



MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated: April 9, 2009

This Management's Discussion and Analysis ("MD&A") for the three months ended February 28, 2009 (first quarter of fiscal 2009) provides detailed information on the operating activities, performance and financial position of Sandvine Corporation ("Sandvine" or the "Company"). This discussion should be read in conjunction with the Company's consolidated interim financial statements and accompanying notes for the first quarter of fiscal 2009, being the period ended February 28, 2009. 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 April 9, 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 ends on November 30, 2009, is referred to as the "current fiscal year," "fiscal 2009", "2009", "FY-09" or using similar words. The previous fiscal year, which ended on November 30, 2008, is referred to as "previous fiscal year," "fiscal 2008," "2008", "FY-08" 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, targets, 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, and those 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 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 operating expenses are denominated in Canadian dollars, U.S. dollars and New Israeli Shekels while its revenues and cost of 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;
- 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 CONSOLIDATED FINANCIAL INFORMATION

The following table sets out selected consolidated financial information for the periods indicated. The selected financial information set out below as at, and for the three months ended, February 28, 2009 and February 29, 2008 has been derived from the unaudited consolidated interim financial statements and accompanying notes for the three months ended February 28, 2009 as well as the November 30, 2008 audited consolidated financial statements. Each investor should read the following information in conjunction with those statements and related notes. The financial information for the three month period ended February 28, 2009 and February 29, 2008 has been prepared by management in accordance with Canadian generally accepted accounting principles in a manner consistent with its annual financial statements.

	Three month period ended	
	February 28, 2009	February 29, 2008
	\$	\$
	<i>Amounts in thousands, except share and per share data</i>	
Consolidated Statement of Operations Data:		
Revenue		
Product	14,864	4,759
Service	3,713	3,529
	18,577	8,288
Cost of Sales		
Product	3,782	1,491
Service	757	573
	4,539	2,064
Gross margin	14,038	6,224
Expenses		
Sales and marketing	5,251	3,982
Research and development	7,518	6,058
Net government repayments (assistance)	(420)	81
General and administration	1,912	2,324
Stock based compensation	816	703
Amortization of intangible assets	498	524
Depreciation	1,050	687
Goodwill impairment	2,425	-
	19,050	14,359
Loss from operations	(5,012)	(8,135)
Interest and other income	332	1,178
Loss before income taxes	(4,680)	(6,957)
Provision for income taxes	115	20
Net loss for the period	(4,795)	(6,977)
Basic and diluted loss per share	(0.035)	(0.051)
Basic and diluted weighted average common shares outstanding	135,553,729	136,849,460
	As at February 28, 2009	As at November 30, 2008
Consolidated Balance Sheet Data:		
Cash and cash equivalents	9,498	3,872
Marketable securities	83,104	88,676
Total assets	144,652	150,052
Total liabilities	16,897	18,274
Shareholders' equity	127,755	131,778

SELECTED CONSOLIDATED FINANCIAL INFORMATION *continued*

Non-GAAP Financial Measures

The following table provides a reconciliation of non-GAAP net income (loss) and related per share amounts to GAAP net income (loss) 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, amortization of intangible assets acquired through business acquisitions and goodwill impairment expenses (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 their understanding of the Company's operating performance. Non-GAAP net income (loss) 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 month period ended	
	February 28, 2009	February 29, 2008
	\$	\$
	<i>Amounts in thousands</i>	
Net loss	(4,795)	(6,977)
Stock based compensation expense	816	703
Amortization of intangible assets acquired through business acquisitions	400	400
Goodwill impairment	2,425	-
Net loss excluding the impact of the items specified above	(1,154)	(5,874)

	Three month period ended	
	February 28, 2009	February 29, 2008
Basic and diluted loss per share	(0.035)	(0.051)
Impact on basic and diluted earnings per share of Excluded Expenses	0.026	0.008
Basic and diluted loss per share excluding the impact of Excluded Expenses	(0.009)	(0.043)

OVERVIEW

Our Company

Sandvine develops and markets Network Policy Control solutions for high-speed, or “broadband” Internet service providers. The Company’s solutions help identify network traffic and trends and apply network policies, with the aim of enhancing the subscriber’s quality of experience and improving the profitability of service providers.

Sandvine began initial commercial deployments of its products in 2002 and has experienced growth in its number of customers and deployments since then. At the end of February 2009, Sandvine had over 150 Internet service provider customers in over 60 countries who serve over 80 million fixed line broadband Internet subscribers and a rapidly growing number of mobile Internet subscribers.

The Market

Sandvine’s target market is broadband Internet service providers worldwide, including DSL, cable, fixed wireless, mobile and FTTx. Within the fixed line component (DSL, cable and FTTx) of the market, Sandvine primarily targets the top 250 operators around the world, by subscriber count, who hold more than 80% of the global subscriber base. In a June 2008 report, industry analyst Point Topic estimated that there were approximately 370 million fixed line broadband subscribers globally.

In the mobile data market (fixed wireless and mobile), Sandvine primarily targets the top 350 service providers in the world. These networks comprise over 2.5 billion total voice subscribers, but according to industry analyst Analysys Mason, in 2008, only 70 million of these were wireless *broadband* subscribers – the subscriber of interest for Sandvine’s solutions. Analysys Mason expects wireless broadband subscribers to exceed 2 billion by 2015. This segment of Sandvine’s market is still in its early stages, but the opportunity is expected to grow.

Products and solutions

Sandvine’s Network Policy Control solutions comprise a hardware platform and proprietary software modules that are typically bundled together to provide a system for broadband Internet service providers to identify specific types of traffic across their networks (for example, VoIP, online gaming or video streams). These solutions also provide the tools to help service providers apply specific network policies that will improve the quality of service for their subscribers, support the creation of new revenue-generating services, mitigate malicious traffic and/or more efficiently manage their network.

Traffic Optimization

In times of congestion, a relatively small number of users and applications can consume the majority of network resources. Sandvine’s Traffic Optimization solutions mitigate network congestion and ensure fairness through the optimal use of network resources.

Service Creation

Subscribers use the Internet in different ways and to different extents. Sandvine’s Service Creation solutions help service providers create new service plans that differentiate their businesses and let subscribers choose a plan that suits them the best.

