

Sandvine Corporation

Consolidated Financial Statements
November 30, 2010

January 12, 2011

Auditors' Report

**To the Shareholders of
Sandvine Corporation**

We have audited the consolidated balance sheets of Sandvine Corporation as at November 30, 2010 and November 30, 2009 and the consolidated statements of operations, changes in shareholders' equity and comprehensive loss and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2010 and November 30, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Sandvine Corporation

Consolidated Balance Sheets

As at November 30, 2010

(in Canadian dollars, amounts in thousands)

	2010	2009
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	90,287	2,341
Marketable securities (note 5)	-	83,423
Accounts receivable (note 9)	26,163	20,741
Inventory (note 6)	11,568	9,744
Other (note 9)	3,286	1,773
	<u>131,304</u>	<u>118,022</u>
Non current assets		
Plant and equipment (note 7)	12,669	13,026
Intangible assets (note 8)	5,261	5,221
Other assets	525	-
	<u>18,455</u>	<u>18,247</u>
	<u>149,759</u>	<u>136,269</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	12,324	10,732
Current portion of deferred revenue	10,530	7,513
	<u>22,854</u>	<u>18,245</u>
Non current liabilities		
Deferred revenue	722	790
	<u>23,576</u>	<u>19,035</u>
Shareholders' equity		
Share capital (note 12)	147,707	146,820
Contributed surplus	11,382	9,000
Accumulated other comprehensive loss (note 16)	-	(90)
Deficit	(32,906)	(38,496)
	<u>126,183</u>	<u>117,234</u>
	<u>149,759</u>	<u>136,269</u>

On behalf of the Board:

Roger Maggs
Director

Dave Caputo
Director

See accompanying notes to the consolidated financial statements

Sandvine Corporation

Consolidated Statements of Operations

For the year ended November 30, 2010

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

	2010 \$	2009 \$
Revenue		
Product	73,847	51,958
Service	19,915	16,890
	<u>93,762</u>	<u>68,848</u>
Cost of sales		
Product	19,383	14,375
Service	5,455	3,362
	<u>24,838</u>	<u>17,737</u>
Gross margin	<u>68,924</u>	<u>51,111</u>
Expenses		
Sales and marketing	19,330	20,584
Research and development (note 17)	26,002	27,681
General and administrative	8,875	8,828
Stock based compensation (notes 12 and 13)	2,721	4,982
Amortization of intangible assets	1,625	2,130
Depreciation	4,441	4,691
Intangible impairment (note 8)	669	-
Goodwill impairment (note 4)	-	2,425
	<u>63,663</u>	<u>71,321</u>
Income (loss) from operations	5,261	(20,210)
Interest and other income	479	662
Income (loss) before provision for income taxes	<u>5,740</u>	<u>(19,548)</u>
Provision for (recovery of) income taxes (note 11)		
Current	150	165
Future	-	(196)
	<u>150</u>	<u>(31)</u>
Net income (loss) for the year	<u>5,590</u>	<u>(19,517)</u>
Earnings (loss) per share (note 18)		
Basic	0.041	(0.144)
Diluted	0.040	(0.144)
Basic weighted average number of shares outstanding	<u>136,256,258</u>	<u>135,636,736</u>
Diluted weighted average number of shares outstanding	<u>140,715,500</u>	<u>135,636,736</u>

See accompanying notes to the consolidated financial statements

Sandvine Corporation

Consolidated Statements of Changes in Shareholders' Equity and Comprehensive (Income) Loss

For the year ended November 30, 2010

(in Canadian dollars, amounts in thousands)

	Stated share capital \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive income (loss) \$	Total \$
Balance, November 30, 2008	145,103	5,608	(18,979)	46	131,778
Comprehensive loss:					
Net loss	-	-	(19,517)	-	(19,517)
Net unrealized losses on available for sale financial assets	-	-	-	(17)	(17)
Net unrealized loss on derivative financial instruments designated as cash flow hedges	-	-	-	(266)	(266)
Amount transferred to net loss for derivatives designated as cash flow hedges	-	-	-	147	147
Total comprehensive loss					(19,653)
Stock based compensation (notes 12 and 13)	1,457	3,392			4,849
Issued as compensation on business acquisition (note 12)	260	-	-	-	260
Balance, November 30, 2009	146,820	9,000	(38,496)	(90)	117,234
Comprehensive loss:					
Net income	-	-	5,590	-	5,590
Net unrealized losses on available for sale financial assets	-	-	-	(29)	(29)
Net unrealized gain on derivative financial instruments designated as cash flow hedges	-	-	-	61	61
Amount transferred to net income for derivatives designated as cash flow hedges	-	-	-	58	58
Total comprehensive income					5,680
Stock based compensation (notes 12 and 13)	898	2,345	-	-	3,243
Employee share purchase plan (note 12)	(125)	37	-	-	(88)
Issued as compensation on business acquisition (note 12)	114	-	-	-	114
Balance, November 30, 2010	147,707	11,382	(32,906)	-	126,183

