sandvine™

MANAGEMENT'S DISCUSSION AND ANALYSIS
Dated: January 15, 2009

The following 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 financial statements and accompanying notes for the fourth quarter of fiscal 2008, being the period ended November 30 2008. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are reported in Canadian dollars. The information contained herein is dated as of January 15, 2009, 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 ended on November 30, 2008, is referred to as the "current fiscal year," "fiscal 2008", "2008", or using similar words. The previous fiscal year, which ended on November 30, 2007, is referred to as "previous fiscal year," "fiscal 2007," "2007", FY-07"" 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 'may', "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 the Company 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 the Company 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 the Company 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, customer demand and the timing of customer orders purchase decisions;
- The Company's gross margins may fluctuate from period to period depending upon a variety of factors including product mix in the quarter, competitive pricing pressures and the level of sales generated through indirect channels;
- The Company is dependent upon and expects to continue to derive a large percentage of its revenue from both a small number of key customers and key reseller partners, none of whom are bound to any fixed purchase commitment or exclusivity obligations;
- 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, which decisions may be impacted upon by changing requirements in the area of broadband network management policies and/or changes in the regulatory framework to which the Company's customers may be subject;
- Overall economic conditions and the availability of credit may negatively impact the Company's customers and suppliers.
- The majority of the Company's expenses are denominated in Canadian dollars and New Israeli Shekels while its revenues 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;
- The introduction and sale of new products by the Company may impact the timing of revenue recognition which could raise greater revenue fluctuations from quarter to quarter than has been experienced historically.

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 years ended, November 30, 2008 and 2007 has been derived from the audited consolidated financial statements and accompanying notes for the years ended November 30, 2008, 2007 and 2006. The financial information for the three month period ended November 30, 2008 and 2007 have been prepared by management in accordance with Canadian generally accepted accounting principles in a manner consistent with its annual financial statements and have not been subject to a review engagement by the Company's auditors. Each investor should read the following information in conjunction with those statements and related notes.

	Three months ended November 30,		Twelve months ended November 30,		
	2008	**2007**	**2008**	**2007**	**2006**
	Amounts in thousands of dollars except for share and per share data				
Consolidated Statement of Operations Data:					
Revenue					
Product	$15,482	$14,756	$38,459	$65,127	$28,003
Service	3,102	2,350	12,625	8,552	3,662
	18,584	17,106	51,084	73,679	31,665
Cost of Sales					
Product	2,520	4,206	8,741	15,261	7,525
Service	745	364	2,412	1,455	1,113
	3,265	4,570	11,153	16,716	8,638
Gross margin	15,319	12,536	39,931	56,963	23,027
Expenses					
Sales and marketing	5,472	4,298	18,052	15,026	8,947
Research and development	7,565	5,223	25,921	16,072	10,214
Net government repayments	465	428	251	809	(115)
General and administration	1,316	2,254	7,702	6,454	3,838
Stock based compensation	1,320	639	4,356	1,466	344
Amortization of intangible assets	400	400	1,600	667	--
Depreciation	1,306	803	4,061	2,639	1,587
Total operating expenses	17,844	14,045	61,943	43,133	24,815
Income (loss) from operations	(2,525)	(1,509)	(22,012)	13,830	(1,788)
Interest and other income	687	1,267	3,373	3,808	1,506
Income (loss) before income taxes	(1,838)	(242)	(18,639)	17,638	(282)
Provision for (recovery of) income taxes					
Current	21	49	100	184	100
Future	(88)	(361)	896	(1,508)	--
Net income (loss) for the period	(1,771)	70	(19,635)	18,962	(382)
Basic earnings (loss) per share	(0.013)	0.001	(0.144)	0.148	(0.004)
Diluted earnings (loss) per share	(0.013)	0.000	(0.144)	0.139	(0.004)
Weighted average common shares outstanding					
Basic	135,375,833	136,163,010	136,336,109	128,510,680	107,232,201
Diluted	135,375,833	142,470,069	136,336,109	135,973,372	107,232,201

	As at November 30, 2008	As at November 30, 2007	As at November 30, 2006
Consolidated Balance Sheet Data:	*Amounts in thousands of dollars*		
Cash and cash equivalents	$ 3,872	$ 7,878	$ 19,564
Marketable securities	88,676	105,136	37,515
Total assets	150,052	159,465	79,546
Total liabilities	18,274	10,895	6,379
Shareholders' equity	131,778	148,570	73,167

SELECTED FINANCIAL INFORMATION (cont.)

Non-GAAP Financial Measures

The following table provides a reconciliation of non-GAAP net income and related per share amounts to GAAP net income and the related per share amounts for the period indicated. These non-GAAP financial measures which are used internally by management to evaluate the Company's ongoing performance exclude the impact of stock based compensation and amortization of intangible assets (collectively referred to as "Excluded Expenses"). The Company provides these non-GAAP financial measures as it is the Company's view that the Excluded Expenses are either (i) not part of its normal day-to-day operations and/or (ii) represent a "non-cash" accounting charge that does not deplete its cash resources. Accordingly, the Company believes that such financial measures may also be useful to investors in enhancing the understanding of the Company's operating performance. Non-GAAP net income is not recognized under Canadian GAAP and does not have a standardized meaning prescribed by Canadian GAAP. Therefore it is unlikely to be comparable to similarly titled measures reported by other issuers. Non-GAAP financial measures should be considered in the context of the Company's GAAP results.

	Three months ended November 30,		Year ended November 30,		
	2008	**2007**	**2008**	**2007**	**2006**
		Amounts in thousands of dollar			
Net income (loss)...	$(1,771)	$70	$(19,635)	$18,962	$(382)
Stock based compensation expense	1,320	639	4,356	1,466	344
Amortization of intangible assets.............	400	400	1,600	667	--
Net income (loss) excluding the impact of the items specified above	(51)	1,109	(13,679)	21,095	(38)

	Three months ended November 30,		Year ended November 30,		
	2008	**2007**	**2008**	**2007**	**2006**
Diluted earnings (loss) earnings per share	$(0.013)	$0.000	$(0.144)	$0.139	$(0.004)
Impact on diluted earnings per share of Excluded Expenses....................................	0.013	0.007	0.044	0.016	$0.003
Diluted earnings (loss) per share excluding the impact of the Excluded Expenses	(0.000)	0.007	(0.100)	0.155	$(0.001)

OVERVIEW

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

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 eight service providers in 2003 to over 140 in November 2008.