Network Integrity

Service providers’ own subscribers have become a major source of malicious traffic. Sandvine’s Network Integrity solutions protect subscribers and the network from unpredictable attacks, such as spam Trojans, worms, denial-of-service attacks, and DNS server attacks.

Operations Management

Customer service issues are expensive both in terms of customer loyalty and the call centre costs needed to support them. Sandvine’s Operations Management solutions improve subscribers’ service quality and reduce customer service costs by allowing the service provider to identify and rectify application quality trends before subscribers are affected.

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 vendor 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 expects to increase its investment in research and development and sales and marketing above annual expenditure levels incurred in fiscal 2008. Increased expenditures in research and development will support further product development to continue to broaden and expand the Company's suite of products. In addition, increased sales and marketing investments will be made 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 focus on 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 technology that will extend Sandvine's core technology, has a complementary customer base, has prospective growth rates commensurate with those of the Company, and has a compatible culture.

Target 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 target business model (outlined below) that includes gross margins at or above 70%, and operating margins between 10% and 20%. Given the Company's growth strategy outlined above, 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. 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 and, as a result, the Company does not anticipate achieving this targeted business model until such time as this level of investment yields an increase in revenues or until such time as the Company revises its assessment of the market opportunity.

Mid to Long Term Target Business Model

Percentage of 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%
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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's existing customers, including its historically largest customers and reseller channels 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 applicable to the use of technology of the type marketed by the Company, particularly in the United States, will continue to permit service providers to use 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".

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates and assumptions are affected by management's application of accounting policies and historical experience, and are believed by management to be reasonable under the circumstances.

Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimates are reasonably likely to occur from period to period that would materially impact the Company's financial condition or results of operation. The Company's significant accounting policies are discussed in note 2 to the November 30, 2008 audited consolidated financial statements. There have been no material changes to the Company's critical accounting policies and estimates from those disclosed in the Company's annual MD&A for the fiscal year ended November 30, 2008. Both the audited consolidated financial statements and annual MD&A for the year ended November 30, 2008 are available at www.sedar.com.

ACCOUNTING CHANGES AND IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Goodwill and intangible assets

Effective December 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3064, *Goodwill and Intangible Assets*. This standard establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard required the Company to retroactively reclassify our computer software assets on our consolidated balance sheet from plant and equipment to intangible assets. The net book value of computer software reclassified as of November 30, 2008 was \$1.1 million. In addition, the amortization of computer software has been reclassified from depreciation expense to amortization of intangible assets. The reclassification of amortization for the three month period ended February 29, 2008 was \$0.1 million. As of February 28, 2009, computer software of \$1.0 million is included within intangible assets. For the three month period ended February 28, 2009, amortization expense of \$0.1 million has been recorded relating to computer software.

Hedging

CICA Handbook Section 3865, Hedges specifies the criteria that must be met in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies. Designation as a hedge is only allowed if, both at the inception of the hedge and throughout the hedge period, the changes in the fair value of the derivative financial instruments are expected to substantially offset the changes in the fair value of the hedged item attributable to the underlying risk exposure.

During the quarter ended February 28, 2009, the Company has elected to apply hedge accounting for certain forward foreign exchange contracts used to manage foreign currency exposure on anticipated operational expenditures and has designated these as cash flow hedges.

For cash flow hedges which meet the criteria for hedge accounting, the effective portion of the change in fair value of the derivative are initially recorded in other comprehensive income and are reclassified to the consolidated statements of operations in the same period that the hedged anticipated transaction affects earnings. Any ineffective portion of the gain or loss on the derivative is recognized in income immediately. Hedge accounting is discontinued prospectively when it is determined that the hedging relationship is no longer effective, the derivative is terminated or sold, or the Company terminates its designation of the hedging relationship.

The Company formally documents all relationships between the hedging instruments and hedged items. This process includes linking all derivatives to forecasted foreign currency cash flows or to a specific asset or liability. The Company also formally documents and assesses, both at the hedge’s inception and on an ongoing basis, whether the derivative financial instruments that are used in the hedging transactions are highly effective in offsetting the changes in the fair value or cash flows of the hedged items.

The fair value of these derivatives is included in “Other” when in an asset position and in “Accounts payable and accrued liabilities” when in a liability position. Gains or losses arising from hedging activities are reported in the same caption on the consolidated statements of operations as the hedged item.

Business Combinations

In January 2009, the CICA issued Section 1582, *Business Combinations*, replacing Section 1581, *Business Combinations*. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This new Section will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its financial statements.

Consolidated Financial Statements

In January 2009, the CICA issued Section 1601, *Consolidated Financial Statements*, which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its financial statements.

Transition to International Financial Reporting Standards

In January 2006, the Accounting Standards Board (the "AcSB") announced its decision to require all publicly accountable enterprises to report under International Financial Reporting Standards ("IFRS") for years beginning on or after January 1, 2011. On February 13, 2008, the 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. For the Company, these new standards will be effective for the interim and annual financial statements commencing on December 1, 2011, with retrospective presentation of the comparative fiscal 2011 results. The Company's first financial statements to be reported under IFRS will be for the three month period ending February 28, 2012, with restatement of comparative periods.

The Company has commenced its IFRS conversion project. The project will have three primary phases as follows:

1. Scoping and diagnostic phase - This phase involves a high-level assessment to identify key areas that may be impacted by the transition to IFRS, and ranking these as high, medium or low priority, as well as the creation of a formalized project plan including key milestones and timelines, resources required, education and training requirements.
2. Impact analysis, evaluation and design phase – In this phase, each area identified from the scoping and diagnostic phase will be addressed by performing an in depth analysis of Canadian GAAP/IFRS differences, evaluation and selection of available accounting policies, quantification of impacts and development of draft IFRS financial statement contents. This phase also includes the identification of operational impacts such as information technology, process and internal control changes.
3. Implementation and review phase - This phase will integrate our new accounting policies and operational impacts into the Company's underlying information systems and business processes.

