



MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated: October 3, 2007

The following discussion and analysis provides management's discussion and analysis ("MD&A") of Sandvine Corporation's consolidated results of operations and financial condition. This discussion should be read in conjunction with the Company's consolidated interim financial statements for the third quarter of fiscal 2007, being the period ended August 31, 2007. 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 October 3, 2007, and is current to that date, unless otherwise stated.

The Company's fiscal year commences December 1st of each year and ends on November 30th of the following year. The Company's current fiscal year, which will end on November 30, 2007, is referred to as the "current fiscal year," "fiscal 2007", "2007" or using similar words. The previous fiscal year, which ended on November 30, 2006, is referred to as "previous fiscal year," "fiscal 2006," "2006," or using similar words.

In this document, "we", "us", "our", "Company" and "Sandvine" all refer to Sandvine Corporation 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 is available on SEDAR at www.sedar.com and on the Company's web-site at www.sandvine.com.

CAUTION REGARDING FORWARD LOOKING INFORMATION

Certain statements in this MD&A which are not historical facts constitute forward-looking statements or forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). Statements related to Sandvine's projected revenues, earnings, growth rates, revenue mix and product plans are forward looking statements as are any statements relating to future events, conditions or circumstances. The use of terms such as "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 Sandvine 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, and Sandvine 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 Sandvine 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 Company's Annual Information Form ("AIF"), a copy of which is available on SEDAR at www.sedar.com.

- The Company's revenues may fluctuate from quarter to quarter and year to year depending upon sales cycles and customer demand;
- 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 is dependent upon and has derived a large percentage of its revenue from both a small number of key customers and customers who are predominantly cable based broadband service providers.
- 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 intelligent broadband network management solutions and the decisions of the Company's target customers to deploy and further invest in those technologies;
- The Company is dependent on its suppliers to ensure continuous supply on terms that allow the Company to fulfil demand, maintain quality and achieve its projected gross margins.
- In addition to the foregoing, since the date of the AIF, the Company has announced certain acquisitions and may in the future, seek to acquire, additional products or businesses that it believes are complementary to the Company's business plan. Acquisitions involve a number of risks, including: diversion of management's attention from current operations; disruption of the Company's ongoing business; difficulties in integrating and retaining all or part of the acquired business, its customers and its personnel; assumption of disclosed and undisclosed liabilities; dealing with unfamiliar laws, customs and practices in foreign jurisdictions; and the effectiveness of the acquired company's internal controls and procedures.

SELECTED FINANCIAL INFORMATION

The following table sets out selected consolidated financial information for the periods indicated. The selected financial information set out below as at, and for the three and nine month period ended, August 31, 2007 and 2006 respectively, has been derived from the unaudited consolidated interim financial statements and accompanying notes for the three and nine month period ended August 31, 2007 as well as the November 30, 2006 audited consolidated financial statements. Each investor should read the following information in conjunction with those statements and related notes. The financial information for the three and nine months ended August 31, 2007 and 2006 has been prepared by management in accordance with Canadian generally accepted accounting principles in a manner consistent with its annual financial statements.

	Three months ended August 31		Nine months ended August 31	
	2007	2006	2007	2006
Consolidated Statement of Operations Data:	<i>Amounts in thousands of dollars except for share and per share data</i>			
Revenue				
Product	\$19,016	\$7,152	\$50,371	\$19,801
Service	2,160	924	6,202	2,618
	21,176	8,076	56,573	22,419
Cost of Sales				
Product	5,143	1,738	11,055	5,126
Service	377	339	1,091	788
	5,520	2,077	12,146	5,914
Gross margin.....	15,656	5,999	44,427	16,505
Expenses				
Sales and marketing.....	4,298	2,320	10,762	6,187
Research and development.....	4,528	2,443	10,873	7,532
Net repayment of government assistance	260	81	381	224
General and administration	1,872	886	4,200	2,727
Stock based compensation	365	90	769	192
Amortization of intangible assets.....	267	--	267	--
Depreciation.....	674	440	1,836	1,024
Total operating expenses.....	12,264	6,260	29,088	17,886
Income (loss) from operations	3,392	(261)	15,339	(1,381)
Interest and other income	1,244	496	2,541	952
Income (loss) before provision for income taxes	4,636	235	17,880	(429)
Provision for (recovery of) income taxes				
Current	(35)	52	135	69
Future	1,971	--	(1,147)	--
Net income (loss) for the period.....	2,700	183	18,892	(498)
Basic earnings (loss) per share	0.021	0.002	0.151	(0.005)
Diluted earnings (loss) per share	0.020	0.002	0.143	(0.005)
Weighted average common shares outstanding				
Basic	130,392,708	114,561,616	125,514,727	103,699,214
Diluted	137,837,689	121,110,016	132,519,583	103,699,214

	As at August 31, 2007	As at November 30, 2006
Consolidated Balance Sheet Data:	<i>Amounts in thousands of dollars</i>	
Cash and cash equivalents	\$ 10,793	\$19,564
Marketable securities	103,911	37,515
Total assets	163,704	79,546
Total liabilities	16,593	6,379
Shareholders' equity	147,111	73,167

OVERVIEW

Sandvine develops and markets broadband network management equipment and solutions for broadband service providers. Sandvine's network management equipment and software solutions help broadband service providers identify, monitor and apply policies on network traffic, with the aim of improving and enhancing subscriber satisfaction, reducing operational costs and increasing the profitability of broadband service providers. With the additional information and control provided by Sandvine's solutions, broadband service providers can better understand subscriber behaviour, recognize and address network threats like denial of service attacks, spam zombies, worms and spam, classify applications that are utilizing their networks (for example, VoIP, gaming or video streams), more confidently commit to service levels and create profitable tiers for multiple broadband services.

Sandvine began initial commercial deployments of its products in 2002 and has experienced growth in its number of customers and deployments since then. Sandvine's customer base has increased from 8 in 2003 to over 90 in October 2007. Sandvine currently has products installed and operating at customer facilities in over 40 countries around the world, with networks representing over 50 million broadband subscribers.