As at November 30, 2010, the total of deficit and accumulated other comprehensive loss was \$(32,906) (November 30, 2009 \$(38,586)).

See accompanying notes to the consolidated financial statements

Sandvine Corporation

Consolidated Statements of Cash Flows

For the year ended November 30, 2010

(in Canadian dollars, amounts in thousands)

	2010	2009
	\$	\$
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	5,590	(19,517)
Items not affecting cash		
Amortization of intangible assets	1,625	2,130
Depreciation	4,771	4,818
Foreign exchange loss	93	127
Stock-based compensation (notes 12 and 13)	2,721	4,982
Goodwill impairment (note 4)	-	2,425
Future income tax recovery (note 11)	-	(196)
Intangible impairment	669	-
	<u>15,469</u>	<u>(5,231)</u>
Changes in non-current balances	(68)	605
Changes in non-cash working capital balances	<u>(3,981)</u>	<u>3,521</u>
	<u>11,420</u>	<u>(1,105)</u>
Investing activities		
Purchase of plant, equipment and intangible software assets	(7,541)	(5,789)
Purchase of marketable securities	(82,897)	(470,411)
Sale of marketable securities	166,291	475,647
	<u>75,853</u>	<u>(553)</u>
Financing activities		
Proceeds from the issuance of share capital (note 12)	<u>673</u>	<u>127</u>
Net increase (decrease) in cash during year	87,946	(1,531)
Cash and cash equivalents – beginning of year	<u>2,341</u>	<u>3,872</u>
Cash and cash equivalents – end of year	<u>90,287</u>	<u>2,341</u>
Cash and cash equivalents are represented by		
Balances with banks	9,582	2,099
Cash equivalents	80,705	242

See accompanying notes to the consolidated financial statements

Sandvine Corporation

Notes to the Consolidated Financial Statements

November 30, 2010

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

1 Basis of presentation

Sandvine Corporation and its subsidiary companies (collectively “the Company”) 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.

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

2 Summary of the significant accounting policies

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated. The Company has a trust vehicle to facilitate its employee share ownership program and hold unvested shares of the Company allocated to individual employees. This trust is considered to be a variable interest entity and has been consolidated by the Company.

a) Business Combinations

The Company allocates the purchase price of a business acquisition to tangible assets, intangible assets and liabilities based on their estimated fair values at the date of acquisition with the excess of purchase price amount over these fair values being allocated to goodwill.

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

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b) Cash and cash equivalents

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

c) Marketable securities

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

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

d) Inventory

Raw materials, work-in-process, deferred cost of sales and demonstration systems are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price less applicable selling costs and estimated costs of completion. 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 includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. The allocation of fixed production overheads is based on the normal production capacity of the production facilities.

e) Investments

Investments in companies where the Company has less than a 20% ownership interest and does not exercise significant influence are accounted for by the cost method. The Company regularly reviews the carrying value of its investments to determine whether a decline other than temporary in nature has occurred. When such declines have occurred, investments are written down to reflect the impairment.

f) Income taxes

The Company follows the liability method of tax allocation to account for income taxes. Under this method, future tax assets and liabilities are determined based upon the difference between the financial reporting and tax basis of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recorded against any future income tax assets if it is

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more likely than not that the asset will not be realized. The Company does not provide for income taxes on undistributed earnings of foreign subsidiaries that are not expected to be repatriated in the foreseeable future.

g) Plant and equipment

Plant and equipment are recorded at cost less accumulated depreciation. Depreciation is provided using the following rates and methods:

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

h) Intangible Assets

Intangible assets are comprised of computer software, as well as acquired non-patented technology purchased through the Company's business acquisitions.