During the first quarter of 2009, the Company completed phase one of the project. Phase two of the project is underway, with potential areas of impact being assessed with consideration to complexity, scope of operational impact, potential magnitude of impact, expected changes to IFRS standards and other matters. The Company anticipates the completion of phase two of the project during fiscal 2010.

As the Company has only recently begun phase two of the project, the Company does not have sufficient information at this time to provide meaningful commentary on the anticipated impacts of transitioning to IFRS.

COMPOSITION OF REVENUES 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 post contract support (generally referred to as support and maintenance services) as well as various professional services including training and installation that is provided to its customers.

The majority of the Company's operating expenses are denominated in Canadian dollars, U.S. dollars and New Israeli Shekels while its sales and cost of 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, 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, off-shore development costs, certification 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 including the benefit of government assistance received, as well as repayments of such assistance.

Effective fiscal 2006, the Company commenced the repayment of funding received through the Technology Partnerships Canada ("TPC") program. The agreement requires the contribution to be repaid in the form of royalties to a maximum of \$16 million. Royalties are charged at 2.5% of the Company's gross revenues. The obligation to pay royalties expires on November 30, 2013. Any repayments accrued or paid have been included in the consolidated financial statements as part of the Company's research and development expenses.

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. Although the Company has made sales which incorporate the subsidiary's technology, to date, no royalty expense has been reflected in the consolidated statement of operations as the estimated fair value of the contingent obligation relating to a portion of these grants was recognized upon acquisition of the subsidiary.

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.

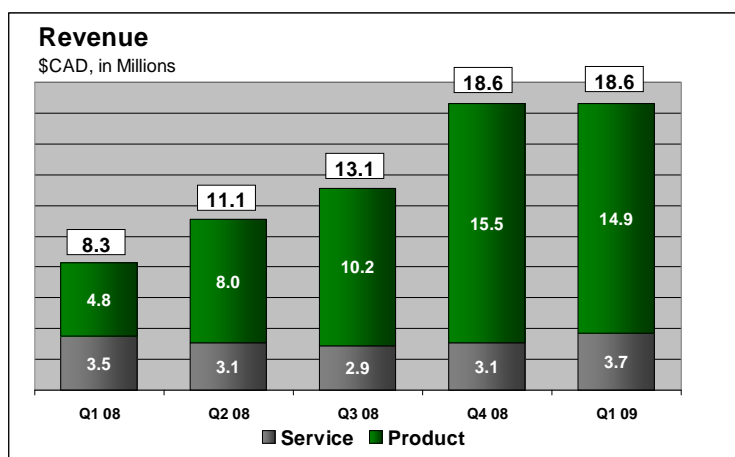
The current income tax provision predominantly relates to current taxes owing (recoverable) by the Company's foreign subsidiaries.

CURRENT PERIOD OPERATING RESULTS

Overview

The Company's total revenues for the first quarter of 2009 totalled \$18.6 million, equal to revenues recognized in the fourth quarter of 2008. During the first quarter of 2009, the Company continued to experience revenue diversification across several different metrics, including revenue by access type, geography and sales channel. During the current quarter, the Company recognized revenue from ten new customers including three cable, three DSL, three wireless and one fibre to the home.

Although the Company remains cautious regarding the current capital expenditure climate faced by its target customers, its revenues in the first quarter of 2009 have managed to remain consistent with those in the fourth quarter of fiscal 2008. The Company continues to closely monitor whether the current macro-economic environment may result in a reduction or delay in demand for the Company's products in future periods.



The Company's non-GAAP operating loss for the quarter was \$1.2 million, as compared to a non-GAAP operating loss of \$0.1 million in the fourth quarter of 2008. The increase in non-GAAP operating loss is primarily the result of the following factors:

Gross margins decreased on an absolute dollar basis by \$1.3 million to \$14.0 million in the first quarter of 2009 from \$15.3 million in the fourth quarter of 2008. Product margins in the current quarter were 74.6% compared to 83.7% in the fourth quarter of 2008. Product gross margins realized in the current quarter were impacted by the Company's inventory provision which was partially offset by a favourable product mix. Product gross margins realized in the fourth quarter of 2008 were higher than historical levels, due to a significant follow on sale of stand alone software to Comcast Corporation, which had nominal cost of sales.

Interest and other income decreased by \$0.4 million in the current quarter compared to the fourth quarter of 2008. This decrease is the result of substantially all of the Company's marketable securities maturing early in the quarter, and being re-invested at significantly lower market interest rates. During the current quarter the annualized yield earned on the Company's investment portfolio was approximately 1.5% compared to 3.17% for the fourth quarter of 2008.

The above items which increased the Company's net loss were partially offset by a reduction in operating expenses (exclusive of "Excluded Expenses") of \$0.8 million. Significant elements of this decrease related to an increase in government assistance received during the quarter (\$0.9 million) and small decreases in a number of other general costs (\$0.5 million). These decreases were somewhat offset by a smaller foreign exchange gain in the current quarter (\$0.2 million) compared to the fourth quarter of 2008 (\$1.0 million), corresponding to a more stable US dollar during the period.

Revenue

	Three month period ended		
	February 28, 2009	November 30, 2008	February 29, 2008
	\$	\$	\$
	<i>Amounts in thousands</i>		
Product	14,864	15,482	4,759
Service	3,713	3,102	3,529
Total	18,577	18,584	8,288

Q1 2009 compared to Q4 2008

The Company's total revenues for the first quarter of 2009 totalled \$18.6 million, equal to revenues recognized in the fourth quarter of 2008. During the first quarter of 2009, the Company continued to experience revenue diversification across several different metrics.

An element of the Company's growth strategy has, and continues to be, investment in sales and marketing activities. As a result of these investments, the Company is continuing to realize a diversification in its revenue, both in terms of geographic region and access technology market. Revenues generated from sales regions outside of North America comprised 43.5% of total revenues in the current quarter, following the 48.3% level achieved in the fourth quarter of 2008, and non-cable access technology markets accounted for 40.3% of total revenues following the 49.7% level achieved in the fourth quarter of 2008.

Instrumental in achieving revenue diversification has been the Company's relationships with its reseller partners. During the first quarter of 2009, the Company realized 34.2% or \$6.4 million of its revenue through its indirect channel, compared to 45.5% or \$8.5 million during the fourth quarter of 2008.