The Market

Sandvine's target market is focused on broadband service providers, worldwide, including DSL, cable, wireless and fibre-to-the-home (FTTH) delivery. This market continues to experience strong growth and Sandvine estimates that the top 250 broadband service providers around the world, by subscriber count, hold more than 80% of the worldwide broadband subscriber base, making these service providers Sandvine's primary target market.

Globally, broadband service providers face challenges in an increasingly competitive business environment. Growth in network traffic continues to stress network capacity due largely to the mass-market popularity of bandwidth-hungry applications, such as file-sharing and streaming video from popular sites like YouTube. Service providers are also under constant pressure to maintain the service levels necessary to support latency-sensitive applications like VoIP and online video games. At the same time "virtual" Internet application providers (e.g. standalone VoIP providers), not burdened with network investment and operations, are aggressively targeting premium users with a broad range of value-added services.

Products and Solutions

Sandvine's software products may comprise a hardware platform bundled together with the various proprietary software modules, and provide a system for broadband service providers to identify and monitor specific types of traffic across their networks. These products also provide the tools necessary to apply specific policies and take certain actions to more efficiently manage networks and improve the quality of service for Internet subscribers.

Understanding which applications are consuming the most bandwidth and managing those applications in a pro-active manner enables service providers to begin to transform their current "best effort" broadband networks into more efficiently utilized "intelligent" networks. In communicating the value proposition of its solutions to its customers, Sandvine refers to this as an "Any Condition Any Action" approach to broadband network management. By accurately identifying various "conditions" that are occurring on its network, a broadband service provider can then apply "actions" (i.e. policies) based on those conditions to pursue the broadband management objectives sought by that service provider.

With an understanding of the type of traffic on its network, broadband service providers can also mitigate the effects of bandwidth-intensive applications and network threats by examining trends and preserving bandwidth for the applications that subscribers value most. For example, service providers can establish different revenue-generating tiers within their networks that commit to different service levels for popular, but bandwidth-intensive applications such as on-line gaming and file-sharing, or offer a lower priced tier of service that caters to "light" users who only use the Internet for less bandwidth intensive applications such as email and web surfing. Sandvine's products permit a service

provider to distinguish between these various classes of data flowing over their networks and to apply the appropriate policy to each, depending upon the relative priority assigned to that class of data.

On June 5, 2006, the Company announced the introduction of a new hardware platform, with 10 Gigabit Ethernet interconnects, designed to address the needs of the world's largest broadband service providers. Sandvine announced the first commercial deployment of this new platform in November 2006 and as of August 31, 2007 the Company had 20 service providers had purchased the platform. Throughout 2006 and into 2007, Sandvine is focused on growing its customer base both through direct sales channels as well as its worldwide and regional channel partners.

Through its acquisition of CableMatrix Technologies, Inc. in June 2007, Sandvine enhanced its policy enforcement capabilities. Through universal equipment signalling, these products extend Sandvine's ability to enforce policy network-wide, from the edge to the core, for all next generation access networks—DSL, FTTH, Broadband Wireless and Cable. Such centralized policy enforcement is an advantage for service providers looking to guarantee Quality of Service across their networks for high-value applications such as VOIP and IPTV, and is a component of the emerging standards for the development of next generation networks, including IMS, TISPAN, and PCMM.

Through its acquisition of Simplicita Software, Inc. in June 2007, Sandvine gained new technology that enables broadband service providers to create network policies based on the “reputation” of network users, as determined from a variety of sources including Sandvine platforms, service provider data and third party sources. Initial applications of Simplicita's technology protect service providers' Domain Name Server infrastructures while enabling the creation of new advertising based services.

Sales and Distribution

Sandvine distributes its products and services through a combination of direct and indirect sales channels. The direct sales channel is organized geographically across: (i) North America; (ii) Europe, the Middle East and Africa; (iii) Asia-Pacific; and (iv) the Caribbean and Latin America, and is based out of various jurisdictions throughout the world. The indirect sales channel utilizes global third party network equipment vendors and regional value-added resellers to market Sandvine's products, and includes both channel-initiated sales (sales initiated and serviced by third party resellers) and channel-fulfilled sales (sales initiated by the Company and serviced by third party resellers). This sales and distribution strategy permits Sandvine to obtain global coverage while at the same time retaining direct contact with the customer base.

Growth Strategy

Sandvine has a strong presence in its markets. Thirteen of the top 100 broadband service providers (by subscriber count) in the world and eight of the top 20 broadband service providers in the U.S. are Sandvine customers. Sandvine will continue to increase its investment in research and development in support of further product development to continue to broaden and expand its feature set. In addition, Sandvine will continue with increased sales and marketing investment to expand its direct sales force presence throughout the world and to mature its relationship with both its regional and global resellers. The Company will continue to pursue opportunities in the cable market, and is particularly focused on increasing its sales and marketing efforts in the DSL market, as well as emerging access technology markets such as wireless and FTTH.

In addition, the Company anticipates that throughout 2007 it will continue to selectively assess acquisition opportunities to strengthen its market position and augment its growth. The evaluation of potential acquisitions will include whether the target company has a compatible culture, a complementary customer base, has technology that will extend Sandvine's core technology and has prospective growth rates commensurate with those of the Company.

Business Model

The Company remains focused on making the necessary investments in its business to capture maximum market share and build on its technological lead. In broad terms, excluding the impact of non-cash acquisition costs, the Company continues to work towards a medium-term (12 to 24 months)

business model (outlined below) that includes gross margins at or above 70%, and operating margins between 10% and 20%. However, based on the nature of its business and customer base, Sandvine also continues to expect that results in the short term or any given reporting period could vary substantially from this model. In addition to the risk factors outlined in the Company's AIF (a copy of which can be obtained on www.sedar.com) as well as those outlined earlier in this document, factors that could cause the Company's results, and its ability to achieve this targeted business model, to materially differ include the following:

- Customer buying patterns could impact the Company's revenue in any given period
- The Company is dependent upon and has derived a large percentage of its revenue from both a small number of key customers and customers who are cable based service providers.
- Significant variation in product mix experienced by the Company from period to period will impact the Company's gross margin
- Sales through the Company's indirect channels could impact the Company's gross margin
- Accelerated investment in the areas of research and development or sales and marketing would cause those expense components to represent a proportionately larger percentage of revenue and impact operating margins
- If revenues do not grow at projected rates, the Company's ongoing investment in research and development and selling, general and administrative would cause those expense components to represent a proportionately larger percentage of revenue and impact operating margins

Target Business Model

Revenue

Product revenue	85% - 90%
Service revenue	10% - 15%

Percentage of total revenue

Gross margin	70+%
Research and development	20% - 25%
Selling, general and administrative	30% - 35%
Operating margin	10% - 20%

OVERALL PERFORMANCE

Revenue and Expenses

The Company's product revenue consists of revenues derived from the sale of its hardware products and the license of its software products.

