64	81

*The Company uses working capital and days sales outstanding in accounts receivable as measures to enhance comparisons between periods. These terms do not have a standardized meaning under GAAP and are not necessarily comparable to similar measures presented by other companies. The calculation of each of these items is more fully described below.

Cash from Operating Activities

Cash provided by operating activities was \$7.6 million in the quarter ended December 31, 2008, as compared to \$5.8 million of cash used for the same period last year. In the first quarter of fiscal 2009, accounts receivable decreased by a total of \$1.3 million from September 30, 2008. The Company's days sales outstanding in accounts receivable ("DSO") decreased to 64 days, from 81 days at September 30, 2008. Redknee calculates DSO based on the recent three months annualized revenue and the ending accounts receivable balance for the period. The decrease in accounts receivable is due primarily to two main factors: the large number of projects commenced and billed in the fourth quarter and increased collection efforts in the first quarter.

Accounts receivable for the first quarter of 2009 decreased from \$11.2 million at September 30, 2008 to \$9.9 million at December 31, 2008. This reduction is due primarily to increased collection activity focused on aged accounts outstanding.

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance increased to \$19.5 million at December 31, 2008 from \$16.5 million for the same period in the prior year. This increase in Redknee's working capital level relates mainly to the increase in cash and short term investments, driven by improved collections of accounts receivable balances. This is further supported by the decrease in the Company's DSO calculation.

The continued adverse economic environment will impact the Company's exposure to credit risk. Redknee monitors the capital and operating expense practices of its customers to identify credit and collection risks in a timely manner and reviews its revenue forecasts based on developing information. Management will continue to monitor and focus on collections and reducing credit risk and bad debt through fiscal 2009.

Financial Instruments

The fair value of accounts receivable, other receivables, accounts payable and accrued liabilities approximates their carrying value due to the immediate or short-term maturity of these financial instruments. At December 31, 2008, the Company had a significant concentration of credit risk with three customers representing 30.5% (15.3%, 9.6% and 5.6% respectively) of the Company's accounts receivable.

Cash from Investing Activities

Cash used in investing activities during the quarter ended December 31, 2008, was \$4.7 million. It consisted primarily of the purchase of Canadian-government backed short-term investments. This cash was generated primarily by improved accounts receivable collections and ongoing operations.

Cash from Financing Activities

In the first quarter of fiscal 2009, cash provided by financing activities was \$17,032 primarily due to repayment of employee loans.

Long Term Debt and Credit Facilities

As at December 31, 2008, the Company had no long-term debt outstanding. The Company established a credit facility with Export Development Canada ("EDC") for up to an aggregate amount of US\$10,000,000, to assist in financing (i) one or more acquisitions or (ii) working capital. This facility has a ten year term. As at December 31, 2008, there were no allocations or amounts drawn under the facility.

Litigation

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 it considers any claim likely to result in a loss and is able to quantify the amount of the loss, management makes a suitable provision for such loss. Management does not provide for losses on claims for which the outcome is not determinable or where the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable.

OFF BALANCE SHEET ARRANGEMENTS

As of December 31, 2008, the Company had no off-balance sheet arrangements.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Canadian Accounting Standards Board (AcSB) has confirmed that IFRS will replace current Canadian GAAP for publicly accountable enterprises, including Redknee Solutions Inc., effective for fiscal years beginning on or after January 1, 2011. Accordingly, Redknee Solutions Inc. will report

interim and annual financial statements in accordance with IFRS beginning with the quarter ended December 31, 2011.

The Company has commenced the development of an IFRS implementation strategy to prepare for this transition, and is currently in the process of identifying the key accounting policy changes that may be required. Once the potential accounting policy changes have been identified, other elements of the plan will be addressed including the implication on information technology, internal controls, contractual arrangements and employee training.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Revenue Recognition

Revenue from product sales is recognized upon shipment and when all significant contractual obligations have been satisfied and collection is reasonably assured. Service and installation revenue is recognized as the services are performed. Revenue from maintenance and extended warranty contracts is recognized on a straight-line basis over the terms of the contracts.

For contracts involving multiple elements, the Company allocates revenue to each element based on relative fair values. Revenue attributable to undelivered elements is deferred and recognized upon performance. Redknee uses the percentage-of-completion method of accounting for these contracts. The units-of-delivery or units-of-work performed method is used to measure progress on each contract. Revenue and cost estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognized in the period that such losses become known. The Company uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangement to establish these estimates.