Sandvine has a strong presence in its markets. In all, Sandvine's customers serve over 70 million broadband subscribers globally. Seventeen of Sandvine's customers have over one million broadband subscribers each, ranking them among the largest broadband service providers in the world.

The Market

Sandvine's target market is broadband and wireless operators worldwide, including DSL, cable, FTTx, fixed wireless and mobile operators. Within the broadband service provider market, Sandvine primarily targets the top 250 operators around the world, by subscriber count, who hold more than 80% of the worldwide broadband subscriber base. In the mobile data market, Sandvine primarily targets the top 350 service providers in the world. While these networks represent over 2.5 billion total subscribers, only a fraction of them are data subscribers – the subscriber of interest for Sandvine's solutions – so this segment of Sandvine's market is still in its early stages.

Globally, broadband service providers face challenges in an increasingly competitive business, creating an environment where quality of service is paramount to avoid subscriber churn. 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 (for example, standalone VoIP providers like Vonage), not burdened with network investment and operations, are aggressively targeting premium users with a broad range of value-added services.

Wireless operators continue to invest aggressively in network rollouts, while refining traditional service plans to attract new subscribers and encourage the adoption of data usage plans. Traditional flat-rate data plans are quickly being replaced with usage-based billing, application-based services and comprehensive advice-of-charge notification so that subscribers clearly understand their charges whether they are downloading ring tones to their mobile phone, or uploading photos to a social networking site via their laptop or handheld computer. Delivering new personalized services reliably to millions, and even tens of millions of mobile subscribers, in a scalable, cost-effective manner has become paramount to business profitability and customer loyalty.

Products and Solutions

Sandvine's solutions comprise a hardware platform and proprietary software modules which are typically bundled together to provide a system for broadband and wireless operators to identify and monitor specific types of traffic across their networks. These products also provide the tools to help customers apply specific network policies that will improve the quality of service for their subscribers, support the creation of new revenue-generating services, and more efficiently manage networks.

Sandvine's hardware platforms are high-performance, real-time devices that can be deployed in a wide range of inline and passive configurations. Service providers deploying PTS platforms inline towards the edge of the network have maximum visibility of subscriber traffic, ensuring that application traffic is properly identified as it first enters the network and so that the appropriate policies can be immediately applied. This configuration also allows for complete network-wide reporting.

Sandvine PTS platforms provide scalability for cost-effective deployments from small remote hubs to large centralized sites. The PTS 14000, PTS 14700 and PTS 8210 platforms offer a broad selection of performance, interface types and port densities that are easily tailored to the wide-ranging sites across large service provider networks. All platforms deliver the same feature sets to ensure that subscriber services and traffic policies are universal across the entire network.

The PTS 14000 family intersects 10-Gigabit Ethernet interconnects and are designed to address the needs of the world's largest broadband and wireless operators. Sandvine's proprietary Virtual Switch Cluster approach combines the inspection performance and data ports from multiple PTS units to deliver the performance necessary at major network aggregation points, up to 80 Gbps, for handling today's growing multimedia traffic.

Sandvine's proprietary software modules help customers understand which applications and subscribers are consuming bandwidth when and let them proactively manage their networks so that their current "best effort" networks can be transformed into more efficiently utilized "intelligent" networks. By accurately identifying various conditions that are occurring on their networks, broadband and wireless operators can apply actions (i.e. policies) based on those conditions to pursue the network management objectives sought by that service provider. In communicating the value proposition of its solutions to its customers, Sandvine refers to this as an "Any Condition Any Action" approach to network management, which is better understood by example.

<u>Example 1: Search Guide</u>. Approximately 1% to 5% of all queried Website names are non-existing domains. Often, this is due to common typos such as missing dots (newscom), transposition (nwes.com), suffix replacement (news.net), character omission (news.cm), character insertion (newws.com) and character replacement (newz.com). Sandvine Search Guide recognizes common website name typos, helps subscribers more readily find a website, and creates a new revenue stream for service providers. It does this by automatically redirecting subscribers to the target website via a useful search page with suggested search links instead of cryptic browser errors, such as "HTTP 404 - File not found". Service providers are paid by the target website for the redirection and can also earn advertising revenue from ads placed on the search page.

<u>Example 2: Advice of Charge</u>. A wireless operator's subscribers have little idea how much connections might cost when linking wirelessly to websites or downloading files from the Internet over a mobile device. Sandvine's solution can detect when subscribers are about to incur incremental data charges, display the price to subscribers, and let them choose whether to proceed or not, or even select a related data package that would be more appropriate.

<u>Example 3: Congestion Management for Fair Share</u>. Increasingly, popular applications such as file-sharing, and streaming video from social networking and other Web sites are creating congestion at critical points in the network during peak hours. Sandvine's solution can help service providers fairly allocate bandwidth among users of the network's busiest links when congestion is at its peak. As traffic levels subside, the solution automatically frees up network resources to allow all subscribers to increase data rates within the available bandwidth.

<u>Example 4: Worm and Denial of Service Traffic Mitigation (WDTM)</u>. Network slowdowns as a result of subscriber participation in Distributed Denial of Service attacks, or of worms scanning and spreading within the network are costly problems for service providers and leave subscribers dissatisfied with network performance – increasing the chances of customer churn. Sandvine's WDTM solution rapidly detects and mitigates network threats such as worms and denial of service attacks, protecting the critical infrastructure required to deliver network services. The advanced behavioral algorithms provide unparalleled zero-day protection, so defenses are never playing catch-up and providers can avoid operational expenses tied to investigation and recovery efforts.

Together, Sandvine's policy solutions help broadband and wireless operators introduce new services, more confidently commit to service levels, recognize and address network threats; manage valuable network resources and improve the quality of service that subscribers receive.

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 direct sales channel comprises sales where the ultimate end customer purchases products directly from the Company. The indirect sales channel utilizes global third party network equipment vendors and regional value-added resellers to market and sell 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). The indirect sales channel includes sales where a third party equipment vendors purchases the Company's product for the purpose of reselling it to the ultimate end customer. 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. In all, Sandvine's customers serve over 70 million broadband subscribers in 60 countries. Seventeen of Sandvine's customers have over one million broadband subscribers each, ranking them among the largest broadband service providers in the world. The Company also has a rapidly growing presence among wireless operators.