Computer software is recorded at cost less accumulated amortization. Computer software assets are amortized on a declining balance basis using rates of 30 – 50%.

Acquired non-patented technology assets are initially recorded at fair value based on the estimated net present value of future cash flow streams associated with these technologies, and are amortized on a straight line basis over their estimated useful life of three to five years.

i) Impairment of long-lived assets

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss is recognized for the excess of the carrying amount over the fair value of the asset.

j) Research and development

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

k) Revenue Recognition

Revenue is derived primarily from the sales of network equipment (including embedded software), application software, consulting services and support and maintenance contracts for its network policy control solutions.

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The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability 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 unless the Company can reliably demonstrate its ability to meet the customer specified acceptance criteria. The Company typically does not provide for a right of return to its customers.

Revenue for network equipment is generally recognized when the product is shipped and all other revenue recognition criteria, as described above, have been satisfied. Certain software is licensed to customers on a perpetual or per-use basis. Revenue from perpetually licensed software is recognized at the inception of the license term if all other revenue recognition criteria, as described above, have been satisfied. 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. Support and maintenance revenue is deferred and recognized ratably over the period during which the services are to be performed, which is typically one year. Revenue from consulting services is recognized as services are delivered, for time and material contracts, and using the percentage of completion method for fixed price contracts. If there is a significant uncertainty about the project completion, receipt of payment or required effort, revenue is deferred until the uncertainty is resolved. The Company estimates the percentage of completion on contracts with fixed fees using hours incurred as a percentage of total estimated hours to complete the consulting service. When total cost estimates exceed estimated revenues, the Company will accrue for the estimated losses immediately.

Revenue recognition for arrangements with multiple units of accounting (note 3)

The Company enters into revenue arrangements that may consist of multiple deliverables of network equipment, application software, consulting services and support and maintenance. Typically the Company's network equipment and application software are delivered together with support and maintenance being provided over subsequent reporting periods. In arrangements including consulting services, these services are generally concluded in a subsequent reporting period.

Each deliverable within a multiple deliverable revenue arrangement is accounted for as a separate unit of accounting if both of the following criteria are met: (1) the delivered item has value to the customer on a stand-alone basis, and (2) if the arrangement includes a general right of return relative to the delivered element, and delivery or performance of the undelivered item is considered probable and substantially in the control of the Company. The Company's customers typically purchase a combination of network equipment and at least one application software license. The combination of network equipment and a single application software license will generally form one unit of accounting when a specific order includes both elements. However, as both the network equipment and application software licenses are typically delivered concurrently, this assessment will generally not impact the timing of revenue recognition. In addition, if consulting services are considered to be critical to the functionality of the delivered product in a specific revenue arrangement, the product revenue and the related consulting services are considered to be one unit of accounting.

Arrangement consideration is allocated to all units of accounting based on their relative selling price, except support and maintenance revenues which are recognized based on the customer's stated renewal rate. Since neither vendor-specific objective evidence ("VSOE") nor third-party evidence ("TPE") can be established for its hardware, application software and consulting services, the Company is required to use best estimate of the selling price ("BESP") for those deliverables. The Company determines BESP for a product or service by considering multiple factors including, but not limited to, ongoing pricing strategy and policies, market conditions and historical pricing

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practices. BEP will be reassessed annually unless required by changes in business practices or new product introductions.

l) Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted average number of common shares and common share warrants outstanding during the year. Diluted earnings (loss) per share represents the amount of earnings available or loss attributable to each common share and each potential common share, if dilutive, outstanding during the year and is calculated using the treasury stock method.

m) Stock-based compensation plans

The Company has a stock-based compensation plan, which is described in note 13. In accordance with CICA Handbook Section 3870, *Stock-based Compensation and Other Stock-based Payments*, awards granted on or after December 1, 2003 are accounted for using the fair value method of accounting, whereby the Company recognizes compensation expense equal to the fair value of the award over its vesting period. The fair value of awards is determined using the Black-Scholes option pricing model. On the exercise of stock options, the consideration paid and any related compensation expense recorded through contributed surplus, is credited to share capital.

