

# **Sandvine Corporation**

Consolidated Financial Statements  
**November 30, 2007**

January 15, 2008

**Auditors' Report**

**To the Shareholders of  
Sandvine Corporation**

We have audited the consolidated balance sheets of **Sandvine Corporation** as at November 30, 2007 and 2006 and the consolidated statements of operations, changes in shareholder's equity and comprehensive income and cash flows for each of the years in the two year period ended November 30, 2007. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2007 and 2006 and the results of its operations and its cash flows for each of the years in the two year period ended November 30, 2007 in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

**Chartered Accountants, Licensed Public Accountants**

# Sandvine Corporation

## Consolidated Balance Sheets

As at November 30, 2007

(in Canadian dollars, amounts in thousands, except share and per share data)

	2007	2006
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	7,878	19,564
Marketable securities (note 5)	105,136	37,515
Accounts receivable	10,003	4,421
Inventory (note 6)	13,874	9,625
Future tax asset (note 10)	1,075	-
Other	1,637	2,306
	<u>139,603</u>	<u>73,431</u>
<b>Non current assets</b>		
Capital assets (note 7)	10,137	6,115
Intangible assets (note 8)	7,300	-
Goodwill (note 4)	2,425	-
	<u>19,862</u>	<u>6,115</u>
	<u>159,465</u>	<u>79,546</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	6,094	5,591
Current portion of deferred revenue	4,028	700
	<u>10,122</u>	<u>6,291</u>
<b>Non current liabilities</b>		
Deferred revenue	57	88
Future tax liability (note 10)	374	-
Other (note 17)	342	-
	<u>773</u>	<u>88</u>
	<u>10,895</u>	<u>6,379</u>
<b>Shareholders' equity</b>		
Share capital (note 11)	146,568	91,247
Contributed surplus	1,532	403
Accumulated other comprehensive income (note 16)	69	-
Retained earnings (deficit)	401	(18,483)
	<u>148,570</u>	<u>73,167</u>
	<u>159,465</u>	<u>79,546</u>

See accompanying notes to the consolidated financial statements

# Sandvine Corporation

## Consolidated Statements of Operations

For the year ended November 30, 2007

(in Canadian dollars, amounts in thousands, except share and per share data)

	2007 \$	2006 \$
<b>Revenue</b>		
Product	65,127	28,003
Service	8,552	3,662
	<u>73,679</u>	<u>31,665</u>
<b>Cost of sales</b>		
Product	15,261	7,525
Service	1,455	1,113
	<u>16,716</u>	<u>8,638</u>
<b>Gross margin</b>	<u>56,963</u>	<u>23,027</u>
<b>Expenses</b>		
Sales and marketing	15,103	8,947
Research and development (note 17)	16,941	10,099
General and administrative	6,454	3,838
Stock based compensation (note 12)	1,329	344
Amortization of intangible assets	667	-
Depreciation	2,639	1,587
	<u>43,133</u>	<u>24,815</u>
<b>Income (loss) from operations</b>	13,830	(1,788)
<b>Interest and other income</b>	3,808	1,506
<b>Income (loss) before provision for income taxes</b>	<u>17,638</u>	<u>(282)</u>
<b>Provision for (recovery of) income taxes (note 10)</b>		
Current	184	100
Future	(1,508)	-
	<u>(1,324)</u>	<u>100</u>
<b>Net income (loss) for the year</b>	<u>18,962</u>	<u>(382)</u>
<b>Earnings (loss) per share (note 15)</b>		
Basic	0.148	(0.004)
Diluted	0.139	(0.004)
Basic weighted average number of shares outstanding	128,510,680	107,232,201
Diluted weighted average number of shares outstanding	<u>135,973,372</u>	<u>107,232,201</u>

See accompanying notes to the consolidated financial statements

# Sandvine Corporation

## Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income

For the year November 30, 2007

(in Canadian dollars, amounts in thousands, except share and per share data)

	Stated share capital (1) \$	Contributed surplus \$	Retained earnings (deficit) \$	Accumulated other comprehensive income \$	Total \$
<b>Balance, November 30, 2005</b>	40,316	67	(18,101)	-	22,282
Net loss	-	-	(382)	-	(382)
Stock based compensation	208	336	-	-	544
Shares issued for cash	50,723	-	-	-	50,723
<b>Balance, November 30, 2006</b>	91,247	403	(18,483)	-	73,167
Opening balance adjustment for adoption of financial instruments standards (note 3)	-	-	(78)	5	(73)
<b>Balance, December 1, 2006</b>	91,247	403	(18,561)	5	73,094
Comprehensive income:					
Net income	-	-	18,962	-	18,962
Net unrealized gains on available for sale financial assets (net of income taxes of \$nil)	-	-	-	64	64
Total comprehensive income					19,026
Stock based compensation	2,182	1,129	-	-	3,311
Shares issued for cash	49,579	-	-	-	49,579
Shares issued as consideration on business acquisition (note 4)	3,423	-	-	-	3,423
Shares issued as compensation on business acquisition (note 4)	137	-	-	-	137
<b>Balance, November 30, 2007</b>	146,568	1,532	401	69	148,570

As at November 30, 2007, the total of retained earnings (deficit) and accumulated other comprehensive income was \$470 (December 1, 2006 \$(18,556)).