The Company's service revenue consists of revenues from support and maintenance services as well as various professional services including training and installation that is provided to its customers. To date, revenue generated from the professional services component has been nominal.

The Company evaluates its revenue performance based on four geographic regions. Each of those regions including the proportion of total revenue attributable to it is outlined in the following table.

	Three months ended August 31		Nine months ended August 31	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
North America.....	89.1%	94.6%	91.4%	94.3%
Caribbean and Latin America.....	0.4%	0.1%	0.3%	0.5%
Europe, Middle East and Africa.....	8.7%	5.0%	6.7%	3.9%
Asia Pacific.....	1.8%	0.3%	1.6%	1.3%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The Company continues to derive a significant portion of its revenue from North American cable customers. The Company expects to see gradual proportional increases in revenue from regions outside of North America as it increases its presence and investment in sales and marketing resources within those regions.

The majority of the Company's expenses are denominated in Canadian dollars while its sales are generally denominated in U.S. dollars. The Company's earnings are impacted by fluctuations in the exchange rates between these and other currencies in which the Company trades. In an attempt to minimize the earnings impact of foreign currency gains and losses associated with foreign exchange rate fluctuations, the Company enters into forward foreign exchange contracts for a portion of this exposure.

Product cost of sales consists of the cost of direct materials, third party software license fees, plus direct labour and an allocation of overhead applied to the product.

Service cost of sales includes the costs of salaries and other personnel costs for staff dedicated to providing professional services and customer support services

Sales and marketing expenses consist primarily of salaries and other personnel costs, travel, advertising, trade analyst research, non-cash compensation costs related to acquisitions, trial material costs as well as trade show and conference costs.

Research and development expenses consist primarily of salaries and other personnel costs, non-cash compensation costs related to acquisitions, third party contractor costs, certification costs and material costs (including prototype costs) associated with new product introduction. The research and development expenses are presented on the Company's consolidated financial statements net of the benefit of recognized investment tax credits administered through Canada's Income Tax Act. Effective fiscal 2006, the Company commenced the repayment of funding received through the Technology Partnerships Canada program. Under the terms of the agreement, the Company is required to pay royalties at a rate of 1% of gross revenues until the earlier of December 1, 2007 or cumulative revenues exceeding \$85 million, at which time the royalty rate will be increased to 2.5%. During Q3-07 the royalty rate increased to 2.5% of gross revenues as the Company's cumulative gross revenue surpassed

the \$85 million threshold. Any repayments accrued or paid have been included in the consolidated financial statements as part of the Company's research and development expenses.

General and administrative expenses consist primarily of personnel costs, occupancy costs, professional costs associated with tax, accounting and legal advice, public company costs (including compliance costs), information system costs as well as foreign currency gains and losses.

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

The current income tax provision (recovery) consists of current taxes owing (recoverable) by the Company's foreign subsidiaries.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Revenue Recognition. The Company's networking and communications products are integrated with software that is essential to the functionality of those products. Additionally, the Company provides unspecified software upgrades and enhancements through its maintenance contracts for most of its products.

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is reasonably assured. In instances where final acceptance of the product, system, or solution is specified by the customer, revenue is deferred until all acceptance criteria have been met.

The Company enters into transactions that represent multiple-element arrangements, which may include any combination of hardware, software, professional services and support. These multiple-element arrangements are assessed to determine whether they can be separated into more than one unit of accounting or element for the purpose of revenue recognition. When the appropriate criteria for separating revenue into more than one element is met, the contract consideration is allocated to the separate elements based on the relative fair value of each element, as determined by internal or third-party analysis of market-based prices. In situations where there is objective and reliable evidence of fair value for all undelivered elements, but not for delivered elements, the residual method is used to allocate the contract consideration. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements.

The percentage-of-completion method of accounting is used for sales generated from certain contracts, primarily those related to customized network solutions and network build-outs with durations greater than three months. The units-of-delivery or units-of-work performed method is used to measure progress on each contract. The Company exercises significant judgement in estimating revenue and costs on such contracts and in measuring progress towards completion, which determines the timing of revenue recognition and the level of contract profitability. Revenue, cost and profit estimates on long term contracts are revised periodically based on changes in circumstances and any foreseen 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. Uncertainties include implementation delays or performance issues that may or may not be within its control. Changes in these estimates could result in a material impact on revenues and net earnings (loss).

Technical support services revenue is deferred and recognized ratably over the period during which the services are to be performed, which is typically one year.

Allowance for doubtful accounts. The allowance for doubtful accounts receivable is based on the Company's assessment of the collectibility of specific customer balances. If there is a deterioration in a customer's credit worthiness or actual defaults under the terms of the sale are higher than the Company's historical experience, the Company's estimate of recoverability for accounts receivable could be adversely affected.

The evaluation of collectibility of customer accounts is typically done on an individual account basis. If based on an evaluation of accounts, the Company concludes that it is probable that a customer will not be able to pay all amounts due, an estimate of the expected loss is made. In developing the estimates for an allowance, the Company considers general and industry economic and market conditions as well as other credit information available for the customer. The Company only records recoveries of provisions when objective verifiable evidence supports the change in the original provision.