The Company has an employee share ownership program which allows employees to voluntarily participate in a share purchase plan. Under the terms of the plan, the employees can contribute up to a specified percentage of their salary. Subject to certain conditions the Company will match a percentage of the employee's contributions. All contributions are used by the plan's trustee to purchase common shares in the open market. The Company's contributions are recognized over the vesting period for the underlying shares.

n) Government assistance

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

The Company participates in other government programs which include both non-repayable and repayable government assistance (fully described in note 17). Assistance related to these programs is recorded in the same method as investment tax credits, as described above. For repayable government programs, repayments are based on certain revenue streams. Repayments are charged to income when the related sale is recorded.

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o) Use of estimates

The preparation of these consolidated financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. In particular, significant estimates include those related to revenue recognition, the valuation of inventory, income taxes, valuation allowance related to future income taxes, investment tax credits, impairment of long lived and intangible assets, fair value of reporting units, determination of estimated useful lives of intangible assets and plant and equipment, allowances for accounts receivable and valuation assumptions related to stock based compensation. Actual results could differ from these estimates.

p) Financial instruments

The Company classifies its financial instruments as held for trading, available for sale, loans and receivables or other financial liabilities. Financial assets that are purchased and acquired with the intention of generating profits in the near term are classified as held for trading. These instruments are accounted for at fair value with the change in fair value recognized in net income. Financial assets classified as available for sale are carried at fair value with the changes in fair value recorded in other comprehensive income until such investments mature, are sold, or an impairment charge has been recognized. Loans and receivables and other financial liabilities are accounted for at amortized cost.

q) Hedges

The Company may enter into forward contracts to reduce its exposure to fluctuations in foreign exchange rates. The Company does not use any derivative financial instrument for speculative purposes. 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. 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 cash flows of the hedged items.

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

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.

r) Embedded derivatives

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

s) Foreign currency translation

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

t) Recently issued accounting standards

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 evaluating the impact of adopting this new standard in connection with its conversion to International Financial Reporting Standards (“IFRS”).

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 evaluating the impact of adopting this new standard in connection with its conversion to International Financial Reporting Standards (“IFRS”).

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3 Changes in accounting policies

Multiple deliverable revenue arrangements

Effective December 1, 2009, the Company adopted EIC 175, *Multiple Deliverable Revenue Arrangements*, (“New Accounting Standard”) replacing EIC 142, *Revenue Arrangements with Multiple Deliverables* (“Old Accounting Standard”). This abstract was amended to (1) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the manner in which consideration should be allocated to each deliverable; (2) provide that in situations where a vendor does not have vendor-specific objective evidence (“VSOE”) or third-party evidence (“TPE”) of selling price, require that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (3) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (4) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance. The Company has elected to early adopt this abstract prospectively to revenue arrangements with multiple deliverables entered into or materially modified on or after December 1, 2009. Arrangements that were entered into prior to December 1, 2009 will continue to be accounted for under the Old Accounting Standard.

Under Old Accounting Standards, the Company was typically unable to establish objective and reliable evidence of fair value for its network equipment, application software and consulting service deliverables. In situations when the Company was not able to establish objective and reliable evidence of fair value for all deliverables of the arrangement, but was able to establish fair value for all undelivered elements, revenue was allocated using the residual method. 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. Generally, the only undelivered element in the Company’s arrangements was post contract support (often referred to as support and maintenance services). As the Company had established objective and reliable evidence of fair value for its support and maintenance services, revenue related to the network equipment and application software deliverables would be recognized once they had been delivered and all other revenue recognition criteria had been met. When hardware or software elements were undelivered in a revenue arrangement, all of the revenue was typically deferred until these products or services had been delivered. The entire value of an arrangement which included consulting services were generally deferred until the consulting services were delivered as the Company had concluded that objective and reliable evidence of fair value was not available for its consulting services nor was the company able to reliably estimate effort required.

Under the New Accounting Standard, each deliverable within a multiple deliverable revenue arrangement is accounted as a separate unit of accounting if both of the following criteria are met: (1) the delivered item has value to the customer on a stand-alone basis and (2) if the arrangement includes a general right of return relative to the delivered element, delivery or performance of the undelivered item is considered probable and substantially in the control of the vendor. The Company’s customers typically purchase a combination of network equipment and at least one application software license. The combination of network equipment and a single application software license will generally form one unit of accounting when a specific order includes both elements. However, as both the network equipment and application software licenses are typically delivered concurrently, this assessment will generally not impact the timing of revenue recognition. In addition, if consulting services are included in the arrangement and are considered to be critical to the functionality of the delivered product within that arrangement, the particular product revenue and the related consulting services are considered to be one unit of accounting. The Company’s revenue arrangements generally do not include a general right of return relative to delivered products.