(1) Includes warrants, common and preference share capital (note 11)

*See accompanying notes to the consolidated financial statements*

# Sandvine Corporation

## Consolidated Statements of Cash Flows

For the year ended November 30, 2007

(in Canadian dollars, amounts in thousands, except share and per share data)

	2007 \$	2006 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income (loss) for the year	18,962	(382)
Items not affecting cash		
Amortization of intangible assets	667	-
Depreciation	2,639	1,587
Foreign exchange loss	66	88
Stock-based compensation (note 12)	1,329	344
Non-cash compensation expense (note 4)	137	-
Provision for (recovery of) future income taxes (note 10)	(1,508)	-
Loss on disposal of capital assets	52	28
	<hr/> 22,344	<hr/> 1,665
Changes in non-current balances	(15)	78
Changes in non-cash working capital balances	(6,212)	(3,217)
	<hr/> 16,117	<hr/> (1,474)
<b>Investing activities</b>		
Purchase of capital assets	(6,656)	(4,857)
Government assistance applied against capital assets	-	110
Business acquisitions, net of cash acquired	(5,030)	-
Purchase of marketable securities	(311,043)	(72,423)
Sale of marketable securities	243,490	37,531
	<hr/> (79,239)	<hr/> (39,639)
<b>Financing activity</b>		
Proceeds from the issuance of share capital (note 11)	51,436	50,922
	<hr/> 51,436	<hr/> 50,922
<b>Net increase (decrease) in cash during year</b>	(11,686)	9,809
<b>Cash and cash equivalents – Beginning of year</b>	19,564	9,755
	<hr/> 19,564	<hr/> 9,755
<b>Cash and cash equivalents – End of year</b>	<hr/> 7,878	<hr/> 19,564
<b>Cash and cash equivalents are represented by</b>		
Balances with banks	1,347	1,971
Cash equivalents	6,531	17,593

See accompanying notes to the consolidated financial statements

# **Sandvine Corporation**

## Notes to the Consolidated Financial Statements

**November 30, 2007**

(in Canadian dollars, amounts in thousands, except share and per share data)

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### **1 Basis of presentation**

Sandvine Corporation (the “Company”) was incorporated in February 2006. In March 2006, the Company acquired all of the issued and outstanding shares of Sandvine Incorporated (note 11). As both the Company and Sandvine Incorporated were related through common share ownership, the business combination has been recorded using the continuity of interests method, whereby the financial statements have been prepared on the basis that the Company had always been the sole shareholder of Sandvine Incorporated. These transactions, including conversion of all outstanding preference shares to common shares were completed in anticipation of an offering of the Company’s shares on the AIM market of the London Stock Exchange. Consequently, the denominator for basic and diluted loss per share includes all of the converted preference shares.

The Company develops and markets broadband network management equipment and solutions for broadband service providers. The Company’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.

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

### **2 Summary of the significant accounting policies**

#### **Basis of consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated.

#### **a) 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.

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 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.

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2007

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### b) Cash and cash equivalents

Effective December 1, 2006, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 1530, Comprehensive Income, and Section 3861 - Financial Instruments – Disclosure and Presentation (note 3).

Cash and cash equivalents include cash on hand, balances with banks and short-term investments that have maturity dates of less than 90 days at acquisition and that are readily convertible to cash. All cash and cash equivalents are classified as held for trading. These instruments are accounted for at fair value with the change in the fair value recognized in net income during the year.

### c) Marketable securities

Effective December 1, 2006, the Company adopted the CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 1530, Comprehensive Income, Section 3861 - Financial Instruments – Disclosure and Presentation (note 3).

Marketable securities include corporate debentures as well as interest bearing securities with original maturities of greater than three months and remaining maturities of less than one year. All marketable securities are classified as available-for-sale and are initially measured at settlement date. The marketable securities are recorded at fair value. Subsequent changes in fair value are accounted for through accumulated other comprehensive income until such investments mature or are sold. Related interest income is included in Interest and Other Income on the Consolidated Statement of Operations.

The Company assesses declines in the value of individual investments for impairment to determine whether the decline is other-than temporary. The Company makes this assessment by considering available evidence, including changes in general market conditions, specific industry and individual company data, the length of time and the extent to which the fair value has been less than cost, the financial condition and the near-term prospects of the individual investment. In the event that a decline in the fair value of an investment occurs and the decline in value is considered to be other- than-temporary, an impairment charge is recorded and a new cost basis in the investment is established.

### d) Inventory

Raw materials are stated at the lower of cost and replacement cost. Work-in-process, finished goods and demonstration systems are stated at the lower of cost and net realizable value, which is defined as the selling price less costs to sell. Cost includes the cost of materials plus direct labour and an allocation of overhead applied to the product. Cost is determined on a first-in, first-out basis except for demonstration systems which are determined on a specific item basis.

### e) Income taxes

The Company follows the liability method of tax allocation to account for income taxes. Under this method, future tax assets and liabilities are determined based upon the difference between the financial reporting and tax basis of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized. The Company does not provide for income taxes on undistributed earnings of foreign subsidiaries that are not expected to be repatriated in the foreseeable future.

# Sandvine Corporation

Notes to the Consolidated Financial Statements

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## f) Capital assets

Capital assets are recorded at cost and amortization is provided using the following rates and methods:

Computer hardware	30% declining balance
Computer software	30%-50% declining balance
Furniture and fixtures	20% declining balance
Leasehold improvements	Straight-line basis over lease term

## g) Intangible Assets

Intangible assets are stated at cost less accumulated amortization and are comprised of acquired non-patented 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.

Acquired non-patented technology assets are amortized on a straight line basis over their estimated useful life of five years.

## h) Impairment of long-lived assets

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.

## i) Goodwill

Goodwill represents the excess of the purchase price of business acquisitions over the fair value of identifiable net assets acquired in such acquisitions. 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 tests for impairment of goodwill on an annual basis as of May 31.

## j) Research and development

The Company is engaged in research and development activities. Research and development costs, other than capital asset acquisitions, are charged as an operating expense of the Company as incurred, unless they meet generally accepted accounting criteria for deferral. To date, no costs have been deferred.

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

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### **k) Revenue recognition**

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. Generally, 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 following describes the specific revenue recognition policies for each major type of revenue.

#### *Networking equipment (including related software)*

The Company's networking and communications products are integrated with software that is essential to the functionality of its equipment.

The percentage-of-completion method of accounting is used for sales generated from certain contracts, primarily those related to significant production or 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. Revenue and cost estimates are revised periodically based on changes in circumstances. Profit 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.