Historically, a significant portion of the Company's revenue has been generated from the cable access technology market. During fiscal 2008 the Company experienced a significant decrease in its product revenue generated from North American cable service providers, including the Company's historically most significant customer, Comcast Corporation. The Company believes that the decrease in revenue within this market was a largely attributable to the delaying of purchase decisions by service providers in the United States as a result of uncertainty caused by the Federal Commission Communication's ("FCC") investigation of Comcast Corporation's network management practices and a general level of uncertainty with respect to service providers ability to deploy traffic management and policy solutions. In August 2008, the FCC released the results of its investigation. As part of its findings, the FCC reiterated its view that no new regulation on broadband service providers was required, and that service providers are permitted to use reasonable network management practices.

The Company believes that the resolution of this investigation by the FCC has lifted some of the uncertainty faced by service providers in the United States with respect to their ability to deploy traffic management and policy solutions and has allowed the Company's product revenues in this market to make a recovery. Current quarter revenues related to the cable access technology market (which is primarily generated from the United States) increased by approximately \$1.7 million to \$11.1 million compared to \$9.4 million in the fourth quarter of 2008.

The increase in service revenue during the current quarter as compared to the fourth quarter of 2008 relates to an increase in support and maintenance revenue, which is generally consistent with the growth in the Company's cumulative product revenue since inception. Service revenue recognized in a particular quarter can be influenced by one time charges for installation, training or other services. As a percentage of total revenue, service revenue for the first quarter of fiscal 2009 was 20.0%. Removing the impact of one time services, service revenue was approximately 16.1% of total revenue during the current quarter.

Q1 2009 compared to Q1 2008

The Company's total revenues have increased substantially for the first quarter of 2009 as compared to the same period in 2008.

As discussed above, the Company believes that as a result of the conclusion of the FCC investigation into Comcast Corporation's network management practices the Company has experienced a significant recovery in its product revenue in the North American market during the first quarter of 2009, as compared to the same period last year. Current quarter revenues generated from the cable access technology market (which is primarily generated from the United States) increased by approximately \$4.7 million to \$11.1 million compared to \$6.4 million in the first quarter of 2008.

In the first quarter of 2009, the Company experienced an absolute dollar increase in revenue from DSL service providers of approximately \$3.3 million, and wireless/mobile market revenues of \$2.2 million when compared to the same period last year. Revenues generated from outside of North America increased significantly from 13.5% of revenues (\$1.1 million) in the first quarter of 2008 to 43.5% (\$8.1 million) in the current quarter.

The Company's growing relationships with its reseller partners has also contributed to the increase in revenue between the current quarter and the same period in 2008. During the first quarter of 2009, the Company realized 34.2% or \$6.4 million of its revenue through its indirect sales channel, compared to 9.5% or \$0.8 million for the same period last year.

The increase in service revenue during the current quarter as compared to the same period last year relates to an increase in support and maintenance revenue, which is generally consistent with the growth in the Company's cumulative product revenue since inception. Service revenue recognized in a particular quarter can be influenced by one time charges for installation, training or other services. As a percentage of total revenue, service revenue for the current quarter was 20.0%, compared to 42.6% for the same period last year. The relative percentage of service revenue in the first quarter of 2008 was higher than what has been historically experienced as a result of the low level of product revenue in the first quarter of 2008.

Revenue by access technology

The breakdown of total revenue generated by customer access technology is outlined in the following table. The Company has experienced a significant increase, both in percentage and absolute dollar terms, in revenue generated outside of the cable access technology market.

	Three month period ended		
	February 28, 2009 %	November 30, 2008 %	February 29, 2008 %
Cable	59.7	50.3	77.3
DSL	23.8	41.2	13.7
Wireless/Mobile/FTTx	15.7	8.2	4.3
Other*	0.8	0.3	4.7
Total	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

The Company continues 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:

	Three month period ended		
	February 28, 2009 %	November 30, 2008 %	February 29, 2008 %
Direct	65.8	54.5	90.5
Indirect	34.2	45.5	9.5
Total	100.0	100.0	100.0

Revenue by geographic region

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 month period ended		
	February 28, 2009 %	November 30, 2008 %	February 29, 2008 %
North America	56.5	51.7	86.5
Caribbean and Latin America	10.2	22.6	1.1
Europe, Middle East and Africa	21.5	14.9	6.9
Asia Pacific	11.8	10.8	5.5
Total	100.0	100.0	100.0

Revenue derived from major customers

During the current quarter, "Major Customers", being those that represent more than 10% of total revenues in the current quarter, represented 44.9% of total revenue compared to 84.7% during the fourth quarter of 2008, and 58.2% for the first quarter of 2008. The following chart outlines the revenue generated from Major Customers during the first quarter of 2009, and their respective percentages from the same period in 2008.

	Three month period ended		
	February 28, 2009 %	November 30, 2008 %	February 29, 2008 %
Customer A *	14.0	0.8	33.7
Customer B *	13.8	3.3	4.7
Customer C *	17.1	33.6	0.6
Total	44.9	37.7	39.0

* it should be noted that the delineation of customer A, B or C from one period to another does not necessarily correspond to such delineation in a previous period. For example, "Customer A" in the current quarter is not necessarily the same customer as the one referenced as "Customer A" in any previously reported period.

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 C is a global reseller, who resold the Company's solutions to multiple end customers during the first quarter

of 2009. The Company believes that a significant portion of the revenue generated through Customer C related to the supply of the Company's products to several different service providers within a common group.

While a large percentage of the Company's revenue has been, and continues to be derived from a small number of customers, the number of individually significant customers has increased. Comcast Corporation, the Company's historically largest customer, but not a Major Customer in the chart above, represented 6.5% of revenue in the current quarter compared to 40.8% in the fourth quarter of 2008 and 24.5% of revenue in the first quarter of 2008. The Company believes that there are significant opportunities with Comcast Corporation, which if successful, could result in Comcast Corporation being a significant customer in future periods.