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Furthermore, the Company is now required to allocate arrangement consideration to all units of accounting based on their relative selling price. The New Accounting Standard establishes a hierarchy for determining the estimated selling price for a deliverable which includes (1) VSOE, if available, (2) TPE of selling price, if VSOE is unavailable, and (3) best estimate of the selling price (“BESP”) if neither VSOE nor TPE is available. VSOE is generally limited to the price charged when the same or similar product is sold separately. If a product or service is seldom sold separately, it is unlikely the Company can determine VSOE. TPE is determined based on competitor prices for similar deliverables when sold separately. As the Company is either unable to identify similar competitor products and services, or what the competitors’ selling prices are on a stand-alone basis, the Company did not have sufficient information to substantiate TPE. Since neither VSOE nor TPE can be established for its hardware, application software and consulting services, the Company is required to use its best estimate of the selling price (“BESP”) for those deliverables.

In general, the impact of the New Accounting Standard will be to accelerate recognition of revenue in arrangements with undelivered network equipment, application software and consulting services when the delivered hardware and application software are separate units of accounting.

The following table shows revenues as reported and pro forma revenues that would have been reported during the year ended November 30, 2010, if the transactions entered into or materially modified on or after December 1, 2009 were subject the Old Accounting Standards.

	2010 \$	2010 \$
	As reported	Pro-forma based on previous accounting standards
Revenue		
Product	73,847	71,511
Service	19,915	18,530
	<hr/>	<hr/>
	93,762	90,041
	<hr/>	<hr/>

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4 Goodwill

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 first quarter of fiscal 2009, in connection with a sustained, significant decline of the Company's market capitalization at a level lower than its net book value, 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 was principally determined by reference to its externally 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 \$2,425 during the year ended November 30, 2009.

5 Marketable securities

Marketable securities include the following:

	2010	2009
	\$	\$
Canadian dollar bonds, debentures and interest bearing securities	-	83,423
	-	83,423

As at November 30, 2010, net unrealized cumulative gains/losses of \$nil have been recorded in accumulated other comprehensive income for bonds, debentures and interest bearing securities (2009 - \$29).

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6 Inventory

Inventory includes the following:

	2010 \$	2009 \$
Raw materials	7,092	5,820
Work-in-process	1,995	712
Deferred cost of sales	552	818
Demonstration systems	1,929	2,394
	<u>11,568</u>	<u>9,744</u>

During the year ended November 30, 2010, the amount of inventory recognized as an expense and included in product cost of sales was \$19,033 (2009 - \$14,101). During the year ended November 30, 2010, the Company recognized an inventory write down of \$1,083 relating to its inventory balances (2009 - \$2,234), and reversed previously recognized write downs of \$513 (2009 - \$51) relating to sales volumes in excess of forecasts used when the inventory write down occurred.

7 Plant and equipment

	Cost \$	Accumulated Depreciation \$	2010 \$
Computer hardware	27,634	16,600	11,034
Furniture and fixtures	1,136	621	515
Leasehold improvements	1,690	570	1,120
	<u>30,460</u>	<u>17,791</u>	<u>12,669</u>

	Cost \$	Accumulated Depreciation \$	2009 \$
Computer hardware	23,602	12,291	11,311
Furniture and fixtures	1,062	501	561
Leasehold improvements	1,501	347	1,154
	<u>26,165</u>	<u>13,139</u>	<u>13,026</u>

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8 Intangible assets

	Cost	Accumulated Amortization	2010
	\$	\$	\$
Computer software	6,597	2,869	3,728
Non-patented technology assets	4,229	2,696	1,533
	<u>10,826</u>	<u>5,565</u>	<u>5,261</u>

	Cost	Accumulated Amortization	2009
	\$	\$	\$
Computer software	3,664	2,543	1,121
Non-patented technology assets	7,967	3,867	4,100
	<u>11,631</u>	<u>6,410</u>	<u>5,221</u>

During the second quarter of fiscal 2010, certain external factors resulted in changes to cash flow projections associated with a non-patented technology asset (the "Technology Asset"). As a result, the Company concluded that an indicator of impairment was present which required the Company to perform a recoverability test. The results of the recoverability test indicated that the Technology Asset was not fully recoverable. The Company used a present value technique to discount a series of expected future cash flows in order to estimate the fair value of the Technology Asset. Accordingly the Company recorded a non-cash impairment charge of \$669 during the year ended November 30, 2010.