Revenue for network equipment that does not require significant production, modification or customization is generally recognized when the product is shipped to the customer and when there are no unfulfilled obligations that affect the customer's final acceptance of the equipment.

#### *Software*

Certain software is licensed to customers under perpetual, term based or on a per-use basis. Revenue from perpetually licensed software is recognized at the inception of the license term. As term based software licenses are generally one year or less, the license revenues are recognized ratably over the license term. Revenues for software licenses which are paid for on a per-use basis are recognized at the time a reliable estimate can be made of actual revenues generated from usage.

#### *Post contract support*

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

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

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### *Multiple-element arrangements*

When a sale involves multiple elements, such as sales of products that include PCS, the entire fee from the arrangement is allocated to each respective element based on its relative fair value as determined by internal or third-party analysis of market-based prices and recognized when revenue recognition criteria for each element are met. 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. If the Company is unable to establish fair value for an undelivered element, and the only undelivered element is PCS, the entire arrangement fee is deferred and recognized ratably over the PCS period. In all other situations, if the Company is unable to establish fair value for an undelivered element, the entire arrangement fee is deferred until sufficient evidence exists or all elements have been delivered.

### **l) Earnings (loss) per share**

Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average number of common shares and common share equivalents outstanding during the year. Diluted earnings (loss) per share represents the potential dilution of securities by adding other common stock equivalents in the weighted average number of common shares outstanding during the year, if dilutive, and is calculated using the treasury stock method.

### **m) Stock-based compensation plan**

The Company has a stock-based compensation plan, which is described in note 12. In accordance with CICA Handbook Section 3870, *Stock-based Compensation and Other Stock-based Payments*, 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. The fair value of awards is determined using the Black-Scholes option pricing model.

Consideration paid on the exercise of stock options, or issuance of stock together with compensation expense recorded through contributed surplus, is credited to share capital.

### **n) Government assistance**

Government assistance towards research and development expenditures is received in the form of investment tax credits on account of eligible expenditures. Investment tax credits are recorded when there is reasonable assurance that the Company will realize them. Assistance related to the acquisition of capital assets used for research and development is credited against the related capital asset, while other assistance is credited against related expenses as incurred.

As more fully described in note 17 – Government assistance, the Company has arrangements which require it to pay royalties based on certain revenue streams. Royalty expense is charged to income when the related sale is recorded.

### **o) Use of estimates**

The preparation of these consolidated financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the consolidated

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2007

(in Canadian dollars, amounts in thousands, except share and per share data)

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financial statements and accompanying notes. Actual results could differ from these estimates. In particular, significant estimates include those related to revenue recognition, the valuation of inventory, future income taxes, intangible assets, goodwill, stock based compensation and investment tax credits.

### **p) Hedging relationships and derivative financial instruments**

Effective December 1, 2006, the Company adopted the CICA Handbook Section 3865, Hedges (note 3).

The Company may enter into forward contracts to reduce its exposure to fluctuations in foreign exchange rates. The Company does not use any derivative financial instrument for speculative purposes. As the Company does not account for these forward contracts using hedge accounting, these instruments are measured at fair value with changes recognized in earnings.

Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value. These embedded derivatives are initially measured at fair value with subsequent changes in fair value recognized in earnings.

### **q) Foreign currency translation**

The Company maintains its accounts in Canadian dollars. The accounts of its foreign subsidiaries are maintained in the local currency where the subsidiary is incorporated. The Company's foreign subsidiaries are considered to be integrated operations. Accordingly, the foreign operations are translated to Canadian dollars using the temporal method. As such, monetary assets and liabilities are translated using the exchange rates in effect at the consolidated balance sheet date and non-monetary assets and liabilities at historical exchange rates. Revenue and expense items have been translated using the average exchange rate prevailing during the year. The gains and losses resulting from changes in exchange rates are recognized in earnings.

### **r) Recently issued accounting pronouncements**

#### *Accounting changes*

In July 2006, the CICA issued revised Section 1506, *Accounting Changes*. This new section establishes criteria for changes in accounting policies along with the accounting treatment and disclosures required upon adoption of new accounting policies, estimates and corrections of errors. The standard will be applied prospectively for the Company's 2008 fiscal year. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

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## Notes to the Consolidated Financial Statements

November 30, 2007

(in Canadian dollars, amounts in thousands, except share and per share data)

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### *Inventories*

In June 2007, the CICA issued Section 3031, *Inventories*. This new section establishes that inventories should be measured at the lower of cost and net realizable value, with guidance on the determination of cost including the requirement to allocate overhead costs based on normal production levels. The standard will be applied retroactively without restatement with an adjustment to opening retained earnings commencing in the Company's 2008 fiscal year. The Company expects the adoption of this standard will require a pre-tax transitional adjustment increasing inventory and retained earnings by approximately \$365 in the Company's consolidated financial statements for the first quarter of fiscal 2008.

### *Financial instrument and capital disclosures*

The CICA has issued Section 1535, *Capital disclosures* and Section 3862, *Financial instruments: disclosure*. These new sections establish additional disclosure requirements including the significance of financial instruments to the Company's financial position and performance, discussion regarding the nature and extent of risks surrounding the Company's financial instruments, disclosures regarding the Company's objectives, policies and process for managing capital and what the company regards as capital. The standard will be effective for interim and annual financial statements commencing in the Company's 2008 fiscal year.

## **3 Changes in accounting policies**

### *Financial instruments*

The Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, *Financial Instruments – Recognition and Measurement*; Section 1530, *Comprehensive Income*, Section 3861, *Financial Instruments – Disclosure and Presentation* and Section 3865, *Hedges* on December 1, 2006. The adoption of these new financial instruments standards resulted in changes in the accounting for financial instruments as well as the recognition of certain transition adjustments that have been recorded in opening accumulated other comprehensive income as described below. The comparative consolidated financial statements have not been restated. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

#### **(a) Financial assets and financial liabilities**

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

#### *Held for trading*

Financial assets that are purchased and incurred with the intention of generating profits in the near term are classified as held for trading. These instruments are accounted for at fair value with the change in the fair value recognized in net income during the period. Cash and cash equivalents totalling \$10.7 million and foreign currency derivatives of \$11 were classified as held for trading on December 1, 2006.