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 throughout the world and to grow and mature its relationships with both its regional and global resellers. The Company is focused on increasing its sales and marketing efforts, particularly in the DSL and wireless markets and with large opportunities worldwide. Sandvine's strategy also includes continued dominance of its solutions in the cable market and penetrating emerging access technology markets such as FTTx.

In addition, the Company anticipates that throughout fiscal 2009 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.

Revenue Outlook

On July 8, 2008 the Company withdrew its annual revenue guidance for fiscal 2008. This was done as a result of the increasing difficulty to forecast the timing of service provider purchasing decisions due to a variety of factors, including: (i) the effect on the Company's North American installed base of the network neutrality debate and the Federal Communication Commission's recent investigation into the network management practices of the Company's historically largest customer; (ii) the reduced predictability associated with expansion into new markets, such as Sandvine's entrance into the Tier-one DSL and wireless markets, and (iii) the increasing number of opportunities being pursued through the indirect sales channel. The Company continues to believe that it does not have sufficient predictability of, or visibility to future purchase decisions to provide meaningful revenue guidance.

Business Model

Historically, the Company has communicated that in broad terms, excluding the impact of stock based compensation and non-cash acquisition related costs (comprising non-cash compensation costs and amortization of intangible assets) the Company is working towards a business model (outlined below) that includes gross margins at or above 70%, and operating margins between 10% and 20%. Given the uncertain macro-economic environment and the Company's belief that it is at the forefront of an emerging market, the Company does not expect to achieve the targeted operating margin in 2009. It is worth noting that the Company continues to invest in its business and incur expenses at levels above those contemplated by this targeted business model on the basis and belief that this investment level will result in greater long term success as its market matures.

Mid to Long Term 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%

In arriving at this targeted business model, and in providing any other forward looking statements contained in this MD&A, management has relied on a number of assumptions, including, but not limited to each of the following:

- The Company's projected investments in the areas of research and development and sales and marketing will be sufficient to achieve growth in the Company's revenue at targeted rates;
- The Company will continue to experience new customer adoption rates consistent with those experienced over the past two years;
- The Company's existing customers, including its historically largest customer (Comcast Corporation) will continue to make significant purchases of the Company's products and services;
- The Company will be able to maintain its target pricing models for its products and services and obtain its supply of components at pricing that permits the Company to achieve its target gross margins;
- Any increase in sales through the Company's indirect channel can be managed without significantly impacting the Company's gross margins;
- The regulatory environment framework applicable to the use of network management practices by internet service providers, in particular the United States, will continue to permit the use of the Company's solutions and their full breadth of applications;
- The Company will be able to continue to attract and retain personnel and third party contractors at compensation levels consistent with the Company's historical practices;

Again, readers are cautioned that a variety of factors could cause the Company's future results, and its ability to achieve this targeted business model, to materially differ from that projected in any forward looking information in this MD&A including, but not limited to those risk factors outlined in the Company's most recently filed AIF (a copy of which can be obtained on www.sedar.com) as well as those risk factors outlined earlier in this document under the heading "Caution Regarding Forward Looking Information".

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.

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. In situations where a reseller has purchased equipment for resale to an end customer, the geography of the end customer is used in allocating revenue to the various geographic regions.

	Three months ended November 30,		Twelve months ended November 30,	
	2008	**2007**	**2008**	**2007**
North America	51.7%	79.3%	60.7%	88.6%
Caribbean and Latin America	22.6%	1.7%	11.3%	0.6%
Europe, Middle East and Africa	14.9%	13.5%	21.6%	8.3%
Asia Pacific	10.8%	5.5%	6.4%	2.5%
	100.0%	100.0%	100.0%	100.0%

The Company has historically derived a significant portion of its revenue from North American cable customers. In fiscal 2008 the Company started to see more meaningful diversification of its revenue into other access technologies (mainly DSL and wireless markets) and other regions of the world (mainly CALA and EMEA). While the results experienced in fiscal 2008 are not necessarily indicative of results that will be realized in fiscal 2009, the Company does anticipate higher revenue from outside of the North America cable market as it continues to execute its diversification strategy.

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 certain overhead costs, the costs of salaries and other personnel costs for staff dedicated to providing professional and customer support services.

Sales and marketing expenses consist primarily of salaries, variable compensation costs and other personnel costs, travel, advertising, trade analyst research, trial material costs as well as trade show and conference costs.

Research and development expenses consist primarily of salaries and other personnel costs, third party contractor costs, off-shore development 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 and net government assistance received. 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 was 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. During the third quarter of 2007 cumulative gross revenue surpassed the $85 million threshold, at which time the royalty rate increased to its current rate of 2.5%.

Royalties will continue to be payable at a rate of 2.5% until November 30, 2013 or until cumulative royalties accrued or paid reach $16 million. Any repayments accrued or paid have been included in the consolidated financial statements as part of the Company's research and development expenses. In addition, a subsidiary of the Company has participated in programs sponsored by a foreign government body for the support of certain research and development activities. The subsidiary is obligated to pay royalties, amounting to 3% - 3.5% on sales and other related revenues generated from the subsidiary's products up to the amount granted plus interest. 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.

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 predominantly relates to current taxes owing (recoverable) by the Company's foreign subsidiaries.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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.

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 all other revenue recognition criteria, as described above, have been satisfied.

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 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.

Software

Certain software is licensed to customers under a perpetual, term based or on a per-use basis. Revenue from perpetually licensed software is recognized at the inception of the license term if all other revenue recognition criteria have been satisfied. 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")

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

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.

Inventory. Raw materials, work-in- progress, finished goods, deferred cost of sales and demonstration systems are stated at the lower of cost and net realizable value. The cost of raw materials is determined using the first-in, first-out method. The cost of work in progress, deferred cost of sales and demonstration systems are assigned by specific identification of their individual costs. Cost of inventory includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price less applicable selling costs and estimated costs of completion. 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 the 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 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 that it is more likely than not that 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. The Company's impairment analysis will contain estimates due to the inherently speculative nature of forecasting long term estimated cash flows and determining the ultimate useful lives of assets. Actual results will differ, which could materially impact the Company's impairment assessment.