On July 1, 2010, the Company entered into an asset purchase agreement to sell the Technology Asset, which had a carrying value of \$1,105. Under the terms of the agreement, the Company received the following non-cash consideration: preferred shares of the acquirer, the right to ongoing royalties associated with future revenues of the acquirer, and a perpetual license allowing the restricted use of the intellectual property associated with the Technology Asset. The Company determined that the fair value of the assets received was approximately equal to the carrying amount of the Technology Asset, and accordingly no material gain or loss was recognized on disposal.

During the year ended November 30, 2010, the Company capitalized \$2,827 (2009 – nil) relating to the ongoing implementation of a new Enterprise Resource Planning ("ERP") system. Of this amount, \$399 relates to internally capitalized costs. As at November 30, 2010, no amortization had been recorded relating to the ERP asset as it is not ready for use.

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9 Financial Instruments

a) Categories of financial assets and liabilities

Under Canadian generally accepted accounting principles, financial instruments are classified into one of the following categories: held for trading, held-to-maturity, available-for-sale, loans and receivables and other financial liabilities. The following table summarizes information regarding the carrying values of the Company's financial instruments:

	2010	2009
	\$	\$
Held for trading		
Cash and cash equivalents	90,287	2,341
Derivatives designated as held for trading – gain / (loss) *	(20)	6
Derivatives designated as cash flow hedges – gain / (loss) *	-	(119)
Available-for-sale		
Marketable securities	-	83,423
Loans and receivables		
Accounts receivable	25,705	20,741
Other receivables	2,359	776
Other financial liabilities		
Accounts payable and accrued liabilities	12,324	10,487

(*) Derivative financial instruments have been included in other current assets or accounts payable and accrued liabilities on the Company's consolidated balance sheet.

b) Fair value

The estimated fair values of accounts receivable, other receivables, accounts payable and accrued liabilities approximate their respective carrying values due to the short period to maturity. For fair value estimates relating to cash & cash equivalents, derivatives and marketable securities (described below), the Company classifies its fair value measurements within a fair value hierarchy, which reflects the significance of the inputs used in making the measurements as defined in CICA Handbook section 3862 – *Financial Instruments – Disclosures*.

Level 1 - Unadjusted quoted prices at the measurement date for identical assets or liabilities in active markets.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs which are supported by little or no market activity.

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The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company's cash and cash equivalents are classified within Level 1 because they are based on unadjusted quoted prices of identical assets in active markets.

The Company's derivative financial instruments typically include foreign exchange forward contracts, embedded derivatives. The fair values of currency forward contracts and embedded derivatives are based upon the difference between the forward exchange rate and the contract rate. At November 30, 2010 the Company's derivatives also included foreign currency call and put options. The Company's foreign exchange forward contracts, embedded derivatives and call/put options are classified within Level 2 because they are based on foreign currency rates quoted by banks and other public data sources.

The fair value of marketable securities are classified within Level 2 because they are based on quoted prices for similar assets in active markets, and/or observable inputs such as interest rates. No net unrealized cumulative gains were recorded in accumulated other comprehensive income as at November 30, 2010 as no marketable securities were held (November 30, 2009 - \$29). During the current period, no material realized gains or losses have been recognized in the consolidated statement of operations on the Company's marketable securities.

c) Risks arising from financial instruments and risk management

The Company is exposed to financial risks that may potentially impact its operating results including market risks (foreign exchange rate and interest rate risks), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Foreign currency risk

The Company's financial results are reported in Canadian dollars. The Company transacts business in multiple currencies, the most significant of which are the Canadian dollar, the U.S. dollar, the Euro, the Great British Pound and the New Israeli Shekel. As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies. The Company's objective with regard to its foreign currency risk is to minimize the impact of foreign exchange movements on the Company's consolidated financial statements.