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## Notes to the Consolidated Financial Statements

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### *Available-for-sale*

Financial assets classified as available-for-sale are carried at fair value with the changes in fair value recorded in other comprehensive income. When a decline in fair value is determined to be other-than-temporary, the cumulative loss included in accumulated other comprehensive income is removed and recognized in net income. Gains and losses realized on disposal of available-for-sale securities are recognized in other income. Investments totalling \$46.3 million were classified as available-for-sale on December 1, 2006.

### *Held-to-maturity*

Securities that have a fixed maturity date and which the Company has positive intention and the ability to hold to maturity are classified as held-to-maturity and accounted for at amortized cost using the effective interest rate method. No investments were classified as held-to-maturity on December 1, 2006.

### *Receivables and Payables*

Receivables and payables are accounted for at amortized cost. This is consistent with the treatment under the prior accounting standards.

### **(b) Embedded derivatives**

Derivatives may be embedded in other financial and non-financial instruments (the “host instrument”). Prior to the adoption of the new standards, embedded derivatives were not accounted for separately from the host instrument except in certain circumstances which were not applicable to the Company. Under the new standards, embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in the Statement of Operations and Deficit as an element of general and administrative expenses.

The Company enters into certain non-financial instrument contracts which contain embedded foreign currency derivatives. In cases where the contract is not leveraged, does not contain an option feature and is denominated in a currency that is commonly used in the economic environment where the transaction takes place, the embedded derivative is not accounted for separately from the host contract.

The change in accounting policy related to embedded derivatives resulted in an increase of \$78 to the opening deficit at the date of adoption. As of November 30, 2007, the fair value of the embedded derivative asset is \$6. The Company recognized a gain of \$96 for the year ended November 30, 2007 on its embedded derivatives.

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## **(c) Determination of fair value**

The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, fair value is determined by using valuation techniques which refer to observable market data using the specific identification method.

## **(d) Comprehensive income**

Comprehensive income is composed of the Company's net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available-for-sale securities, net of income taxes. The components of comprehensive income are disclosed in the Statement of Changes in Shareholders' Equity. The change in accounting policy resulted in the recognition of a \$5 unrealized gain on available-for-sale securities in accumulated other comprehensive income on the date of adoption.

## **(e) Hedge accounting**

There was no impact on the Company as a result of adopting CICA Handbook Section 3865.

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### 4 Business Acquisitions

#### *CableMatrix Technologies Inc.*

On June 14, 2007, the Company acquired all of the outstanding shares of CableMatrix Technologies Inc. ("CMX"), a provider of policy management software for IP networks, for \$4,866 in cash, of which \$910 is being held in escrow to secure certain representations, warranties and covenants specified in the acquisition agreement. Upon acquisition, all of the outstanding common share options of CMX were converted into options to acquire 370,000 common shares of the Company pursuant to the terms of the assumed CMX stock option plan.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

	<b>June 14 2007 \$</b>
<b>Assets purchased</b>	
Current assets	21
Capital assets	212
Non-patented technology assets	3,821
Goodwill	1,574
	<hr/>
	5,628
	<hr/>
<b>Liabilities assumed</b>	
Current liabilities	487
Other (non-current)	325
	<hr/>
	812
	<hr/>
<b>Net non-cash assets acquired</b>	4,816
Cash acquired	50
	<hr/>
<b>Net assets acquired</b>	<b>4,866</b>
	<hr/>
<b>Consideration</b>	
Cash	<b>4,866</b>
	<hr/>

The acquired non-patented technology assets relate primarily to developed core software technology and are being amortized over their estimated useful life of five years. The goodwill recorded as a result of the acquisitions is not tax deductible.

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### *Simplicita Software, Inc.*

On June 30, 2007, the Company acquired all of the outstanding shares of Simplicita Software, Inc. (“Simplicita”), a provider of subscriber mediation software for IP networks, for consideration of 643,395 common shares of the Company valued at approximately \$3,423. The value of the common shares issued was determined based on the volume weighted average market price of the Company’s common shares over the three day period before and after the terms of the acquisition were agreed to and announced.

In addition to the purchase consideration, 171,903 shares (net of 51,380 shares that will be cancelled as a result of the working capital adjustment) were issued and allocated to a key employee escrow that will be released over time, contingent on the continued employment of certain individuals over the next three years. The Company will recognize up to a maximum of \$869 as non-cash compensation expense over the period in which the services are rendered. For the year ended November 30, 2007, \$137 has been recognized as compensation expense relating to this key employee escrow.

Additional contingent consideration of up to 555,555 common shares of the Company valued at \$2,811 will be made to specified Simplicita employees on the achievement of certain performance targets and who continue their employment with the Company as of November 30, 2008. 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 year ended November 30, 2007. The Company will continue to assess on a regular basis the expected outcome of the performance targets and record compensation costs based on the best available estimate of the number of shares expected to be issued.

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

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

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(in Canadian dollars, amounts in thousands, except share and per share data)

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The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

	<b>June 30 2007 \$</b>
<b>Assets purchased</b>	
Current assets	21
Capital assets	25
Non-patented technology assets	4,146
Goodwill	1,608
	<hr/>
	5,800
	<hr/>
<b>Liabilities assumed</b>	
Current liabilities	475
Future tax liability - current	332
Future tax liability - non-current	1,327
	<hr/>
	2,134
	<hr/>
<b>Net non-cash assets acquired</b>	3,666
Cash acquired	177
	<hr/>
<b>Net assets acquired</b>	<b>3,843</b>
	<hr/>
<b>Consideration</b>	
Cash	390
Vested stock options assumed	30
Shares	3,423
	<hr/>
	<b>3,843</b>
	<hr/>

The acquired non-patented technology assets relate primarily to developed core software technology and are being amortized over their estimated useful life of five years. Future tax liabilities associated with the temporary differences of the acquired non-deductible intangible assets has been recorded. The goodwill recorded as a result of the acquisitions is not tax deductible.