Inventory. Raw materials are stated at the lower of cost and replacement cost. Work-in-progress is stated at the lower of cost and net realizable value. The Company's policy for the valuation of inventory, including the determination of obsolete or excess inventory, requires the estimate of future demand for the Company's products. Inventory purchases and purchase commitments are based upon forecasts of future demand. Certain inventory parts are subject to long lead-time order requirements. The Company performs a detailed assessment of inventory each reporting period, which includes a review of, among other factors, anticipated demand requirements, current inventory levels, component part purchase commitments and usage. If customer demand differs from the Company's forecasts, requirements for inventory write-offs could differ from the Company's estimates. If the Company determines that forecasted demand does not allow the Company to sell inventories above cost or at all, such inventory is written down to net realizable value or is written off.

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 judgement 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

Contingent consideration associated with any business acquisition is reviewed to determine if it should be accounted for as an adjustment of the purchase price or as compensation for services rendered subsequent to the acquisition. When the contingent consideration is related to an adjustment of purchase price and the amount of any contingent consideration can be reasonably estimated at the date of acquisition and the outcome of the contingency can be determined beyond a reasonable doubt, the contingent consideration is recognized at that date as part of the cost of the purchase. When the contingent consideration is related to compensation for services, the additional consideration is recognized as compensation expense based on management's best estimate of the outcome of the performance condition related to the payment of the contingent consideration.

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 technology is initially recorded at fair value based on the estimated net present value of future cash flow streams associated with these technologies. Goodwill represents the excess of the purchase price of business acquisitions over the fair value of identifiable net assets acquired in such acquisitions.

Acquired non-patented technology assets are amortized on a straight line basis over five years. Goodwill is not amortized but is tested for impairment annually, or more frequently if events or changes in circumstances indicate the asset might be impaired.

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. Our 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.

In the case of goodwill, we will test for impairment at least annually at May 31 of each year and at any other time if any event occurs, or circumstances change, that would more likely than not reduce our enterprise value below our carrying amount. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Based on the Company's review, only one reporting unit has been identified for the purpose of performing the annual impairment test. The Company's enterprise value is determined by use of its externally traded share price. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit.

Stock Based Compensation. The Company has adopted a stock option plan as further described in note 7 of the November 30, 2006 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. As at August 31, 2007 the Company had approximately \$3.9 million of unrecognized investment tax credits which may be applied against future Canadian income taxes otherwise payable. In addition, the Company had approximately US \$5.7 million of unrecognized non-capital losses which may be applied against future U.S. taxable income at a rate of approximately \$0.4 million per annum.

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 the future tax assets. The Company determined at May 31, 2007 that future tax assets associated with temporary differences and reserves with a value totalling \$3.1 million are more likely than not to be realized given the Company's expectations of future profitability. As a result of the Company's operating performance during the three months ended August 31, 2007, the Company has recorded a non-cash future income tax provision of \$2.0 million. As described above, the Company has not recognized the benefit of certain tax assets, including \$3.9 million associated with its unrecognized investment tax credits.

ACCOUNTING CHANGES

Effective December 1, 2006, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; Section 3865, Hedges, and, Section 1530, Comprehensive Income, prospectively without restatement. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition, measurement and disclosure of financial instruments and on the use of hedge accounting. In addition, Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated. The adoption of these Handbook Sections resulted in an adjustment of \$0.1 million to increase the Company's opening deficit amount. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income. Upon adoption of these new standards, the Company designated its cash, cash equivalents and derivatives as held-for trading, which are measured at fair value. Marketable securities are classified as available for sale which are measured at fair value, with the changes in fair value being recognized in other comprehensive income during the period. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities which are measured at amortized cost.

CURRENT PERIOD OPERATING RESULTS

Revenue

For the third quarter of fiscal 2007, the Company's total revenues were \$21.2 million compared to \$8.1 million for the same period last year, representing a 162.2% increase. Revenue for the first nine months was \$56.6 million compared to \$22.4 million for the same period last year, representing a 152.3% increase.

For the third quarter, the Company's product revenue was \$19.0 million compared to \$7.2 million for the same period last year representing a 165.9% increase. Product revenue for the first nine months of fiscal 2007 was \$50.4 million compared to \$19.8 million for the same period last year, representing a 154.4% increase. The increase in product revenue both for the current quarter and the first nine months of fiscal 2007 compared to the same periods in 2006, is largely the result of continued deployment of the Company's products by its largest customer as well as new and follow on business derived from customers who purchased or deployed the Company's products during the first nine months of the year.

Service revenue for the third quarter of 2007 was \$2.2 million or 10.2% of revenue, compared to \$0.9 million or 11.4% of revenue for the same period last year. The Company's service revenue for the first nine months of fiscal 2007 was \$6.2 million or 11.0% of revenue, compared to \$2.6 million or 11.7% of revenue for the same period last year. This increase in service revenue (in absolute dollar terms) for both the third quarter and first nine months of fiscal 2007 is consistent with the higher level of product sales generated over the past twelve months as well one time non-recurring service revenue. As a percentage of revenue, the current quarter level (10.2%) is slightly below the year to date levels (approximately 10.9%) due to lower one time non-recurring charges that took place in the first six months of the year.

Historically, the Company's customers have been predominantly cable and DSL service providers. A large percentage of the Company's revenue has been derived from both a small number of customers and customers who are predominantly cable based broadband service provider. The following chart outlines the revenue generated from customers representing more than 10% of the Company's revenue for the three and nine month period ended August 31, 2007.

	Three months ended		Nine months ended	
	August 31,		August 31,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Customer A	54.4 %	74.2 %	54.2 %	73.3 %
Customer B	23.1%	5.3%	9.1%	3.7%
Customer C	2.1%	Nil	13.7 %	Nil
Total	<u>79.6 %</u>	<u>79.5 %</u>	<u>77.0 %</u>	<u>77.0 %</u>

Historically, a significant portion of the Company's revenue has been generated from the customer identified above as "Customer A" (Q1-07 – 63.0%; Q2-07 – 47.3%; FY-06 – 70.0%). In absolute dollar terms, the Company generated \$11.5 million of revenue from Customer A in the third quarter of fiscal 2007 (Q1-07 \$9.7 million; Q2-07 - \$9.5 million). It is management's expectation that the Company will continue to generate a significant portion of its revenue from a small number of customers throughout the remainder of fiscal 2007 and beyond.