In the case of goodwill, the Company will test for impairment at least annually at March 31 of each year and at any other time if any event occurs, or circumstances change, that would more likely than not reduce the Company's enterprise value below the 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 principally determined by reference to the range of externally traded share prices over a reasonable period of time prior to the performing the impairment test. During the fourth quarter of fiscal 2008, the Company evaluated whether the decline in stock price below the book value of the Company during the quarter is an event indicating an impairment of the fair value of the Company's goodwill and has concluded based on its evaluation of the severity of the decline, whether the decline was prolonged in nature, the positive developments from the FCC, expectations of our marketplace over the moderate term, the Company's current growth strategy and the liquidity present in our cash and marketable security assets that no such event has occurred. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment.

Stock Based Compensation. The Company has adopted a stock option plan as further described in note 13 of its November 30, 2008 audited consolidated financial statements.

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

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

The ultimate realization of future tax assets is dependent upon future taxable income during the years in which these assets are deductible. 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 Company records a valuation allowance to reduce future income tax assets to the amount that is more likely than not to be realized. The Company regularly assesses all negative and positive evidence to evaluate the recoverability of its future tax assets including an evaluation of the nature and the amount of significant tax assets and their carryforward period, the Company's recent earnings history, the Company's cumulative profit or loss in recent years and the Company's ability to reasonably forecast sufficient future earnings.

The Company has not recognized the benefit of certain tax assets, including $7.6 million associated with undeducted research and development expenditures and $10.7 million of non-capital losses both of which may be applied against future Canadian taxable income. In addition, the Company has not recognized the benefit of approximately $6.7 million of unrecognized scientific research and development investment tax credits which may be applied against future federal income taxes payable. The Company has also not recognized the benefit of approximately $3.6 million U.S. of non-capital losses which may be applied against future U.S. taxable income at a rate of approximately $0.4 million U.S. per annum commencing in fiscal 2013.

ACCOUNTING CHANGES AND IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Effective December 1, 2007, the Company adopted new Canadian Institute of Chartered Accountants Handbook sections relating to accounting changes, inventory accounting and financial instrument and capital disclosures. The adoption of the new standard for accounting changes did not impact the financial position or net earnings reported in the Company's consolidated financial statements. The new inventory standard clarifies the definition of "cost" to include all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on the normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw material inventories do not require write downs if the finished goods in which they will be incorporated are expected to be sold at or above cost. As a result of this accounting standard change, inventory and opening retained earnings were increased by $0.5 million on December 1, 2007. The new financial instrument and capital standards establish additional presentation and disclosure requirements including the significance of financial instruments to the Company's 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 adoption of the financial instrument and capital disclosure standards did not impact net earnings or financial position. See Note 3 to the consolidated financial statements for further details regarding the adoption of these new standards.

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3064, Goodwill and Intangible Assets which will replace Handbook Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. This revision establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This section applies to fiscal years beginning on or after October 1, 2008 and will be adopted by the Company effective December 1, 2008. The Company does not expect the adoption of this statement to have a material impact on the Company's consolidated financial statements.

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that publicly accountable enterprises will be required to use IFRS, as issued by the International Accounting Standards Board, unless modifications or additions to the requirements of IFRS are issued by the AcSB. IFRS must be adopted for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, with restatement for the previous fiscal year.

CURRENT PERIOD OPERATING RESULTS

Revenue

Revenue category (000's)	Three months ended November 30,			Twelve months ended November 30,		
	2008	**2007**	**Difference**	**2008**	**2007**	**Difference**
Product	$15,482	$14,756	$726	$38,459	$65,127	($26,668)
% change			*4.9%*			*(40.9%)*
Service	3,102	2,350	752	12,625	8,552	4,073
% change			*32.0%*			*47.6%*
Total	$18,584	$17,106	$1,478	$51,084	$73,679	($22,595)
% change			*8.6%*			*(30.7%)*

The increase in the Company's total revenue for the three months ended November 30, 2008 as compared to the same period last year is consistent with the increased level of sales through the Company's indirect sales channel (Q4-08 $8.5 million; Q4-07 $2.5million) as well as increased sales to Comcast Corporation (Q4-08 $7.6 million; Q4-07 $5.6 million).

During fiscal 2008 the Company experienced a significant decrease in its product revenue generated from North American cable service providers and Comcast Corporation in particular. The Company believes that the decrease in revenue was a result of service providers in the United States deferring or delaying purchase decisions as a result of uncertainty caused by network neutrality and the Federal Commission Communication's ("FCC") investigation of Comcast Corporation's network management practices and general uncertainty with respect to service providers right to manage traffic on their networks.

The increase in service revenue (in absolute dollar terms) for both the fourth quarter and fiscal 2008 as compared to the same period last year relates to an increase in support and maintenance revenue, which is consistent with the growth in the Company's cumulative product revenue since inception. As a percentage of revenue, service revenue for fiscal 2008 (Q4-08 16.7%; FY-08 24.7%) is higher than what has been historically experienced as a result of the low level of product revenue in fiscal 2008. Over the longer term the Company expects its service revenue as a percentage of total revenue will trend closer to historical levels of 10 – 15% (FY-07: 11.6%; FY-06: 11.6%).

The Company's revenue in fiscal 2008 was much more diversified than 2007 along several different metrics including:

- For fiscal 2008, approximately 47% of the Company's revenue was generated from DSL and wireless customers compared to 8% in fiscal 2007
- For fiscal 2008, approximately 39% of the Company's revenue was generated from international markets as compared to 11% in fiscal 2007
- For fiscal 2008, approximately 29% of the Company's revenue was generated through its indirect sales channel as compared to 6% in fiscal 2007
- Two customers represented 39% of the Company's 2008 total revenue as compared to two customers representing 60% in 2007

More detail relating to these metrics are included in the following tables and elsewhere in this document.

Revenue by access technology

The breakdown of revenue generated by customer access technology for the three and twelve month period ended November 30, 2008 and 2007 is outlined in the following table. Although the Company has experienced a decline in revenue generated from North American cable service providers the Company has grown its revenue (in absolute dollar terms) from other access technologies (mainly the DSL market).