In addition, as a result of the CMX and Simplicita acquisitions the Company has approximately US\$5,827 (CDN\$5,832) of non-capital losses which may be applied against future U.S. taxable income at a rate of approximately US\$354 (CDN\$365) per annum. During the fourth quarter of fiscal 2007, the Company identified and implemented certain tax planning strategies that resulted in the benefit of approximately \$1,973 of U.S. losses being recognized. As these losses related to pre-acquisition losses of companies that were acquired during the year, the benefit has been recorded as a subsequent reduction of goodwill. As a result, substantially all of the reduction in the Simplicita goodwill from the \$1,608 initially recognized to \$851 relates to the implementation of these tax planning strategies.

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2007

(in Canadian dollars, amounts in thousands, except share and per share data)

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In the acquisitions noted above, the results of the acquirees' operations have been included in the consolidated financial statements commencing from each respective closing date to November 30, 2007.

### 5 Marketable securities

Marketable securities include the following:

	2007 \$	2006 \$
Canadian dollar bonds, debentures and interest bearing securities	105,136	37,510
U.S. dollar interest bearing securities	-	5
	<hr/> 105,136	<hr/> 37,515

As at November 30, 2006, the carrying values of bonds, debentures and interest bearing securities were accounted for at amortized cost. As at November 30, 2007, net unrealized cumulative gains of \$69 have been recorded in accumulated other comprehensive income for bonds, debentures and interest bearing securities. These unrealized gains were related to interest rate decreases in the marketplace. For specific marketable securities with unrealized losses, the Company believes that it is probable that it will be able to collect all amounts due according to the contractual terms of the investments as the Company has the ability and intent to hold these investments until there is a recovery of fair value which may be at maturity. As a result, the Company does not consider these investments to be other-than-temporarily impaired as at November 30, 2007.

### 6 Inventory

Inventory includes the following:

	2007 \$	2006 \$
Raw materials	6,183	5,379
Work-in-process	3,606	2,304
Finished goods	599	71
Demonstration systems	3,486	1,871
	<hr/> 13,874	<hr/> 9,625

# Sandvine Corporation

Notes to the Consolidated Financial Statements

November 30, 2007

(in Canadian dollars, amounts in thousands, except share and per share data)

## 7 Capital assets

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Computer hardware	12,386	4,479	7,907
Computer software	2,519	1,424	1,095
Furniture and fixtures	755	260	495
Leasehold improvements	759	119	640
	<hr/>	<hr/>	<hr/>
	16,419	6,282	10,137

	<b>Cost</b>	<b>Accumulated amortization</b>	<b>2006</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Computer hardware	7,255	2,252	5,003
Computer software	1,551	995	556
Furniture and fixtures	431	178	253
Leasehold improvements	359	56	303
	<hr/>	<hr/>	<hr/>
	9,596	3,481	6,115

## 8 Intangible assets

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Non-patented technology assets	<hr/>	<hr/>	<hr/>
	7,967	667	7,300
	<hr/>	<hr/>	<hr/>
	7,967	667	7,300

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2007

(in Canadian dollars, amounts in thousands, except share and per share data)

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### 9 Financial Instruments

#### *Fair value*

Cash and cash equivalents, accounts receivable, other receivables and accounts payable and accrued liabilities are short term financial instruments whose fair value approximates the carrying amount given that they will mature shortly. The fair value of marketable securities is based on quoted market prices. The fair values of currency forward contracts and embedded derivatives have been estimated using market quoted currency spot rates and interest rates, and have been included in Other current assets or Accounts payable and accrued liabilities on the Company's consolidated balance sheet.

#### *Interest rate risk*

Marketable securities are invested in separate investments with varying maturities exposing the Company to interest rate risk on these financial instruments. All marketable securities have remaining maturities of less than one year. The Company does not use financial instruments to mitigate this risk.

#### *Credit risk*

The Company is exposed to credit risk in its cash and cash equivalents, marketable securities, accounts receivable, other receivables and to the credit risk of its derivative financial instrument counterparties that do not meet their obligations. The Company minimizes the credit risk of cash and cash equivalents and marketable securities by depositing with only reputable financial institutions and investing in securities that meet minimum credit ratings as stipulated by the Company's investment policy and limiting exposure to any one marketable security. As at November 30, 2007 no one issuer represented more than 29.0 % of the total marketable securities (2006 – 26.5%). The Company minimizes its credit risk of its accounts receivable and other receivables by performing credit reviews of each of its customers. As at November 30, 2007, four companies, with greater than ten percent concentration in accounts receivable, accounted for 19.0%, 14.8%, 14.2% and 13.0% of the Company's total accounts receivable (2006 – two; 77.2% and 16.2%). The Company minimizes the credit risk of its derivative financial instruments by dealing only with reputable financial institutions and monitoring the credit risk of these financial institutions.

The Company's financial instruments could be sensitive to changing conditions in particular geographic regions.

	<b>Canada</b>	<b>United States</b>	<b>Other</b>	<b>Total</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Cash and cash equivalents	79.4	-	20.6	100.0
Marketable securities	100.0	-	-	100.0
Accounts and other receivables	21.3	49.6	29.1	100.0
Derivative financial instruments	100.0	-	-	100.0

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2007

(in Canadian dollars, amounts in thousands, except share and per share data)

### *Foreign currency risk*

There is a risk to the Company's earnings that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company's financial results are reported in Canadian dollars. The Company's exposure to foreign currency risk is primarily related to fluctuations in the value of the Canadian dollar relative to that of the United States dollar as the Company's transactions with customers and directly associated costs generally occur in United States dollars. For the year ended November 30, 2007, general and administrative expenses included a foreign exchange loss of \$694 (2006 - \$87).