Gross Margin

For the third quarter of 2007 product gross margins decreased by 2.7% to 73.0% compared to 75.7% for the same period last year and decreased by 8.2% from the 81.2% level experienced in Q2-07. The significant decline in the current quarter product gross margin level as compared to the second quarter of 2007 predominantly relates to the change in product mix experienced in the third quarter of fiscal 2007. In the second quarter of fiscal 2007 the Company generated a material amount of revenue from the deployment of a large follow on software sale to the company's existing customers.

For the first nine months of fiscal 2007 product gross margins increased by 4.0% to 78.1% as compared to 74.1% for the first nine months of fiscal 2006. The increase in gross margins for the first nine months of fiscal 2007 as compared to the 2006 levels largely relates to the impact of the large follow-on software sale (references above) to existing customers the first half of fiscal 2007.

Management believes that the product gross margin levels experienced in the third quarter of fiscal 2007 are more indicative of the product gross margins levels that will be experienced throughout the balance of fiscal 2007 as it does not expect a similar level of follow-on software sales to those that were experienced in the first six months of fiscal 2007.

For the third quarter of 2007 service gross margins increased by 19.2% to 82.5% compared to 63.3% for the same period last year. For the first nine months of fiscal 2007 service gross margins increased by 12.5% to 82.4% as compared to 69.9% for the same period last year. The increase in service gross margins both for the quarter and the first nine months of fiscal 2007 as compared to the same period last year, predominantly relates to increased service revenue (consistent with increased product sales and one time support and maintenance fees as discussed above) without a proportionate increase in service cost of sales.

Operating Expenses

The following table provides additional analysis of the Company's operating expenses.

	Three months ended August 31,		Nine months ended August 31,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	<i>In thousands of dollars</i>			
Revenue	\$21,176	\$8,076	\$56,573	\$22,419
Sales and marketing.....	4,298	2,320	10,762	6,187
<i>% of revenue</i>	20.3 %	28.7 %	19.0%	27.6 %
Research and development.....	4,528	2,443	10,873	7,532
<i>% of revenue</i>	21.4 %	30.3 %	19.2 %	33.6 %
Net government assistance repayments	260	81	381	224
<i>% of revenue</i>	1.2 %	1.0 %	0.7%	1.0 %
General and administration	1,872	886	4,200	2,727
<i>% of revenue</i>	8.8 %	11.0 %	7.4 %	12.2 %
Stock based compensation	365	90	769	192
<i>% of revenue</i>	1.7 %	1.1 %	1.4%	0.9 %
Amortization of intangible assets	267	--	267	--
<i>% of revenue</i>	1.3%	--	0.5%	--
Depreciation.....	674	440	1,836	1,024
<i>% of revenue</i>	3.2%	5.4 %	3.2%	4.6%
Total operating expenses	\$12,264	\$6,260	\$29,088	\$17,866
	57.9 %	77.5 %	51.4%	79.7 %

Sales and Marketing Expenses

For the third quarter of 2007, sales and marketing expenditures increased by \$2.0 million to \$4.3 million, which represents an 85.3% increase from the \$2.3 million incurred for the same period last year. For the first nine months of fiscal 2007, sales and marketing expenditures increased by \$4.6 million to \$10.8 million, which represents a 73.9% increase from the \$6.2 million incurred for the same period last year. Major factors contributing to the increase in the sales and marketing expenses for both the third quarter of 2007 and the first nine months of fiscal 2007 as compared to the same periods in 2006 include increased compensation and travel costs associated with additional staff being added to the sales and marketing team over the past twelve months (including approximately 10 individuals added as a result of the acquisition of Simplicita Software, Inc. and CableMatrix Technologies Inc.) as well as increased variable compensation costs associated with the increase in sales for the period.

The sales and marketing team consists of 56 employees which is made up of 34 employees dedicated to selling activities and 22 employees dedicated to the marketing and product management group. Consistent with the Company's growth strategy the Company expects to continue to increase its investment in its sales and marketing activities.

Research and Development Expenses

Exclusive of government assistance repayments (Q3-07 – repayments of \$0.3 million; Q3-06 – repayments of \$0.1 million), research and development expenses for the third quarter of 2007 increased

by \$2.1 million to \$4.5 million, which represents an 85.3% increase from the \$2.4 million incurred for the same period last year. The increase mainly relates to additional staffing and labour costs associated with having additional team members (including the additional team members resulting from the acquisition of Simplicita Software, Inc. and CableMatrix Technologies Inc.) in the third quarter of 2007 as well as increased certification costs for the Company's products and third party contract labour costs.

Exclusive of government assistance, government assistance repayments and investment tax credits (YTD-2007 – net repayments of \$0.4 million; YTD-2006 – repayments of \$0.2 million), for the first nine months of fiscal 2007, research and development expenditures increased by \$3.3 million to \$10.9 million, which represents a 44.3% increase from the \$7.5 million incurred for the same period last year. The majority of the increase relates to increased staffing costs associated with adding approximately 60 full time team members to the research and development team over the last twelve months (which included 30 full time team members resulting from the acquisition of Simplicita Software, Inc. and CableMatrix Technologies Inc.). Consistent with the Company's growth strategy the Company expects to continue to increase its investment in its research and development activities.

For the nine months ended August 31, 2007 the Company recorded \$0.2 million related to refundable investment tax credits as compared to nil for the same period last year. The refundable investment tax credits have been recorded as a reduction to the research and development expenses for the relevant period. The Company currently does not anticipate receiving any government assistance or refundable investment tax credits in respect of future periods.

General and Administrative

For the third quarter of 2007 general and administrative expenditures increased by \$1.0 million to \$1.9 million as compared to \$0.9 million for the same period last year, which represents a 111.4% increase. Major factors contributing to the increase in the general and administrative expenses for the third quarter of 2007 as compared to the same period last year include increased staffing costs (\$0.4 million), a higher foreign exchange loss (\$0.2 million), increased professional fees (\$0.1 million) and higher occupancy costs (\$0.1 million).