The Company also makes sales through distributors, certified solution providers and other value added resellers. For products sold through these distribution channels, revenue is recognized at the time of shipment to the distributor provided that all significant contractual obligations have been satisfied and collection is reasonably assured. The Company does not accept purchase orders or contracts with return clauses although it may, at its sole discretion, choose to accept customer returns. Accruals for potential warranty claims and estimated sales returns are made at the time of shipment and are based on contract terms and prior claims experience.

Business Combinations

The Company allocates the purchase price of a business acquisition to tangible assets, intangible assets and liabilities based on their estimated fair values at the date of acquisition with the excess of purchase price amount over these fair values being allocated to goodwill. The allocation of the purchase price to acquisitions involves considerable judgment in determining the fair value assigned to tangible and intangible assets acquired and the liabilities assumed on acquisition. Among other things, the determination of these fair values involves the use of discounted cash flow analyses, estimated future revenues and margins. In estimating future revenues and margins, the Company considers information published by third parties describing the size of the market and its growth rate, the planned margins for the acquired business and current costs to produce the solution offered by the acquired enterprise.

Long-Lived Assets

Intangible assets are stated at cost less accumulated amortization and are comprised of acquired non-patented software technology purchased through the Company's business acquisitions. Acquired non-patented technology assets are amortized on a straight line basis over five years. Acquired customer relationship assets are amortized on a straight line basis over nine years.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss is recognized for the excess of the carrying amount over the fair value of the asset. The Company's impairment analysis will contain estimates due to the inherently speculative nature of forecasting long term estimated cash flows and determining the ultimate useful lives of assets. Actual results will differ, which could materially impact our impairment assessment.

Stock Based Compensation

The Company has adopted a stock option plan as further described in notes 1, 7 and 8 of its September 30, 2008 audited consolidated financial statements.

In accordance with CICA Handbook Section 3870, awards granted on or after December 1, 2003 are accounted for using the fair value method of accounting, whereby the Company recognizes compensation expense equal to the fair value of the award over its vesting period. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating the expected term of stock options, the expected volatility of the Company's stock and expected dividends. In addition, judgment is also required in estimating the amount of stock-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, stock-based compensation expense and the Company's results of operations could be materially impacted. The fair value of the awards is determined using the Black-Scholes option pricing model.

Income Tax Expense

The current (recovery)/provision for income taxes predominantly relates to the Company's foreign subsidiaries.

The ultimate realization of future tax assets is dependent upon future taxable income during the years in which these assets are deductible. Management considers the likelihood of future profitability, the character of the tax assets and applicable tax planning strategies of the Company to make this assessment. To the extent that management believes that the realization of future tax assets does not meet the more likely than not realization criterion, a valuation allowance is provided against its future tax assets. The Company determined at December 31, 2008 that a full valuation allowance against future tax assets is appropriate. Note 10 of the September 30, 2008 financial statements describe the nature of the assets and valuation allowance.

Allowance for doubtful accounts

The allowance for doubtful accounts represents the Company's best estimate of probable losses that may result from the inability of its customers to make required payments. The Company regularly reviews accounts receivable and uses judgment to assess its ability to collect specific accounts and, based on this assessment, an allowance is maintained for those accounts that are deemed to be uncollectible. For the first quarter ended December 31 2008, the company did not record a reserve for doubtful accounts.

RECENT ACCOUNTING PRONOUNCEMENTS

Financial statement presentation

In April 2007, the CICA Accounting Standards Board amended CICA 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 new standard effective October 1, 2008.

Goodwill and other intangible assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Other 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 new standard effective October 1, 2008.

FUTURE CHANGES IN ACCOUNTING STANDARDS

The Company reviews all changes to the CICA Handbook when issued. The following is a discussion of relevant items that were released, revised or became effective after September 30, 2008.

OUTSTANDING SHARE DATA

As of December 31, 2008, there were 59,210,271 common shares outstanding. In addition, there were 5,753,638, stock options outstanding with exercise prices ranging from US \$0.14 to US \$1.70 per share.

RISK FACTORS

Historically, the Company's operating results have fluctuated on a quarterly basis and it is expected that quarterly financial results will continue to fluctuate in the future. Fluctuations in results relate to the growth in the Company's revenue, the timing of revenue being recognized and sales to customers, which may place large single orders in any one quarter, and to the timing of staffing and infrastructure additions to support growth.

For additional information on the Risks outlined under "Regarding Forward Looking Statements" see Redknee's most recently filed AIF, which is available on SEDAR at www.sedar.com and on the Company's website at www.redknee.com.