## 10 Income taxes

The provision for (recovery of) income taxes consists of the following:

	2007	2006
	\$	\$
Current		
Canadian	20	-
Foreign	164	100
	<u>184</u>	<u>100</u>
Future		
Canadian	(1,075)	-
Foreign	(433)	-
	<u>(1,508)</u>	<u>-</u>
	<u>(1,324)</u>	<u>100</u>

The current provision primarily relates to taxes owing by the Company's foreign subsidiaries.

The difference between the amount of the provision for (recovery of) income taxes and the amount computed by multiplying income before income taxes by the statutory Canadian rate is reconciled as follows:

	2007	2006
	\$	\$
Combined federal and provincial tax rate	36.12%	36.12%
Expected tax provision (recovery)	6,370	(102)
Foreign tax rate differences	268	29
Stock based compensation and other differences	816	(157)
(Decrease) increase in valuation allowance	(8,778)	330
	<u>(1,324)</u>	<u>100</u>

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2007

(in Canadian dollars, amounts in thousands, except share and per share data)

The tax effects of significant temporary differences are as follows:

	2007	2006
	\$	\$
<b>Assets</b>		
Share issuance costs	1,689	1,600
Research and development incentives	696	5,281
Tax losses	2,572	2,780
Deferred revenue	698	-
	<hr/>	<hr/>
	5,655	9,661
Less: Valuation allowance	2,459	9,071
	<hr/>	<hr/>
	3,196	590
<b>Liabilities</b>		
Capital assets	1,176	590
Intangible assets	1,319	-
	<hr/>	<hr/>
<b>Net carrying value</b>	701	-
	<hr/>	<hr/>
The allocation is as follows:		
Current future tax asset	1,075	-
Non-current future tax liability	374	-
	<hr/>	<hr/>
	701	-
	<hr/>	<hr/>

In assessing the value of the future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon future taxable income. Management considers the likelihood of future profitability, the character of the tax assets and any applicable tax planning strategies to make this assessment. To the extent that management believes that the realization of future tax assets do not meet the more likely than not criterion, a valuation allowance is provided against the future tax assets.

The Company has determined that \$1,075 of future tax assets associated with temporary differences are more likely than not to be realized given the Company's expectations of future profitability. In addition, the Company has not recognized the benefit associated with its non-refundable investment tax credits.

The Company will continue to evaluate and examine the valuation allowance on a regular basis, and as future events unfold the valuation allowance may be adjusted.

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2007

(in Canadian dollars, amounts in thousands, except share and per share data)

The Company has investment tax credits, tax loss carryforwards and undeducted scientific research and experimental development deductions ("SR&ED") which expire as follows:

	<b>Investment tax credits</b>	<b>Tax loss carry forwards</b>	<b>Undeducted SR&amp;ED</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
2012	250	-	-
2013	628	-	-
2014	140	-	-
2015	513	-	-
2024	-	455	-
2025	-	1,040	-
2026	1,299	2,893	-
2027	1,520	2,423	-
Unlimited	-	4,796	320
	<hr/>	<hr/>	<hr/>
	4,350	11,607	320

During the year, the Company acquired subsidiaries with foreign net operating loss carry forwards of US\$5,827 (CDN\$5,832). The use of these losses is subject to a cumulative limitation of US\$354 (CDN\$365) per annum. As at November 30, 2007, the Company has not recognized the benefit related to \$3,857 of these losses. In addition, the Company has acquired a subsidiary with foreign accumulated losses of \$4,796 in a foreign jurisdiction in which the Company has been granted a 10 year tax holiday. The Company expects that during the period these tax losses are utilized, its income will be subject to a nil tax rate as it is the Company's intention that the earnings will be reinvested indefinitely. Accordingly, the Company has not recognized the tax benefit associated with these losses.

The Company has not provided for Canadian future income taxes or foreign withholding taxes that would apply on the distribution of the earnings of its non-Canadian subsidiaries, since these earnings are intended to be reinvested indefinitely.

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2007

(in Canadian dollars, amounts in thousands, except share and per share data)

### 11 Share capital

Share capital consists of the following:

	Common Shares		Class A preferred shares		Class B preferred shares		Common share warrant		Total
	#	\$	#	\$	#	\$	#	\$	\$
<b>Balance, November 30, 2005</b>	24,066,408	30	34,856,988	21,855	28,811,853	18,041	1	390	40,316
Issued under the employee stock option plan	370,800	199	-	-	-	-	-	-	199
Transfer from contributed surplus	-	9	-	-	-	-	-	-	9
Issued for cash	34,562,367	50,359	-	-	-	364	-	-	50,723
Issued on exchange to Class A preferred shareholders	34,856,988	21,855	(34,856,988)	(21,855)	-	-	-	-	-
Issued on exchange to Class B preferred shareholders	28,811,853	18,405	-	-	(28,811,853)	(18,405)	-	-	-
<b>Balance, November 30, 2006</b>	122,668,416	90,857	-	-	-	-	1	390	91,247
Issued under the employee stock option plan	3,199,556	1,953	-	-	-	-	-	-	1,953
Transfer from contributed surplus	-	229	-	-	-	-	-	-	229
Issued for cash	10,247,650	49,579	-	-	-	-	-	-	49,579
Issued as consideration on business acquisition (note 4)	643,395	3,423	-	-	-	-	-	-	3,423
Issued as compensation on business acquisition (note 4)	223,283	137	-	-	-	-	-	-	137
<b>Balance, November 30, 2007</b>	136,982,300	146,178	-	-	-	-	1	390	146,568

The Company has authorized an unlimited number of common shares.

The Company has one outstanding and authorized common share purchase warrant which entitles the holder to acquire 619,280 common shares for \$0.00001 at any time prior to March 31, 2023. This transaction was a non-cash transaction. The Company determined that the fair value of the warrant was \$390 at the time of issue.