For the first nine months of fiscal 2007 general and administrative expenditures increased by \$1.5 million to \$4.2 million, which represents a 54.0% increase from the \$2.7 million incurred for the same period last year. The increase primarily relates to increased staffing costs (\$0.6 million), increased occupancy costs (\$0.3 million), increased professional fees (\$0.2m) and a higher foreign exchange loss (\$0.1 million).

Stock based compensation expense for the third quarter and first nine months fiscal 2007 was \$0.4 million and \$0.8 million respectively, as compared to \$90,000 and \$0.2 million for the third quarter and first nine months of fiscal 2006 respectively.

Acquisition-related expenses

As further described later in this document, during the third quarter of fiscal 2007, the Company acquired Simplicita Software, Inc. and CableMatrix Technologies, Inc. The following table provides additional analysis of the acquisition-related expenses for the periods indicated (in millions of dollars):

	Three months ended August 31,		Nine months ended August 31,	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	<i>In thousands of dollars</i>			
Amortization of intangible assets	\$267	--	\$267	--
Non-cash acquisition costs characterized as compensation expense (included in operating expenses)	58	--	58	--
Total	<u>\$325</u>	<u>--</u>	<u>\$325</u>	<u>--</u>

Amortization of intangible assets

Amortization of intangible assets is the amortization of the value attributable to intangible assets related to existing technologies associated with acquisitions completed by the Company as of August 31, 2007. Intangible assets with a finite life are amortized to income over their estimated useful life. The amount of amortization expense in a fiscal period is dependent on acquisition activities throughout the year, as well as the results of asset impairment tests. Amortization of intangible assets for the third quarter and first nine months of fiscal 2007 was \$0.3 million compared to \$nil for the same periods in 2006. Amortization expense in the current period relates to the amortization of intangible assets that were acquired from the acquisition of Simplicita Software, Inc. and CableMatrix Technologies, Inc.. The Company tests the fair value of its finite life intangible assets for recoverability when events or changes in circumstances indicate that there may be evidence of impairment. Intangible assets with a finite life are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value. Fair value of intangibles is determined by discounting the expected related cash flows. No finite life intangible asset impairment has been identified or recorded for any of the fiscal periods reported.

Interest and Other Income

For the third quarter of 2007 the Company earned \$1.2 million of investment and other income as compared to \$0.5 million for the same period last year. For the first nine months of fiscal 2007 the Company earned \$2.5 million of investment and other income compared to \$1.0 million for the same period last year. The increase both for the third quarter and first nine months of fiscal 2007 is a result of the increased cash, cash equivalents and marketable securities balance throughout 2007 as compared to the same period last year. The increased cash, cash equivalents and marketable securities balances is a result of the Company's equity financings that took place in March 2006, October 2006 and July 2007 as well as the increased cash resources generated from operations during the first nine months of fiscal 2007.

Income Tax Expense (recovery)

The Company's current income tax (recovery)/provision for the three and nine months ended August 31, 2007 is (\$35,000) and \$52,000 respectively. The current (recovery)/provision for income taxes relates to the Company's foreign subsidiaries.

At the end of the Company's second quarter (May 31, 2007), the Company recorded a \$3.1 million future income tax recovery as it was determined that future tax assets associated with temporary differences and reserves with a value totalling \$3.1 million were more likely than not to be realized given the Company's expectations of future profitability. In assessing its expectations of future profitability, the Company considered, among other things, the fact that it has been dependent on and has derived a large percentage of its revenue from both a small number of key customers and customers

who are cable company operators. As a result of the Company's operating performance during the three months ended August 31, 2007, the Company has recorded a non-cash future income tax provision of \$2.0 million. The effective tax rate of 41.7% recorded for the third quarter of fiscal 2007 is higher than the Canadian corporate income tax rate of approximately 36.12%. The difference relates to some of Company's foreign subsidiaries incurring an operating loss, the benefit of which has not been recorded as a future income tax asset in the financial statements.

The Company has not recognized the benefit of certain tax assets, including \$3.9 million associated with its unrecognized scientific research and development investment tax credits. In addition, the Company has not recognized the benefit of approximately \$5.7 million of non-capital losses which may be applied against future U.S. taxable income at a rate of approximately \$0.4 per annum.

Net Income

Net income for the three month period ended August 31, 2007 was \$2.7 million or 12.7% of revenue. Net income for the nine months ended August 31, 2007 was \$18.9 million or 33.4% of revenue.

Net income before the impact of the future income tax provision for the three months ended August 31, 2007 was \$4.7 million or 22.1% of revenue. Net income before the impact of the future income tax recovery for the nine months ended August 31, 2007 was \$17.7 million or 31.4% of income. Net income before the recovery of future income taxes for the first nine months of fiscal 2007 has exceeded the Company's expectations due to higher than expected revenue levels (including higher than expected levels of follow on software sales to existing customers). In addition, these earnings levels are higher than the Company's targeted operating model as outlined earlier in this document.

LIQUIDITY AND CAPITAL

Since its inception, the Company has financed its operations and met its capital expenditure requirements primarily through the sale of equity securities and the receipt of financial assistance from Canada's Technology Partnerships program.

	August 31, 2007	November 30 2006
Key Balance Sheet Amounts and Ratios:	<i>(In thousands of dollars, except balance sheet ratios and metrics)</i>	
Cash, cash equivalents and marketable securities	114,704	57,079
Working capital	128,295	67,140
Working capital ratio.....	9.6:1	11.7:1
Days sales outstanding in account receivable.....	49 days	53 days
Inventory turnover	1.5 times	1.0 times
<i>(1) Calculated on an annualized basis</i>		

	Three months ended August 31		Nine months ended August 31	
	<i>(In thousands of dollars)</i>			
	2007	2006	2007	2006
Cash Inflows and (Outflows) by Activity:				
Operating activities.....	6,095	(1,838)	17,075	626
Investing activities.....	(48,927)	13,450	(76,671)	(35,007)
Financing activities.....	50,005	83	50,825	37,437
Net cash inflows (outflows)	7,173	11,695	(8,771)	3,056

* The Company uses working capital, working capital ratio, days sales outstanding in accounts receivable and inventory turnover as a measure 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 and Cash Equivalents and Marketable Securities

Cash and cash equivalents include cash on hand, balances with banks and short term investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Marketable securities include debt securities maturing within twelve months of the balance sheet date. Marketable securities are measured at fair value, with the changes in fair value being recognized in other comprehensive income during the period.