Customer access technology	Three months ended November 30,		Twelve months ended November 30,	
	2008	2007	2008	2007
Cable	50.3%	85.4%	51.6%	91.8%
DSL	41.2%	14.2%	37.2%	7.8%
Wireless/Mobile/FTTx	8.2%	0.4%	9.9%	--
Other*	0.3%	--	1.3%	0.4%
Total	100.0%	100.0%	100.0%	100.0%

* The other category is comprised of sales to partners (including resellers and solutions partners) who have purchased the product for their own internal use e.g. for interoperability testing.

In situations where a reseller or partner of the Company has purchased products for resale to an end customer, the Company has allocated such revenue based on the access technology of the end customer.

Revenue by sales channel

Throughout fiscal 2007 and 2008 the Company has invested and will continue to invest in the development of its indirect sales channel to utilize global third party network equipment vendors and regional value-added resellers to help market and sell its products. The breakdown of revenue by the direct and indirect sales channel is as follows:

Sales channel category	Three months ended November 30,		Twelve months ended November 30,	
	2008	2007	2008	2007
Direct	54.5%	85.6%	71.1%	94.3%
Indirect	45.5%	14.4%	28.9%	5.7%
Total	100.0%	100.0%	100.0%	100.0%

Revenue – 10%+ customers

A large percentage of the Company's revenue continues to be derived from a small number of customers. The following chart outlines the revenue generated from customers representing more than 10% of the Company's revenue for the three month period and year ended November 30, 2008.

	Three months ended November 30,		Twelve months ended November 30,	
	2008	2007	2008	2007
Customer A (Comcast Corporation)	40.8%	32.7%	23.5%	49.2%
Customer B	33.6%	nil	15.2%	1.7%
Customer C	10.3%	nil	4.3%	nil
Total	84.7%	32.7%	43.0%	50.9%

In situations where a particular customer is a reseller who has purchased equipment for re-sale to an end user customer, the Company has aggregated all of the sales to that reseller in determining whether they represent more than 10% of the Company's revenue for a particular period. Customer B and Customer C are both reseller partners. Customer B who is a global reseller, resold the Company's solutions to multiple end customers in fiscal 2008. The Company believes that a significant portion of the revenue generated through Customer B related to the supply of the Company's products to several different service providers within a common group.

Gross Margin

The following table outlines the Company's gross margin levels for each of the revenue categories indicated.

Revenue category	Three months ended November 30,		Twelve months ended November 30,	
	2008	2007	2008	2007
Product	83.7%	71.5%	77.3%	76.6%
Service	76.0%	84.5%	80.9%	83.0%
Blended	82.4%	73.3%	78.2%	77.3%

The increased product gross margin experienced in the fourth quarter of fiscal 2008 relates to follow-on software sales (which generally has a nominal amount of cost of sales) that was made to the Company's existing customers. Excluding the impact of this, the Company's product gross margin was approximately 71.9%, which is in line with historical results that reflect a more typical product mix.

As a percentage of total product revenue, follow-on software sales to existing customers was higher in fiscal 2008 than in 2007 – mainly due to the reduced level of revenue throughout fiscal 2008. As a result, the full year product gross margin was higher in fiscal 2008 than in 2007.

The current quarter service gross margin decreased by 8.5 percentage points as compared to the same period last year due to higher service cost of sales without a commensurate increase in service revenue. The increased costs were necessary to build out the Company's customer advocacy group to support the increased number of customers that the Company had throughout 2008.

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Operating Expenses

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

	Three months ended November 30,		Twelve months ended November 30,	
	In thousands of dollars			
	2008	2007	2008	2007
Revenue	$18,584	$17,106	$51,084	$73,679
Sales and marketing	5,472	4,298	18,052	15,026
% of revenue	*29.4%*	*25.1%*	*35.3%*	*20.4%*
Research and development	7,565	5,223	25,921	16,072
% of revenue	*40.7%*	*30.5%*	*50.7%*	*21.8%*
Net government repayments	465	428	251	809
% of revenue	*2.5%*	*2.5%*	*0.05%*	*1.1%*
General and administration	1,316	2,254	7,702	6,454
% of revenue	*7.1%*	*13.2%*	*15.1%*	*8.8%*
Stock based compensation	1,320	639	4,356	1,466
% of revenue	*7.1%*	*3.8%*	*8.5%*	*2.0%*
Amortization of intangible assets	400	400	1,600	667
% of revenue	*2.2%*	*2.3%*	*3.1%*	*0.9%*
Depreciation	1,306	803	4,061	2,639
% of revenue	*7.0%*	*4.7%*	*8.0%*	*3.6%*
Total operating expenses	$17,844	$14,045	$61,943	$43,133
	96.0%	*82.1%*	*121.3%*	*58.5%*

Sales and Marketing Expenses

For the fourth quarter of 2008, sales and marketing expenditures increased by $1.2 million to $5.5 million, which represents a 27.3% increase from the $4.3 million incurred for the same period last year. For fiscal 2008, sales and marketing expenditures increased by $3.0 million to $18.1 million, which represents a 20.1% increase from the $15.0 million incurred for the same period last year.

Major factors contributing to the increase in the sales and marketing expenses for the three and twelve month period ended November 30, 2008 as compared to the same period in 2007 include increased compensation and recruiting costs associated with additional staff being added to the sales and marketing team over the past twelve months, increased sales demonstration costs as well as increased trade show expenditures. These items were partially offset as a result of decreased variable compensation costs as a result of the decrease in revenue for the periods.

At November 30, 2008 the sales and marketing team consists of 74 employees which is made up of 50 sales representatives and 24 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 it sales and marketing activities.

Research and Development Expenses

Exclusive of government assistance repayments (Q4-08 – net repayment of $0.5 million; Q4-07 – net repayments of $0.4 million), research and development expenses for the fourth quarter of 2008 increased by $2.3 million to $7.6 million, which represents a 44.8% increase from the $5.2 million incurred for the same period last year. The increase mainly relates to additional staffing costs associated with having additional team members, increased off-shore development costs and increased prototype expenditures.

Exclusive of government assistance, government assistance repayments and investment tax credits (FY 2008 – net repayment of $0.3 million; FY 2007 – net repayments of $0.8 million), for fiscal 2008, research and development expenditures increased by $9.8 million to $25.9 million, which represents a 61.3% increase from the $16.1 million incurred for the same period last year. The increase mainly relates to additional staffing and labour costs associated with having additional team members, increased off-shore development costs, increased prototype expenditures, and increased recruiting costs.