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2007

(in Canadian dollars, amounts in thousands, except share and per share data)

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On March 7, 2006, the Company entered into a share exchange agreement with Sandvine Incorporated's shareholders and Sandvine Incorporated. Under the share exchange agreement, the Company, Sandvine Incorporated and each shareholder entered into a share-for-share exchange transaction pursuant to which the shareholders exchanged all of their shares in Sandvine Incorporated for shares in the capital of Sandvine Corporation, causing Sandvine Incorporated to be a wholly owned subsidiary of Sandvine Corporation. Each shareholder received the number and class of Sandvine Corporation's shares that correspond to the number and class of Sandvine Incorporated shares held on that date. In connection with this exchange agreement, the options and warrant holder exchanged their options or warrant in Sandvine Incorporated to options or warrant in the Company on the same terms and conditions as the original options and warrant.

As Sandvine Incorporated and Sandvine Corporation were related through 100% common share ownership, the business combination has been recorded using the continuity of interests method, whereby the financial statements have been prepared on the basis that Sandvine Corporation had always been the sole shareholder of Sandvine Incorporated. On March 14, 2006, the Company amended its Articles to reorganize its share capital. All shareholders exchanged all of their shares for common shares. All Class A and B preference shares exchanged were subsequently cancelled. The common shares were redeemable at the option of the registered holder at a redemption price as stipulated by the Company's articles of incorporation.

On March 21, 2006, the Company issued 26,667,367 common shares for net proceeds of \$37.1 million (net of share issuance costs of \$3,347) as part of listing its entire share capital to the AIM market of the London Stock Exchange.

On October 26, 2006, the Company issued 7,895,000 common shares for net proceeds of \$13.3 million (net of share issuance costs of \$1,707) in connection with an initial public offering of the Company's shares on the Toronto Stock Exchange ("TSX"). Following closing of this offering, the Company filed Articles of Amendment to remove the redemption feature on the common shares as described above.

On June 30, 2007, the Company acquired all of the outstanding shares of Simplicita Software, Inc. ("Simplicita"), a provider of subscriber mediation software for IP networks, for consideration of 643,395 common shares of the Company valued at approximately \$3,423. In addition to the purchase consideration, 171,903 shares (net of 51,380 shares that will be cancelled as a result of the working capital adjustment) were issued and allocated to a key employee escrow that will be released over time contingent on the continued employment of certain individuals over the next three years (note 4).

On July 12, 2007 the Company issued 10,247,650 shares for net proceeds of \$49.6 million (net of share issuance costs of \$2,171).

During the year, the Company issued 3,199,556 common shares for net proceeds of \$1,857 as a result of option holders exercising their options (2006 – 370,800 common shares for net proceeds of \$199).

# Sandvine Corporation

Notes to the Consolidated Financial Statements

November 30, 2007

(in Canadian dollars, amounts in thousands, except share and per share data)

## 12 Stock options

### Stock option plan

The Company has adopted a stock option plan for employees and directors. Options granted prior to March 21, 2006 typically vest over a four year and six month term. Options granted subsequent to this date typically vest over a 5 year term. All options have a contractual life of 10 years and allow for the purchase of one common share per option. The exercise price of the options is the volume weighted average share price of the Company's common shares for the five days prior to the date of grant. As at November 30, 2007, there were 6,188,267 options available for future grants under the stock option plan. A summary of the stock option activity is presented below:

	<u>Options</u>	
	<b>Number</b>	<b>Weighted average price \$</b>
<b>Options outstanding, November 30, 2005</b>	7,587,951	0.562
Option activity for the year		
Granted during the year	2,143,600	1.884
Forfeited	(406,830)	0.686
Exercised	(370,800)	0.537
<b>Options outstanding, November 30, 2006</b>	8,953,921	0.875
Option activity for the year		
Granted during the year	2,058,000	5.386
Assumed on acquisition (note 4)	393,333	4.945
Forfeited	(365,735)	2.180
Exercised	(3,199,556)	0.580
<b>Options outstanding, November 30, 2007</b>	7,839,963	2.320

### Stock based compensation

The Company has recognized \$1,329 for year ended November 30, 2007 as compensation expense for stock-based grants (2006 – \$344), with a corresponding credit to contributed surplus. Previously recognized expense of \$229 relating to options exercised during the year has been transferred from contributed surplus to share capital (2006 - \$9).

# Sandvine Corporation

Notes to the Consolidated Financial Statements

November 30, 2007

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	2007 \$	2006 \$
Number of options granted/assumed	2,451,333	2,143,600
Weighted average Black-Scholes value of each option	\$3.68	\$1.31
Assumptions		
Risk free interest rate	4.39%	4.13%
Expected life in years	10	10
Expected dividend yield	0%	0%
Volatility	58.79%	45.3%

The following table summarizes information regarding stock options outstanding at November 30, 2007:

Options Outstanding				Options Exercisable		
Range of exercise price \$	Number outstanding at November 30, 2007	Weighted average contractual life (years)	Weighted average exercise price \$	Number outstanding at November 30, 2007	Weighted average exercise price \$	
0.40 - 0.63	3,993,942	5.90	0.573	2,617,272	0.542	
1.52 - 2.53	1,991,850	8.83	2.299	357,481	2.235	
4.11 - 5.50	508,671	9.46	4.681	8,439	5.500	
6.59 - 6.95	1,345,500	9.66	6.644	-	-	
0.40 - 6.95	7,839,963	7.52	2.320	2,983,192	0.759	

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

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### 13 Credit facility

The Company has a demand credit facility with a major Canadian chartered bank. Under the terms of the facility, the Company has available to it a \$500 operating line to provide letters of credit and a US\$15 million forward contract line to permit the Company to enter into foreign currency forward contracts. Borrowings made from the facility attract interest at the bank's prime rate of interest. Cash equivalents in the amount of \$2,500 are pledged as security for the credit facility.

As of November 30, 2007 the Company has issued two letters of credit under its operating line for US\$64 (CDN\$64) expiring December 29, 2007, and US\$84 (CDN\$84) expiring July 31, 2008.