Investments in cash equivalents and marketable securities are governed by the Company's investment policy guidelines as approved by the Board of Directors. The policy stipulates that investments will at all times be based on the requirements for safety, liquidity and yield in that order of importance.

At August 31, 2007, the Company had \$114.7 million of cash and cash equivalents and marketable securities compared to \$57.1 million for the year ended November 30, 2006. The increase in cash and cash equivalent is consistent with the Company's improved operating performance during the first nine months of fiscal 2007 as well as the net proceeds of \$49.6 million raised through the issuance of 10,247,650 which took place during the third quarter fiscal 2007. These items were partially offset through the cash acquisition of \$1.9 million of capital assets during the period.

Working Capital

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance increased to \$128.3 million at August 31, 2007 compared to \$67.1 million at the end of fiscal 2006. The Company's working capital ratio (which is its current assets divided by its current liabilities) decreased to 9.6:1 compared to 11.7:1 at November 30, 2006. The decrease in the Company's working capital ratio mainly relates to the significant increase in the Company's current deferred revenue balance, which was \$9.4 million at August 31, 2007 compared to \$0.8 million at November 30, 2006. The deferred revenue impact was partially offset by the significant increase in cash and marketable securities as a result of the improved operating performance experienced during the first nine months of fiscal 2007 as well as the net proceeds (\$49.6 million) generated from the issuance of 10,247,650 common shares (see below) which took place during the third quarter of fiscal 2007.

The Company's days sales outstanding in accounts receivable ("DSO") decreased slightly to 49.3 days at August 31, 2007 from 53 days at the end of fiscal 2006. The Company expects that its DSO levels will remain at 50 to 60 days. During periods of high growth (as experienced during the second quarter and first nine months of fiscal 2007), the Company calculates DSO based on the recent three months annualized revenue and the average of the beginning and ending accounts receivable balance for such three month period.

The August 31, 2007 inventory turnover of 1.5 times per year is slightly higher than the 1.0 reported at the end of the Company's second quarter and at the end of fiscal 2006. The Company calculates its inventory turnover based on the actual costs of product sales for the period and the average of the inventory balance at the beginning of the period and the ending inventory balance for the period. Included in the Company's inventory balance is \$3.0 million related to demonstration units and \$1.6 million related to deferred cost of product sales.

Cash Provided by (used in) Operating Activities

Cash generated from operations for the third quarter of fiscal 2007 was \$6.1 million as compared to cash used in operation of \$1.8 million for the same period last year. The increase in cash being generated from operating activities during the third quarter of fiscal 2007 as compared to the same period last year predominantly relates to improved operating performance as well as a reduction of \$2.2 million of cash being used through the change in the Company's current non-cash working capital balances.

Cash generated from operations during the first nine months of fiscal 2007 was \$17.1 million as compared to \$0.6 million for the same period last year. This is largely being driven by the improved

operating performance the Company has experienced in the first nine months of fiscal 2007 as compared to the same period last year.

The Company enters into complex arrangements that involve acceptance tests, multiple deliverables and/or post contractual support which remain undelivered at the end of the period. Generally, this results in the deferral of revenue because, in most cases, the Company has not established fair value for the undelivered elements. Where the Company has sold post contract support, the resulting revenue is recognized rateably over the service period, which is typically one to three years. The Company does not recognize any revenue or deferred revenue related to post contract support or post contract support renewals until evidence of such an arrangement exists or cash in respect of such renewal is received. The breakdown of deferred revenue is as follows:

	August 31, 2007	November 30, 2006
	<i>In thousands of dollars</i>	
Deferred revenue:		
Service	\$3,829	\$693
Product	\$5,609	\$95
Total	<u>\$9,438</u>	<u>\$788</u>
Reported as:		
Current	\$9,358	\$700
Non-current	\$80	\$88
Total	<u>\$9,438</u>	<u>\$ 788</u>

Purchase of Capital Assets

Additions to capital assets were \$1.9 million in the third quarter of fiscal 2007 as compared to \$1.4 million for the same period last year. Additions for the first nine months of fiscal 2007 and fiscal 2006 were \$5.3 million and \$3.3 million respectively. The capital asset additions outlined above for fiscal 2007 do not include approximately \$0.2 million of capital assets acquired as part of the acquisitions that took place during the quarter.

The current period additions mainly relate to continued investment in hardware equipment and software to support the Company's research and development activities as well as continued investment in IT infrastructure.

During the third quarter of fiscal 2007, the Company capitalized \$0.4 million (\$1.7 million for the first nine months of fiscal 2007) of internally manufactured assets. The majority of these additions related to hardware equipment used within the Company's research and development lab.

Issuance of Equity Shares

During the third quarter of fiscal 2007, the Company issued 729,160 common shares upon exercise of stock options for net proceeds of \$0.4 million. This brings the total common shares issued upon the exercise of stock options for the first nine months of fiscal 2007 to 2,168,799 for net proceeds of \$1.2 million.

As further described below, on June 30, 2007, the Company completed the acquisition of all the outstanding shares of Simplicita Software, Inc. ("Simplicita"), for consideration of 866,678 common shares of the Company valued at approximately \$4.5 million.

On July 12, 2007 through a syndicate of underwriters (led jointly by Canaccord Capital Corporation and CIBC World Markets Inc.), the Company issued, on a bought deal basis, 8,911,000 Common Shares for \$5.05 per Common Share for gross proceeds of approximately \$45 million (the "Offering"). On July 12, 2007, the underwriters also exercised an option to purchase an additional 1,336,650 Common Shares at a price of \$5.05 per Common Share for gross proceeds of approximately \$6.7 million. The net proceeds raised from these offerings were \$49.6 million.