For the three and twelve months ended November 30, 2008, the Company recorded $nil and $1.0 million respectively of government assistance received through a Canadian and a foreign government program in respect of certain research and development activities. Of the $1.0 million received during fiscal 2008, $0.4 million was received from a foreign government body which is contingently repayable as further described in note 18 of the Company's consolidated financial statements for the year ended November 30, 2008. These amounts are included in research and development expenses as government assistance repayments (Q4-08 $0.5 million; FY-08 $1.3 million).

General and Administrative

For the fourth quarter of fiscal 2008 general and administrative expenditures decreased by $0.9 million to $1.3 million which represents a 41.6% decrease from the $2.3 million incurred for the same period last year. During the three months ended November 30, 2008 the Company's higher staffing and occupancy costs were offset by a $1.0 million foreign exchange gain (Q4-07 - $0.4 million foreign exchange loss). The fluctuation in the Company's expenses related to foreign currency movement was significant higher than what has been experienced in previous periods. This is mainly attributable to the appreciation in the US dollar against the CDN dollar that took place during the fourth quarter.

For fiscal 2008 general and administrative expenditures increased by $1.2 million to $7.7 million, which represents an 19.3% increase from the $6.5 million incurred for the same period last year. Major factors contributing to the increase include increased staffing costs, increased occupancy costs as well an increase in professional fee costs. These items were partially offset as a result of a $0.7 million foreign exchange gain that was incurred during the year (FY 07 foreign exchange loss of $0.7 million).

Stock based compensation expense for the three month period and year ended November 30, 2008 was $1.3 million and $4.4 million respectively as compared to $0.6 million and $1.5 million for the same periods last year. During the three month period and year ended November 30, 2008 $0.5 million and $1.6 million respectively, relates to non-cash compensation expense associated with acquisitions and earn-out arrangements that took place in fiscal 2007 (see "***Acquisitions Earn Out Arrangements***"). The remainder of the stock based compensation expense for the fourth quarter and fiscal 2008 relates to stock options granted under the Company's stock option plan.

Acquisition-related expenses

During fiscal 2007 the Company completed two acquisitions. As a result of these acquisitions, the Company incurs certain non-cash acquisition related costs in the form of amortization of the acquired intangible assets and compensation expense. The following table provides additional analysis of these items (in thousands of dollars):

	Three months ended November 30,		**Twelve months ended November 30,**	
	2008	**2007**	**2008**	**2007**
		In thousands of dollars		
Amortization of intangible assets	$400	$400	$1,600	$667
Non-cash compensation expense*	$563	$79	$1,611	$137

* The non-cash compensation expense is included in the Company's stock based compensation expense as reported on its consolidated statements of operations.

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 November 30, 2008. 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 as well as the results of asset impairment tests. Amortization of intangible assets for the three and twelve month period ended November 30, 2008 was $0.4 million and $1.6 million respectively, compared to $0.4 million and $0.7 million for the same periods in 2007. The current period amortization relates to the Company's acquisitions that took place in Q3-07. The Company tests the 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 fourth quarter of 2008 the Company earned $0.7 million of investment and other income as compared to $1.3 million for the same period last year. The decrease in investment and other income primarily relates to a decrease in the yields earned on the company's investment portfolio during the current quarter as compared to the same period last year. During the fourth quarter the annualized yield earned on the Company's investment portfolio was approximately 3.17%.

For fiscal 2008 the Company earned $3.4 million of investment and other income as compared to $3.8 million for fiscal 2007. The decrease in investment and other income primarily relates to a higher yield being earned on its investment portfolio last year which was partially offset by an increased average cash balance throughout fiscal 2008 as a result of an equity financing which took place in June of 2007. During fiscal 2008 the annualized yield earned on the Company's investment portfolio was approximately 3.53%.

Income Tax Expense (recovery)

The Company's fiscal 2008 current income tax provision of $0.1 million predominantly relates to the Company's foreign subsidiaries.

During the third quarter of fiscal 2008, the Company determined that it was no longer able to conclude, based on the assessment of available negative and positive evidence, that it was more likely than not that its future tax assets associated with unused loss carry forwards and temporary differences will be realized. As a result, a full valuation allowance was provided against its future tax assets which resulted in a non-cash future income tax expense of $1.1 million being recorded on its Consolidated Statements of Operations for that period.

Net Income (loss)

Non-GAAP net loss (as defined under the title "***Selected Financial Information***" earlier in this document) for the three month period and year ended November 30, 2008 was $51,000 and $13.7 million respectively as compared to non-GAAP net income of $1.1 million and $21.1 million respectively for the same periods last year.

LIQUIDITY AND CAPITAL

The Company has financed its operations and met its capital expenditure requirements primarily through the sale of equity securities.

Key Balance Sheet Amounts and Ratios:	November 30, 2008	November 30, 2007
	(In thousands of dollars, except balance sheet ratios and metrics)	
Cash, cash equivalents and marketable securities	92,548	113,014
Working capital	110,331	129,139
Working capital ratio...	7.2:1	13.3:1
Days sales outstanding in accounts receivable*	76 days	60 days
Pro forma days sales outstanding in accounts receivable*..................	53 days	45 days
Excluding accounts receivable associated with deferred revenue .		
Inventory turnover*	0.7 times	1.2 times

* *Calculated on an annualized basis*

The Company uses working capital, working capital ratio, days sales outstanding in accounts receivable, Pro forma 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 unlikely to be comparable to similarly titled measures reported by other issuers. The calculation of each of these items is more fully described below.

***Days sales outstanding** (“DSO”) calculation **-** The Company has calculated DSO’s based on the recent three months annualized revenue and the average of the beginning and ending accounts receivable balance for such three-month period.

**** Pro forma days sales outstanding -*** The Company has calculated pro forma days sales outstanding in the same manner as DSO. However, the beginning and ending accounts receivable balances have been reduced for amounts which are also included in the Company’s deferred revenue balance (Q4- 08 $6.6 million; November 30, 2007 $1.6 million).

***Inventory turnover -** The Company has calculated its inventory turnover using the annualized recent three months product cost of sales and the average of the beginning and ending inventory balance for such three- month period.