Deferred revenue

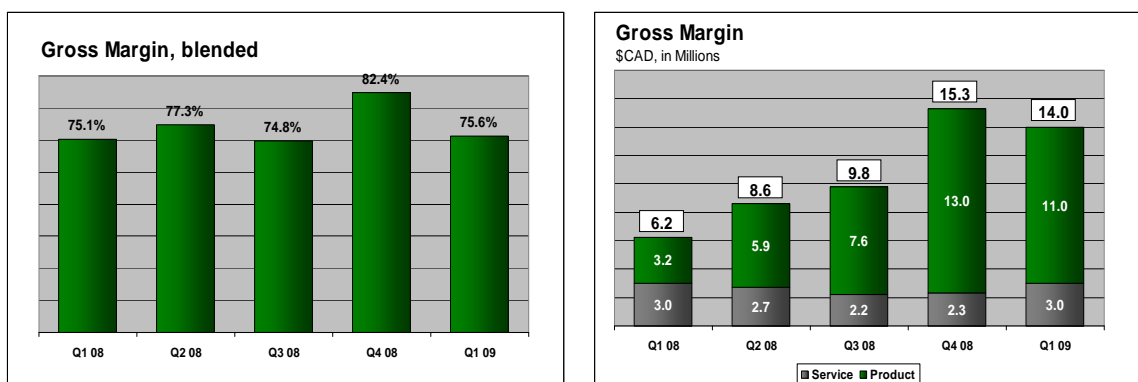
The Company enters into complex arrangements that may involve meeting customer based specifications, multiple deliverables and/or post contractual support which can remain undelivered at the end of the period. This may result in the deferral of revenue because, in most cases, the Company has not completed the customer based specification requirements or established fair value for the undelivered elements. Where the Company has sold post contract support, the resulting revenue is recognized ratably over the service period, which is typically one to three years. The Company does not recognize any revenue or deferred revenue related to initial support and maintenance or support and maintenance 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:

	February 28, 2009 \$	November 30, 2008 \$
	<i>In thousands of dollars</i>	
Deferred revenue:		
Service	5,440	3,307
Product	3,797	5,830
Total	9,237	9,137
Reported as:		
Current	8,987	8,951
Non-current	250	186
Total	9,237	9,137

Fluctuations in deferred service revenue are primarily related to the timing of significant support and maintenance renewals. During the first quarter of fiscal 2009, several significant customers renewed their post contract support which resulted in an increase in deferred service revenue as compared to November 30, 2008. Product deferred revenue decreased from November 30, 2008 levels, primarily due to customer bases specifications being met, and revenue being recognized on several arrangements during the current quarter.

The Company's 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.

Gross margin



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

	Three month period ended		
	February 28, 2009 %	November 30, 2008 %	February 29, 2008 %
Product	74.6	83.7	68.7
Service	79.6	76.0	83.8
Blended	75.6	82.4	75.1

Q1 2009 compared to Q4 2008

Blended gross margins decreased in the current quarter by 6.8% to 75.6% as compared to 82.4% in the fourth quarter of 2008. The decrease in blended gross margins was attributable to a decrease in product gross margins, which were 74.6% in the current quarter, compared to 83.7% for the fourth quarter of 2008. This decrease accounted for \$1.4 million of the \$2.0 million decrease in absolute product gross margin dollars. Product gross margins realized in the current quarter were impacted by the Company's inventory provision which was partially offset by a favourable product mix. Gross margins realized in the fourth quarter of 2008 were higher than historical levels, due to a significant follow on sale of stand alone software to Comcast Corporation, which had nominal cost of sales. Service margins increased by 3.6% to 79.6% in the current quarter, from 76.0% in the fourth quarter of 2008. This was primarily the result of an increase in non-recurring service revenue streams.

Q1 2009 compared to Q1 2008

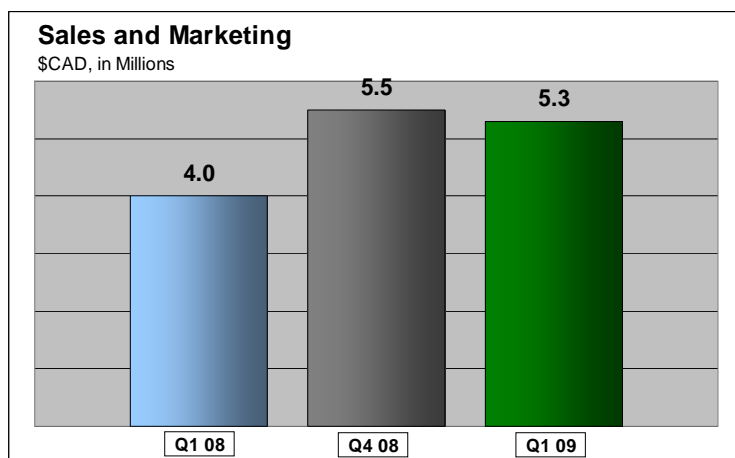
The current quarter blended gross margin remained relatively stable compared to the same period last year. Product gross margins realized in the current quarter were 5.9% higher than for the same period in 2008, primarily due to the significantly lower levels of product revenue recognized in the first quarter of 2008, leading to a larger impact, in percentage terms, of indirect product cost of sales. Service gross margins decreased by 4.2% to 79.6% in the current quarter, from 83.8% in the first quarter of 2008. The decrease in service gross margins in the quarter predominantly related to lower one time non-recurring service fees recognized than in the first quarter of 2008.