As of the date of this document:

- the number of common shares in issue is 135,959,109
- there is 1 common share purchase warrant issued which entitles the holder to acquire 619,280 common shares
- there are 8,755,955 common share options issued under the Company's stock option plan (as further described in note 4 of its interim financial statements)

Liquidity and Capital Resource Requirements

Given the items outlined above and the Company's current revenue expectations, the Company believes that it has sufficient working capital to fund its current operating and working capital requirements for at least 12 months.

Financial Instruments

Foreign exchange currency exposure is governed by the Company's foreign exchange policy as approved by its Board of Directors. The objective of the policy is to minimize the earnings impact of foreign currency gains and losses associated with foreign exchange rate fluctuations.

At August 31, 2007, the Company has open forward foreign exchange contracts outstanding in the amount of US \$5.0 million. The effect of these forward foreign exchange contracts is that it fixes the conversion rate for US \$5.0 million of the Company's net US dollar asset position at a weighted average rate of 1.0606. The Company is carrying these contracts at their fair value. The Company has not applied hedge accounting to its forward foreign exchange contracts as they do not relate to specific future contractual obligations or commitments.

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. On August 31, 2007, the Company had a significant concentration of credit risk with three customers representing 78.1% (37.6%, 23.4% and 17.1%) respectively of the Company's accounts receivable.

Acquisitions

Simplicita Software, Inc. ("Simplicita"). Effective June 30, 2007 the Company acquired all of the outstanding shares of Simplicita for consideration of 866,678 common shares of the Company valued at approximately \$4.5 million.

Of this consideration, approximately 223,283 shares ("Escrow Shares") were allocated to a key employee escrow and will be released from escrow upon the continued employment of certain former shareholders ("Key Employees") over the next three years. The Escrow Shares have been valued at \$1.1 million for accounting purposes and subject to the continued employment of individual Key Employees, will be recorded in the Company's financial statements as compensation expense over the employment period of the key individuals to a maximum period of three years. Consistent with this, \$58,000 of compensation expense was recorded in the Company's financial statements for the three and nine month period ended August 31, 2007.

Additional share consideration of up to 555,555 common shares ("Earn-Out Shares") will be issued to certain Simplicita shareholders on the achievement of certain performance targets and who have continued their employment with the Company as of November 30, 2008. The Earn-Out Shares have been valued at \$2.8 million for accounting purposes and subject to the continued employment of individual Key Employees and the achievement of certain performance targets will be recorded in the Company's financial statements as compensation expense. The Company has determined based on its best estimate of the outcome of the performance targets and ongoing employment requirements that no compensation cost related to this contingent consideration should be recorded for the three and nine month period ended August 31, 2007.

As part of the acquisition, 385,250 outstanding options to acquire common share of Simplicita were converted into options to acquire 23,333 common shares of the Company pursuant to the Company's existing stock option plan.

CableMatrix Technologies, Inc. ("CableMatrix"). On June 14, 2007 the Company acquired all of the outstanding shares of CableMatrix for total cash consideration of U.S. \$4.6 million (CDN \$4.9 million). Upon acquisition, all of the outstanding options to acquire common shares of CableMatrix were converted into options to acquire 370,000 common shares of the Company pursuant to the terms of the assumed CableMatrix stock option plan.

As a result of the acquisitions, the Company added approximately 40 employees. While the Company sees some near-term opportunities for the new products, the Company does not expect meaningful revenue from the acquisitions until some time in 2008.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures for the Company. As such, the Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators rules and forms.

INTERNAL CONTROLS AND PROCEDURES

The CEO and CFO are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The CEO and CFO have evaluated whether there were changes to the Company's internal control over financial reporting during the interim period ended August 31, 2007 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified through their evaluation.

Selected consolidated quarterly financial information

The following table provides an analysis of our unaudited operating results for each of the quarters ended on the date indicated:

Fiscal 2007 <i>(in thousands of dollars)</i>	Three months ended			Nine months ended
	<u>February 28,</u> <u>2007</u>	<u>May 31,</u> <u>2007</u>	<u>August 31,</u> <u>2007</u>	<u>August 31,</u> <u>2007</u>
Sales	15,375	20,022	21,176	56,573
Operating expenses	7,150	9,674	12,264	29,088
Net income – total	5,872	10,320	2,700	18,892
Basic earnings (loss) per share	0.048	0.084	0.021	0.151
Diluted earnings (loss) per share	0.045	0.079	0.020	0.143
Total assets	100,766	102,811	163,704	163,704

Fiscal 2006 <i>(in thousands of dollars)</i>	Three months ended				Fiscal year Ended
	<u>February 28,</u> <u>2006</u>	<u>May 31,</u> <u>2006</u>	<u>August 31,</u> <u>2006</u>	<u>November 30,</u> <u>2006</u>	<u>November 30,</u> <u>2006</u>
Sales	6,949	7,394	8,076	9,246	31,665
Operating expenses	5,401	6,225	6,260	6,929	24,815
Net income (loss) – total	(175)	(506)	183	116	(382)
Basic earnings (loss) per share	(0.002)	(0.005)	0.002	0.001	(0.004)
Diluted earnings (loss) per share	(0.002)	(0.005)	0.002	0.001	(0.004)
Total assets	26,747	63,578	65,912	79,546	79,546

Fiscal 2005 <i>(in thousands of dollars)</i>	Three months ended		Fiscal year ended
		<u>November 30,</u> <u>2005</u>	<u>November 30,</u> <u>2005</u>
Sales		6,412	15,809
Operating expenses		4,474	14,661
Net income (loss) – total		377	(2,979)
Basic earnings (loss) per share		0.004	(0.039)
Diluted earnings (loss) per share		0.004	(0.039)
Total assets		27,770	27,770

***The Company has not prepared quarterly financial results prior to August 31, 2005

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 OEM and reseller customers, which may place large single orders in any one quarter, and to the timing of staffing and infrastructure additions to support growth.