In periods of low sales the annualized revenues and cost of sales used in these measures will illustrate decreased inventory turns and higher DSO’s.

	Three months ended November 30,		Twelve months ended November 30,	
	(In thousands of dollars)			
	2008	2007	2008	2007
Cash Inflows and (Outflows) by Activity:				
Operating activities..	(230)	(2,140)	(11,038)	16,117
Investing activities...	(4,239)	(1,386)	8,988	(79,239)
Financing activities..	(375)	611	(1,956)	51,436
Net cash (outflows)..	(4,844)	(2,915)	(4,006)	(11,686)

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 November 30, 2008, the Company had $92.5 million of cash and cash equivalents and marketable securities compared to $113.0 million for the year ended November 30, 2007. The decrease in cash and cash equivalents is consistent with the Company's capital asset purchases and its operating performance/losses sustained during fiscal 2008. In addition, the Company has used approximately $2.2 million of its cash to fund the repurchase of its common shares under its Normal Course Issuer Bid as further described below.

Working Capital

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance decreased to $110.3 million at November 30, 2008 compared to $129.1 million at the end of fiscal 2007. The Company's working capital ratio (which is its current assets divided by its current liabilities) decreased to 7.2:1 compared to 13.3:1 at November 30, 2007. The decrease in the Company's working capital ratio from the 2007 level mainly relates to the decrease in the Company's cash and marketable securities as discussed above as well as increase in its deferred revenue balance (FY-08 $$9.0 million; FY-07 $4.0 million).

The Company's DSO's increased to 76 days from the 60 days reported at the end of fiscal 2007. The Company also assesses its DSO on a pro forma basis which excludes accounts receivable associated with deferred revenue as they have not been recorded as revenue. As the proportion of revenue generated from markets outside of North America and through the Company's indirect sales channel increases (as experienced in the current quarter) it is expected that pro forma DSO's will be in the range of 60 – 75 days. The Company's pro-forma DSO's were 53 days at the end of fiscal 2008 which is lower than the targeted level. As a result of a significant portion of the Company's revenue being generated in the first half of the fourth quarter and early collections the current level of pro-forma DSO's is lower than the Company's targeted range.

Approximately $8.4 million of the Company's $19.2 million of accounts receivable was characterized as being past due at November 30, 2008. The definition of items that are past due is determined by reference to terms agreed with individual customers. Of the overdue balances at November 30, 2008, $7.9 million has been collected subsequent to the end of the period.

The November 30, 2008 inventory turnover of 0.7 times per year (0.7 times as at August 31, 2008) is lower than the 1.2 reported at the end of the Company's 2007 fiscal year. The decrease in the Company's inventory turnover from the year end level relates to a decrease in the annualized cost of sales as a result of lower product sales in the quarter without a corresponding reduction in average inventory levels for the relevant periods. The Company's ending inventory balance increased to $15.0 million (FY-07 - $13.9 million). Included in inventory is $1.8 million of deferred cost of sales (FY-07 $0.6 million) which has contributed to the increase in the year end inventory balance. In addition, the Company's inventory balance includes $3.4 million related to demonstration inventory (FY-07 $3.5 million).

Cash Provided by (used in) Operating Activities

During the fourth quarter of fiscal 2008 the Company used $0.2 million of cash in operations as compared to $2.1 million for the same period last year. The reduced use of cash in the current quarter as compared to the same period last year is consistent with a lower use of cash related to the change in the Company's non-cash working capital balances (Q4-08 $0.3 million; Q4-07 $3.8 million) which was partially offset by the net loss experienced in the fourth quarter of fiscal 2008.

Cash used in operations during fiscal 2008 was $11.0 million as compared to $16.1 million of cash being generated from operations for the same period last year. The change is largely consistent with the Company's 2008 operating performance. The impact of the Company's 2008 operating performance was partially offset by a reduced use of cash related to the change in non-cash working capital balances (FY-08 $0.8 million; FY-07 $6.2 million).

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. This may result in the deferral of revenue because, in most cases, the Company has not completed the acceptance test requirements or 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:

	November 30, 2008	November 30, 2007
	In thousands of dollars	
Deferred revenue:		
Service	$3,307	$2,604
Product	5,830	1,481
Total	$9,137	$4,085
Reported as:		
Current	$8,951	$4,028
Non-current	186	57
Total	$9,137	$4,085

The Company's assessment of the characterization of deferred revenue between current and non-current is based on management's best estimate of when it expects to meet the criteria required to permit revenue recognition.

Purchase of Capital Assets

Additions to capital assets were $3.0 million in the fourth quarter of fiscal 2008 as compared to $1.4 million for the same period last year. Additions for fiscal 2008 and 2007 were $7.5 million and $6.7 million respectively.

The fourth quarter and full year 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 fourth quarter of fiscal 2008, the Company capitalized $0.9 million (YTD-08 $2.3 million) of internally manufactured assets. These additions predominantly relate to hardware equipment used within the Company's research and development lab.

Issuance of Equity Shares

During the fourth quarter of fiscal 2008, the Company issued 13,500 common shares upon exercise of stock options for net cash proceeds of approximately $8,500. This brings the total common shares issued upon the exercise of stock options for fiscal 2008 to 400,259 for net cash proceeds of $0.3 million.

As of the date of this document:

- the number of common shares in issue is 135,381,698
- there is one common share purchase warrant issued which entitles the holder to acquire 619,280 common shares
- there are 9,627,905 common share options issued under the Company's stock option plan (as further described in note 13 of its audited Consolidated Financial Statements for the year ended November 30, 3008)
- the Company has 256,523 common shares which are issuable on or about January 30, 2009 related to an earn-out arrangement as further described later in this document under the heading ***"Acquisitions – Earn-Out Arrangement"***

Repurchase of Equity

The Company's Board of Directors has approved the repurchase of up to 10,152,791 of its common shares on the Toronto Stock Exchange ("TSX") through a Normal Course Issuer Bid arrangement (“NCIB”). The NCIB has received all necessary regulatory approvals and is effective for a one year period commencing April 9, 2008. Transactions are executed from time to time in the open market in accordance with the rules and policies of the TSX. Purchase and payment for the shares is made by the Company in accordance with the rules of the TSX and the price that the Company pays for shares acquired is at the market price of the shares at the time of acquisition.