The Company generates the majority of its revenues in major foreign currencies, primarily the U.S. dollar, which exceed the natural hedge provided by expenditures in those currencies. In order to manage this net foreign currency exposure the Company enters into forward foreign exchange contracts. The timing and amount of these forward foreign exchange contracts are estimated based on customer contracts on hand and expected future cash outflows. The Company does not account for these forward contracts using hedge accounting. As a result these instruments are measured at fair value with changes in fair value recognized in earnings.

The Company incurs costs in New Israeli Shekels which exceed the natural hedge provided by inflows in this currency. During fiscal 2009, the Company initiated a hedging program to manage this net foreign currency using forward foreign exchange contracts. The timing and amount of these forward foreign exchange contracts is based on expected future cash outflows. The Company applies hedge accounting to these forward contracts. As a result these instruments

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are measured at fair value with the effective portion of the change in fair value initially recorded in other comprehensive income and reclassified to the consolidated statements of operations in the same period that the hedged anticipated transaction affects earnings.

On December 1, 2010, the Company's foreign currency risk management strategy will shift from managing exposure relating to non-Canadian dollar transactions, to non-U.S. dollar transactions. Due to this change in risk management strategy, the aforementioned hedging programs were discontinued during the Company's fourth quarter of fiscal 2010. The Company took steps to protect itself from incurring an economic loss relating to its Canadian dollar cash and cash equivalents as a result of an appreciation in the U.S. dollar prior to December 1, 2010. The Company intends to convert a significant portion of its Canadian dollar cash and cash equivalents to U.S. dollars on that date. 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 November 30, 2010:

Designation	Currency Sold	Currency Bought	Notional Amount Sold	Weighted Average Rate
2010				
Held for trading				
Call option (short)	CAD	USD	72,000	0.975
Put option (long)	CAD	USD	72,000	0.940
2009				
Held for trading	USD	CAD	9,580	1.0581
Held for trading; cash flow hedges	CAD	ILS	2,566	3.4175

Management estimates that a loss of \$20 would be realized if these foreign exchange contracts were terminated on November 30, 2010 (2009 – loss of \$113).

The Company has assessed the net foreign currency exposure of its foreign denominated financial instruments relative to the Canadian dollar. A fluctuation of +/- 5%, provided as an indicative range in a volatile currency environment, would, with all other variables held constant, have an effect on accumulated other comprehensive income for the year ended November 30, 2010 of +/- \$nil (2009 - \$129) and on net income for the year ended November 30, 2010 of approximately +/- \$1,446 (2009 - \$339).

For the year ended November 30, 2010, general and administrative expenses included a foreign exchange loss of \$488 (2009 – loss of \$317).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate risk mainly arises from the interest rate impact on its marketable securities. The Company's marketable securities are comprised of various interest bearing securities with fixed interest rates and varying maturities. The Company's objective with regard to these investments is to minimize liquidity and credit risk while maximizing the interest income earned. The Company only invests in marketable securities that have remaining maturities one year or less at the date of purchase. The Company believes that fluctuations in interest rates do not have a significant impact on the fair value of its marketable securities due to the

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short term maturity of its marketable securities. The Company does not use financial instruments to mitigate this interest rate risk. During 2010, there were no significant changes to the Company's exposure to interest rate risk, or its objectives and policies to manage these risks. Recognized interest income for the Company's marketable securities for the year ended November 30, 2010 was \$575 (2009 - \$639).

At November 30, 2010, a change in interest rates of +/- 50 basis points, which is indicative of the change in the prime lending rate over the preceding twelve month period, with all other variables held constant, net income for the period ending November 30, 2010 would not have been impacted by changes to forward rates used to value foreign currency forward contracts (2009 - \$26). Other comprehensive income would not have been impacted, as the Company did not hold financial assets classified as available for sale on November 30, 2010 (2009 - \$298).