Operating expenses

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

	Three month period ended		
	February 28, 2009 \$	November 30, 2008 \$	February 29, 2008 \$
	<i>Amounts in thousands</i>		
Revenue	18,577	18,584	8,288
Sales and marketing <i>% of revenue</i>	5,251 28.2%	5,472 29.4%	3,982 48.1%
Research and development <i>% of revenue</i>	7,518 40.4%	7,565 40.7%	6,058 73.1%
Net government repayments <i>% of revenue</i>	(420) (2.3)%	465 2.5%	81 1.0%
General and administration <i>% of revenue</i>	1,912 10.3%	1,316 7.1%	2,324 28.0%
Stock based compensation <i>% of revenue</i>	816 4.4%	1,320 7.1%	703 8.5%
Amortization of intangible assets <i>% of revenue</i>	498 2.7%	585 3.1%	524 6.3%
Depreciation <i>% of revenue</i>	1,050 5.7%	1,121 6.1%	687 8.3%
Goodwill impairment <i>% of revenue</i>	2,425 13.1%	-	-
Total operating expenses <i>% of revenue</i>	19,050 102.5%	17,844 96.0%	14,359 173.3%

Sales and marketing expenses



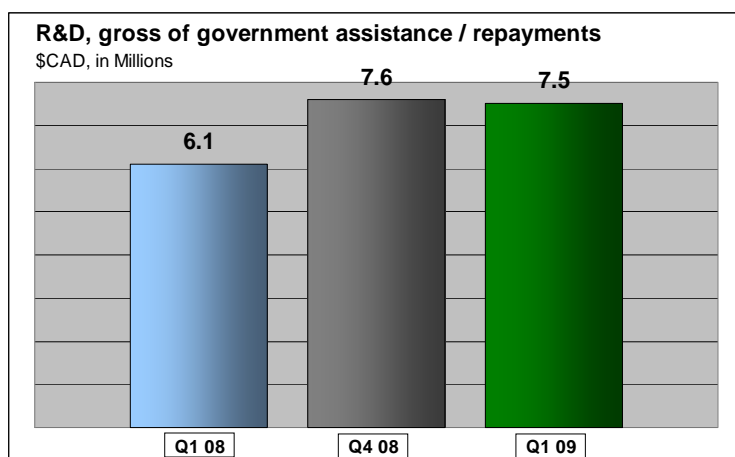
Q1 2009 compared to Q4 2008

For the first quarter of 2009, sales and marketing expenditures decreased by \$0.2 million to \$5.3 million, which represents a 4.0% decrease from the \$5.5 million incurred in the fourth quarter of 2008. As of the end of the first quarter of 2009, the headcount of the sales and marketing team remained relatively stable with 77 employees (Q4 2008: 74) which is made up of 54 employees dedicated to selling activities (Q4 2008: 50) and 23 employees dedicated to the marketing and product management group (Q4 2008: 24). Despite the increase in headcount, overall staffing costs were slightly lower in the current quarter relating to reductions in certain variable compensation expenses compared to the fourth quarter of 2008. Travel expenses incurred during the current quarter were lower than in the fourth quarter of 2008, which is consistent with historically lower levels of sales travel during our first quarter. This was somewhat offset by an increase in marketing costs, which is primarily due to the timing of tradeshow events which the Company attends.

Q1 2009 compared to Q1 2008

For the first quarter of 2009, sales and marketing expenditures increased by \$1.3 million to \$5.3 million, which represents a 31.9% increase from the \$4.0 million incurred for the same period last year. Major factors contributing to the increase in the sales and marketing expenses for the first quarter of 2009 as compared to the same period in 2008 include higher variable compensation costs, consistent with increased revenue and increased salary cost related to additional staff being added to the sales and marketing team. As of the end of the first quarter of 2009, the sales and marketing team consists of 77 employees compared to 65 employees at the end of first quarter of 2008.

Research and development expenses



Q1 2009 compared to Q4 2008

Exclusive of government assistance and repayments, research and development expenses for the first quarter of 2009 remained relatively consistent at \$7.5 million compared to \$7.6 million incurred during the fourth quarter of 2008.

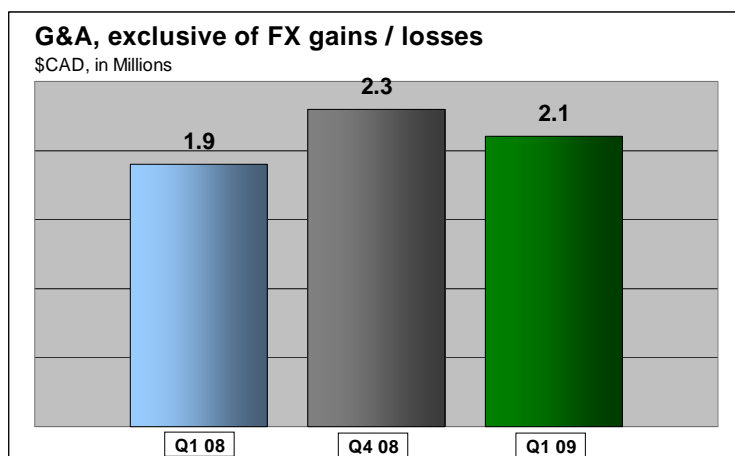
During the current quarter, the Company recorded \$0.4 million of net government assistance, comprised of \$0.5 million of accrued royalties related to government funding received through the TPC program, offset by \$0.9 million of government assistance related to a foreign government program in respect of certain research and development activities. Both programs are described above in the "Composition of revenues and expenses" section. During the fourth quarter of 2008, the Company recorded royalties of \$0.5 million related to government funding received through the TPC program.

Q1 2009 compared to Q1 2008

Exclusive of government assistance and repayments, research and development expenses for the first quarter of 2009 increased by \$1.4 million to \$7.5 million, which represents a 24.1% increase from the \$6.1 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.

For the three months ended February 28, 2009, the Company recorded \$0.4 million of net government assistance, compared to the \$0.1 million of net government repayments recorded for the same period last year.

General and administrative



Q1 2009 compared to Q4 2008

For the current quarter general and administrative expenditures, exclusive of foreign exchange gains (Q1 2009: \$0.2 million, Q4 2008: \$1.0 million), decreased by \$0.2 million to \$2.1 million which represents an 9.5% decrease from the \$2.3 million incurred during the fourth quarter of 2008. The decrease primarily relates to a reduction in professional fees partially offset by an increase in occupancy costs.

Q1 2009 compared to Q1 2008

For the first quarter of fiscal 2009 general and administrative expenditures, exclusive of foreign exchange gains/losses (Q1 2009: \$0.2 million gain, Q1 2008: \$0.4 million loss), increased by \$0.2 million to \$2.1 million which represents a 7.7% increase from the \$1.9 million incurred for the same period last year. The increase during the current quarter primarily relates to an increase in wages, resulting from increased head count over the comparative period in 2008.