During fiscal 2008 the Company completed the purchase and cancellation of 1,946,683 common shares at an average price of $1.13 per share under the NCIB.

Liquidity and Capital Resource Requirements

Given the items outlined above and the Company’s performance 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

Management of 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 November 30, 2008, the Company has three open forward foreign exchange contracts outstanding in the amount of US $11.0 million. The effect of these forward foreign exchange contracts is that it fixes the conversion rate for US $11.0 million of the Company’s net US dollar asset position at a rate of 1.24. The Company is carrying the value of 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 Company’s short-term investment portfolio of $88.7 million at November 30, 2008 included bankers’ acceptances (89% of portfolio) and commercial paper (11% of portfolio) with yields ranging from 2.2% to 3.3%. Given the current interest rate environment the Company anticipates that the yields it will be able to secure upon the maturity of its short-term investment portfolio will be significantly less than the current yields

The fair value of accounts receivable, other receivables, accounts payable and accrued liabilities approximates their carrying value due to the immediate or short-term maturity of these financial instruments. At November 30, 2008, the Company had a significant concentration of credit risk with four customers representing 88.1% (52.0%, 13.6%, 11.5%, and 11.0%) of the Company’s accounts receivable.

Acquisitions – Earn-Out Arrangement

In June of 2007 the Company completed the acquisition of Simplicita Software, Inc. (“Simplicita”). In addition to the consideration that was paid at that time, the Company had agreed to additional share consideration of up to 555,555 common shares (“Earn-Out Shares”) which 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 Company has determined that certain Simplicita shareholders are entitled to 256,523 of the Earn-Out Shares and has recorded $1.3 million of non-cash compensation expense in respect of these shares for the year ended November 30, 2008. This expense has been recorded as stock based compensation within the Company’s consolidated statement of operations. The Company does not expect to issue any additional common shares or incur any additional non-cash compensation expense in respect of the Earn-Out Shares.

Contractual obligations

The following table summarizes the Company's contractual commitments as at November 30, 2008 and the effect those commitments are expected to have on liquidity and cash resources.

Contractual Commitments (000's)	Less than 1 year	1 – 3 Years	3 – 5 Years	After 5 years	Total
	Amounts in thousands of dollars				
Operating leases	$626	$1,257	$nil	$nil	$1,883
Purchase obligations	$1,611	$nil	$nil	$nil	$1,611

The Company has entered into a lease for facilities in Waterloo, Ontario to May 31, 2012. The lease requires annual rental payments of $437,400 plus operating expenses.

The Company has entered into a lease for additional facilities in Waterloo, Ontario to February 2009. The lease requires annual rental payments of approximately $240,000 plus operating expenses.

The Company enters into purchase orders in the normal course of operations which generally have lead times of 4 to 26 weeks. The purchase obligation amount disclosed in the chart above relates to purchase orders which have been placed with certain vendors that relate to orders that are non-cancellable or non-returnable.

From fiscal 2003 through fiscal 2005 the Company received $9.5 million of funding from Technology Partnerships Canada. As partial consideration for the funds, the Company has agreed to pay a royalty stream based on its sales. From December 1, 2005 to November 30, 2007 the Company is required to pay Technology Partnerships Canada a royalty equal to 1% of its sales. On the earlier of (i) cumulative sales reaching $85 million or (ii) December 1, 2007, the royalty rate will increase to 2.5% of sales. During Q3-07 the royalty rate increased to 2.5% of gross revenues as the Company's cumulative gross revenues surpassed the $85 million threshold. Royalties will continue to be payable until November 30, 2013 or until cumulative royalties accrued or paid reach $16 million. During the year, the Company expensed $1.3 million in respect of this obligation (fiscal 2007 – $1.0 million). Cumulatively, the Company has accrued or paid total royalties of $2.6 million 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% - 3.5% on sales and other related revenues generated from the subsidiary's products up to the amount granted plus interest. 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, 2008 the subsidiary has received cumulative grants of USD $0.9 million (CDN $0.9 million). Prior to fiscal 2008 the Company has paid USD $nil royalties under the agreement(s). The Company has estimated that a royalty obligation of USD $0.2 million (CDN $0.2 million) is payable as a result of its 2008 revenues.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any "off-balance sheet" arrangements as of November 30, 2008 as that term is described in National Instrument 51-102F.

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. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures as of November 30, 2008 and have determined that such disclosure controls and procedures are effective.

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 annual period ended November 30, 2008 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 2008 *(in thousands of dollars)*	**Three months ended**				**Year to Date**
	February 29, 2008	**May 31, 2008**	**August 31, 2008**	**November 30, 2008**	**November 30, 2008**
Sales	8,288	11,087	13,125	18,584	51,084
Operating expenses	14,359	14,170	15,570	17,844	61,943
Net income (loss) – total	(6,977)	(4,631)	(6,256)	(1,771)	(19,635)
Basic earnings (loss) per share	(0.051)	(0.034)	(0.046)	(0.013)	(0.144)
Diluted earnings (loss) per share	(0.051)	(0.034)	(0.046)	(0.013)	(0.144)
Total assets	157,022	149,489	145,846	150,052	150,052

Fiscal 2007 *(in thousands of dollars)*	**Three months ended**				**Fiscal year Ended**
	February 28, 2007	**May 31, 2007**	**August 31, 2007**	**November 30, 2007**	**November 30, 2007**
Sales	15,375	20,022	21,176	17,106	73,679
Operating expenses	7,150	9,674	12,264	14,045	43,133
Net income – total	5,872	10,320	2,700	70	18,962
Basic earnings (loss) per share	0.048	0.084	0.021	0.001	0.148
Diluted earnings (loss) per share	0.045	0.079	0.020	0.000	0.139
Total assets	100,766	102,811	163,704	159,465	159,465

Fiscal 2006 *(in thousands of dollars)*	**Three months ended**		**Fiscal year Ended**
	August 31, 2006	**November 30, 2006**	**November 30, 2006**
Sales	8,076	9,246	31,665
Operating expenses	6,260	6,929	24,815
Net income (loss) – total	183	116	(382)
Basic earnings (loss) per share	0.002	0.001	(0.004)
Diluted earnings (loss) per share	0.002	0.001	(0.004)
Total assets	65,912	79,546	79,546

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.