As of November 30, 2007 the Company has three foreign currency forward contracts that have the effect of fixing the conversion of \$6,000 of the Company's net US dollar asset position to Canadian dollars at a weighted average rate of 0.9741. These contracts mature on or before February 28, 2008 and have fair value of \$(162) at year end. The Company recognized a gain of \$303 relating to the change in fair value of foreign currency forward contracts which settled during the year. This amount was included in General and Administrative expenses in the Consolidated Statement of Operations.

### 14 Lease commitments

Future minimum operating lease payments for premises over the next five years and thereafter are as follows:

	\$
2008	514
2009	447
2010	437
2011	437
2012	219
Thereafter	-
	<hr/>
	2,054
	<hr/>

# Sandvine Corporation

Notes to the Consolidated Financial Statements

November 30, 2007

(in Canadian dollars, amounts in thousands, except share and per share data)

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## 15 Earnings (loss) per share

	2007	2006
Numerator for basic and diluted earnings (loss) per share available to common shareholders	\$18,962	\$(382)
Denominator for earnings (loss) per share, weighted average number of shares outstanding		
Basic	128,510,680	107,232,201
Effect of warrant outstanding	619,280	-
Effect of stock options issued	6,749,560	-
Effect of contingently returnable shares	93,852	-
Diluted	135,973,372	107,232,201
Earnings (loss) per share:		
Basic	\$0.148	\$(0.004)
Diluted	\$0.139	\$(0.004)

In years where the Company incurred losses applicable to common shares, the common share purchase warrant and the options granted under the Company's stock option plan have been excluded in the diluted loss per share calculation as their inclusion would have been anti-dilutive.

## 16 Accumulated other comprehensive income

	2007	2006
	\$	\$
Accumulated net unrealized gains on available for sale financial assets arising during the year (net of \$nil tax)	69	-
Total accumulated other comprehensive income	69	-

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2007

(in Canadian dollars, amounts in thousands, except share and per share data)

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### 17 Government assistance

The Company has an agreement with Technology Partnership Canada (“TPC”) who provided partial funding towards one of the Company’s research and development projects. The Company received \$9,500 over a twenty-two month period which ended during fiscal 2005. The agreement requires the contribution to be repaid in the form of royalties to a maximum of \$16 million on gross revenues of the Company. From December 1, 2005 to November 30, 2007, the Company is required to pay royalties at a rate of 1% of gross revenues until the earlier of December 1, 2007 or the date the Company’s cumulative gross revenues exceeds \$85 million, at which time the royalty rate will be increased to 2.5%. During the year ended November 30, 2007 the royalty rate increased to 2.5% of gross revenues as the Company’s cumulative gross revenues surpassed the \$85 million threshold. The obligation to pay royalties expires on November 30, 2013. During the year ending November 30, 2007, the Company recognized \$1,042 (2006 - \$317) as royalty expense which has been recorded as an increase to research and development expenses. Cumulatively, the Company has accrued or paid total royalties of \$1,359 under the agreement.

A subsidiary of the Company participated in programs sponsored by a foreign government body for the support of research and development activities. The subsidiary is obligated to pay royalties, amounting to 3% - 5% on sales and other related revenues generated from the subsidiary’s products up to the amount granted. The subsidiary’s obligation to pay these royalties is contingent on actual sales of its products which incorporate the technology related to the grant, and in the absence of such sales, no payment is required. As of November 30, 2007 the subsidiary has received cumulative grants of 1,993 ILS (\$450 CDN). The estimated fair value of the contingent obligation was recognized in conjunction with the acquisition of CableMatrix Technologies Inc. (note 4) and is included within “Other” non-current liabilities on the balance sheet.

Government repayments, together with investment tax credits, have been applied to research and development expense as follows:

	<b>2007</b>	<b>2006</b>
	\$	\$
Research and development	16,132	10,214
Government repayments	1,042	317
Investment tax credits	(233)	(432)
	<u>16,941</u>	<u>10,099</u>

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

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(in Canadian dollars, amounts in thousands, except share and per share data)

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### 18 Segment disclosures

The Company has one reportable segment. The Company's operations are substantially all related to the research, design, manufacturing and sales of network management equipment and solutions for broadband service providers. Selected financial information is as follows:

	<b>2007</b>	<b>2006</b>
	\$	\$
Sales		
Canada	228	385
United States	65,020	27,151
Caribbean and Latin America	465	190
Europe, Middle East and Africa	6,130	3,370
Asia Pacific	1,836	569
	<hr/>	<hr/>
	73,679	31,665
	<hr/>	<hr/>
	<b>2007</b>	<b>2006</b>
	%	%
Sales		
Canada	0.3	1.2
United States	88.3	85.8
Caribbean and Latin America	0.6	0.6
Europe, Middle East and Africa	8.3	10.6
Asia Pacific	2.5	1.8
	<hr/>	<hr/>
	100.0	100.0
	<hr/>	<hr/>

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

# Sandvine Corporation

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For the year ended November 30, 2007 major customers represented 60.4% of total revenue (2006 – 70.0%). As of November 30, 2007 two customers represented 49.2% and 11.2% of total revenue respectively (2006 – 70.0% and \$nil).

	2007	2006
	\$	\$
Capital assets, intangibles and goodwill		
Canada	9,538	6,115
United States	4,828	-
Europe, Middle East and Africa	5,496	-
	<hr/>	<hr/>
	19,862	6,115
	<hr/>	<hr/>
Total assets		
Canada	148,780	79,419
United States	4,933	15
Europe, Middle East and Africa	5,752	112
	<hr/>	<hr/>
	159,465	79,546
	<hr/>	<hr/>

### 19 Supplemental cash flow information

For the year ended November 30, 2007 the Company paid \$125 for income tax in cash (2006 - \$38). The Company did not pay any interest in cash during the year ended November 30, 2007 (2006 - \$nil).

### 20 Comparative figures

Certain of the comparative figures have been reclassified to conform to the current year presentation.