Stock based compensation

Q1 2009 compared to Q4 2008

Stock based compensation expense for the three month period ending February 28, 2009 was \$0.8 million as compared to \$1.3 million for the fourth quarter of 2008. During the current quarter \$0.1 million of stock based compensation relates to non-cash compensation expense associated with acquisitions and earn-out arrangements that took place in fiscal 2007, as compared to \$0.6 million in the fourth quarter of 2008.

Q1 2009 compared to Q1 2008

Stock based compensation expense for the three month period ending February 28, 2009 was \$0.8 million as compared to \$0.7 million for the same period last year. During the current quarter \$0.1 million of stock based compensation relates to non-cash compensation expense associated with acquisitions and earn-out arrangements that took place in fiscal 2007, as compared to \$0.1 million during the same period last year.

Amortization of intangible assets

Q1 2009 compared to Q4 2008

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. During the first quarter fiscal 2009, the Company recorded \$0.4 million of amortization related to these acquired intangible assets, compared to \$0.4 million during the fourth quarter of 2008. Consistent with the adoption of CICA Handbook section 3064 *Goodwill and Intangible Assets* (as described in “Accounting changes and impact of recently issued accounting pronouncements”), also included within current quarter amortization of intangible assets is \$0.1 million of amortization related to computer software assets, as compared to \$0.2 million for the fourth quarter of 2008.

Q1 2009 compared to Q1 2008

During the first quarter fiscal 2009, the Company recorded \$0.4 million of amortization related to acquired intangible assets, compared to \$0.4 million during the same period last year. During the current quarter, computer software amortization of \$0.1 million was recorded, as compared to \$0.1 million for the same period last year.

Goodwill impairment

Goodwill represents the excess, at the date of acquisition, of the cost of an acquired business over the fair value of the identifiable assets acquired and liabilities assumed. Goodwill is not amortized but is subject to an annual impairment test or more frequently if events or circumstances indicate that the fair value of a reporting unit is below its carrying amount. The impairment test requires the identification of reporting units and a comparison of the estimated fair value of each reporting unit to the carrying value recorded on the Company’s consolidated financial statements, including goodwill. Based on the Company’s review, only one reporting unit has been identified for the purpose of performing the annual impairment test. If the carrying value of the Company exceeds its fair value, the Company performs the second step of the goodwill impairment test to determine the amount of the impairment loss. The second step of the impairment test involves comparing the implied fair value of the Company’s goodwill with its carrying amount to measure the amount of impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination.

During the three months ended February 28, 2009, in connection with a sustained, significant decline in the overall market capitalization of the Company, as reflected by its publicly traded share price, at a level lower than the net book value of the Company, the Company concluded that an indicator of impairment was present. As a result, the Company tested goodwill for impairment in the first quarter of 2009. Under step one, the Company’s estimate of fair value is principally determined by reference to its publicly traded share price over a reasonable period of time prior to performing the impairment test. Based on the first step of the analysis, the Company determined that the carrying value of the reporting unit was in excess of its fair value. As a result, the Company performed the second step of the goodwill impairment test and determined that the fair value of the Company, including both recognized and unrecognized intangible assets, did not support the carrying amount of goodwill. Accordingly the Company recorded a non-cash goodwill impairment charge of \$2.4 million during the three months ended February 28, 2009.

Interest and other income

Q1 2009 compared to Q4 2008

Interest and other income decreased by \$0.4 million in the current quarter compared to the fourth quarter of 2008. This decrease is the result of substantially all of the Company’s marketable securities maturing early in the quarter, and being re-invested at significantly lower market interest rates. During the current quarter the annualized yield earned on the Company’s investment portfolio was approximately 1.5% compared to 3.17% for the fourth quarter of 2008.

Q1 2009 compared to Q1 2008

For the first quarter of 2009 the Company earned \$0.3 million of investment and other income as compared to \$1.2 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 current quarter the annualized yield earned on the Company's investment portfolio was approximately 1.5% compared to 4.4% for the same period in 2008.

LIQUIDITY AND CAPITAL

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

	February 28, 2009	November 30, 2008
Key Balance Sheet Amounts and Ratios:	<i>Thousands of dollars, except balance sheet ratios and metrics</i>	
Cash, cash equivalents and marketable securities	92,602	92,548
Working capital	107,709	110,331
Working capital ratio	7.6:1	7.2:1
Days sales outstanding in accounts receivable	83 days	76 days
Pro forma days sales outstanding in accounts receivable	55 days	53 days
Inventory turnover	1.0 times	0.7 times
Pro forma inventory turnover	1.5 times	0.9 times

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") - The Company has calculated DSO's based on the most 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 (February 28, 2009; \$4.9 million, November 30, 2008; \$6.6 million).

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

Pro forma inventory turnover - The Company has calculated its pro forma inventory turnover using the annualized most recent three months product cost of sales and the average of the beginning and ending inventory balances excluding demonstration inventory and deferred cost of sales inventory 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.

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.

The Company's short-term investment portfolio of \$83.1 million at February 28, 2009 included bankers' acceptances (98% of portfolio) and commercial paper (2% of portfolio) with yields ranging from 0.8% to 1.0%.

At February 28, 2009, the Company had \$92.6 million of cash and cash equivalents and marketable securities, consistent with the amount it held at November 30, 2008. The preservation of the Company's cash, cash equivalents and marketable securities is the result of positive cash flows from operations which funded the Company's capital asset purchases during the quarter.

Working capital

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance decreased to \$107.7 million at February 28, 2009 compared to \$110.3 million at the end of fiscal 2008. This decrease primarily relates to marketable securities and inventory utilized to acquire and internally develop \$2.4 million of capital asset additions during the current quarter. The Company's working capital ratio (which is its current assets divided by its current liabilities) increased to 7.6:1 compared to 7.2:1 at November 30, 2008.

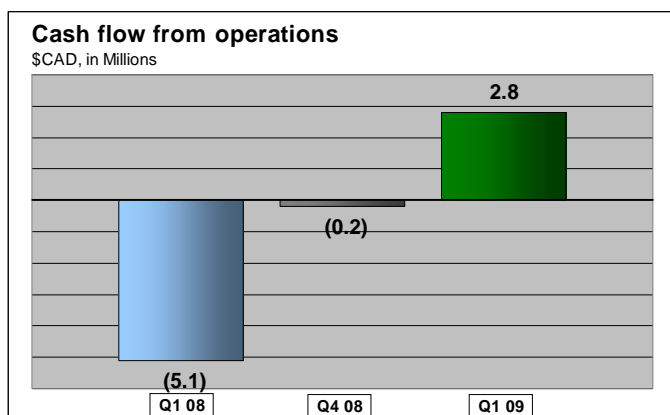
The Company's DSO's increased to 83 days from the 76 days reported at the end of fiscal 2008. The Company also assesses its DSO on a pro forma basis which excludes accounts receivable associated with deferred revenue as they have not been recorded as revenue. The Company's pro-forma DSO's were 55 days at February 28, 2009 resulting from significant revenues which were recognized and collected during the quarter, but had been deferred at November 30, 2008. 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 February 28, 2009 inventory turnover is 0.9 times per year, compared to 0.7 times as at November 30, 2008. The Company also assesses its inventory turnover on a pro forma basis, which excludes demonstration inventory (Q1 2009 \$3.4 million; Q4 2008 \$3.4 million) and deferred cost of sales inventory (Q1 2009 \$1.2 million; Q4 2008 \$1.8 million). The Company's pro forma inventory turnover was 1.5 times per year for the current quarter, as compared to 0.9 times per year for the fourth quarter of 2008. The increase in the Company's inventory turnover and pro forma inventory turnover from the year end level relates to an increase in the annualized cost of sales during the current quarter. The Company's management anticipates that the pro forma inventory turnover levels will improve in future periods. The current level is a result of higher levels of inventory being carried as a result of product mix, securing supply of long lead time parts and a strategic decision to maintain inventory that permits the Company to minimize customer delivery times.

Cash flow

	Three month period ended		
	February 28, 2009	November 30, 2008	February 29, 2008
	\$	\$	\$
	<i>Amounts in thousands</i>		
Cash inflows and (outflows) by activity:			
Operating activities	2,842	(230)	(5,090)
Investing activities	2,784	(4,239)	6,593
Financing activities	-	(375)	161
Net increase in cash	5,626	(4,844)	1,664

Cash provided by operating activities



Q1 2009 compared to Q4 2008

During the current quarter the Company generated \$2.8 million of cash from operating activities as compared to a use of \$0.2 million in the fourth quarter of 2008. The increase relates to changes in working capital balances, primarily the collection of accounts receivable during the current quarter. Removing the impact of changes in working capital, the Company achieved approximately neutral cash flows from operations both in the current quarter and the fourth quarter of 2008.

Q1 2009 compared to Q1 2008

During the current quarter the Company generated \$2.8 million of cash from operating activities as compared to a use of \$5.1 million for the first quarter of 2008. The cash flows from operations generated in the current quarter were \$7.9 million higher compared to the same period last year, consistent with the higher levels of revenue achieved, and smaller non-GAAP loss in the current quarter, compared to the first quarter of 2008.

Purchase of capital assets

Additions to capital assets were \$2.8 million in the first quarter of fiscal 2009 as compared to \$1.5 million for the same period last year.

The current quarter additions mainly relate to continued investment in hardware equipment and software to support the Company's research and development activities.

During the first quarter of fiscal 2009, the Company capitalized \$1.1 million of internally manufactured assets. These additions predominantly relate to hardware equipment used within the Company's research, development and testing lab.

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. The Company enters into forward contracts to reduce its exposure to fluctuations in foreign exchange rates. The following table summarizes the Company's commitments to buy and sell foreign currencies under foreign exchange contracts, all of which have a maturity date of less than one year, as at February 28, 2009:

Designation	Currency Sold	Currency Bought	Notional Amount Sold (\$000's)	Weighted Average Rate
Held for trading	USD	CAD	8,000	1.2362
Held for trading; cash flow hedges	CAD	ILS	2,358	3.2861

Management estimates that a loss of \$76 thousand would be realized if these forward contracts were terminated on February 28, 2009. Forward contracts designated as cash flow hedges have unrealized losses of \$1 thousand, which is recognized in Accumulated other comprehensive income ("AOCI"). The entire loss included in AOCI will be reclassified to net income within the next twelve months. An unrealized loss of \$75 thousand on forward contracts not designated as hedges is included in net income which offsets gains recorded on the foreign denominated items, namely accounts payable and accounts receivable.

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 February 28, 2009, the Company had a significant concentration of credit risk with three customers representing 51.8% (10.1%, 16.6% and 25.1%) of the Company's accounts receivable (November 30, 2008; four customers representing 88.1% (11.5%, 13.6%, 52.0% and 11.0%)).

OUTSTANDING SHARE DATA

The Company has one class of shares consisting of an unlimited number of common shares. As of April 9, 2009, the Company has issued 135,638,221 common shares, one common share purchase warrant issued which entitles the holder to acquire 619,280 common shares and 10,377,447 common share options issued under the Company's stock option plan (as further described in note 5 of its consolidated interim financial statements for the three months ended February 28, 2009).

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 the current quarter, no common shares were repurchased under the NCIB.

OFF BALANCE SHEET ARRANGEMENTS

The Company has entered into forward currency contracts (disclosed under “Financial Instruments” above) which are considered “off-balance sheet” arrangements as that term is described in National Instrument 51-102F.

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROLS AND PROCEDURES

The CEO and CFO are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The CEO and CFO have evaluated whether there were changes to the Company’s internal control over financial reporting during the three month period ended February 28, 2009 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 2009		Three months ended			
<i>(in thousands of dollars)</i>					
	February 28, 2009				
	\$				
Sales	18,577				
Operating expenses	19,050				
Net income (loss) – total	(4,795)				
Basic earnings (loss) per share	(0.035)				
Diluted earnings (loss) per share	(0.035)				
Total assets	144,652				

Fiscal 2008		Three months ended			Fiscal year ended
<i>(in thousands of dollars)</i>					
	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		Three months ended			Fiscal year ended
<i>(in thousands of dollars)</i>					
	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

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.