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss being incurred by the Company. The Company is exposed to credit risk in its cash and cash equivalents, marketable securities, accounts receivable, other current assets and to the credit risk of its derivative financial instrument counterparties if they do not meet their obligations. The Company's objective with regard to credit risk in its investing activities is to limit its short term investments to those that meet or exceed specific credit ratings. The Company's objective with regard to credit risk in its operating activities is to reduce its exposure to losses. Immediately preceding the Company's November 30, 2010 year end, the Company sold all of its marketable securities and held the proceeds in cash in order to facilitate the conversion to U.S. dollars on December 1, 2010. As at November 30, 2010 approximately \$72 million was held at a Schedule 1 bank or its affiliate in Canada. Other than the aforementioned transaction, during 2010, there were no significant changes to the Company's exposure to credit risk, or its objectives and policies to manage these risks. As the Company does not utilize credit derivatives or similar instruments, the maximum exposure to credit risk is the full carrying value of the financial instrument asset or face value of open derivative financial instruments. The Company minimizes the credit risk of balances with banks and currency forward contracts by depositing with or transacting with Schedule 1 banks in Canada and reputable financial institutions in other countries and monitoring the credit risk, including counterparty credit risk, of these financial institutions. Significant levels of cash are not held in financial institutions outside of Canada. The Company believes its counterparty credit risk is not significant. The Company minimizes its credit risk of cash equivalents and marketable securities by only investing in securities that meet minimum credit ratings as stipulated by the Company's investment policy and limiting exposure to any one issuing entity. The Company minimizes its credit risk of its accounts receivable and other receivables by performing credit reviews for each of its customers, routinely reviewing the status of individual accounts receivable balances and contacting customers who have overdue balances.

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As at November 30, 2010, three companies, with greater than ten percent concentration in accounts receivable, accounted for 56.5% of the Company's total accounts receivable (2009 – three; 41.3%). The Company's allowance for doubtful accounts is not significant. Of the Company's accounts receivable, \$8,338 was past due as of November 30, 2010 (2009 - \$3,670). 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, 2010, \$6,311 has been subsequently collected. As at January 12, 2011, the remaining overdue balances are as follows:

	2010	2009
	\$	\$
0 – 30 days past due	963	421
31 – 60 days past due	149	-
61 – 90 days past due	495	146
Greater than 91 days past due	420	15
	<hr/>	<hr/>
	2,027	582
	<hr/>	<hr/>

No material amounts outstanding have been challenged by the respective customer(s) and the Company continues to conduct business with them on an ongoing basis. Accordingly, management has no reason to believe that these balances are not fully collectible in the future.

The Company's accounts receivable could be sensitive to changing market risk conditions in particular geographic regions. Accounts receivable is attributed to geographic regions based on the location of the reseller, when applicable. The geographic allocation of the Company's accounts receivables is as follows:

	2010	2009
	%	%
United States	14.5	33.0
Japan	20.1	10.7
China	10.7	8.3
Other	54.7	48.0
	<hr/>	<hr/>
	100.0	100.0
	<hr/>	<hr/>

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company currently settles its financial obligations out of cash and cash equivalents. The ability to do this relies on the Company collecting its accounts receivables in a timely manner and by maintaining sufficient cash and cash equivalents in excess of anticipated needs. The Company invests in marketable securities which are highly liquid, which enables their use to meet financial

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obligations if necessary. During 2010, there were no significant changes to the Company's exposure to liquidity risk, or its objectives and policies to manage these risks. A summary of the Company's other financial liabilities at November 30, 2010 are as follows:

	2010	2009
	\$	\$
Due within 1 month	8,405	6,875
Due later than 1 month and not later than 3 months	3,312	2,966
Due later than 3 months and not later than 1 year	607	646
	<hr/>	<hr/>
	12,324	10,487
	<hr/>	<hr/>

10 Capital Management

In the management of capital, the Company considers shareholder's equity, excluding accumulated other comprehensive income and the balance of purchase price or earn out obligations of its acquisitions (note 12) to be capital. The Company manages its capital to ensure that financial flexibility is present to increase shareholder value through organic growth and selective acquisitions as well as to allow the Company to respond to changes in economic and/or marketplace conditions. In order to maintain or adjust its capital structure the Company may issue new shares, purchase shares for cancellation or raise debt. At this time the Company has not utilized debt facilities as part of its capital management program nor paid dividends to its shareholders. The Company is not subject to any externally imposed capital requirements. There were no changes in the Company's approach to capital management during the period.

11 Income taxes

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

	2010	2009
	\$	\$
Current		
Canadian	-	-
Foreign	150	165
	<hr/>	<hr/>
	150	165
Future		
Canadian	-	-
Foreign	-	(196)
	<hr/>	<hr/>
	-	(196)
	<hr/>	<hr/>
	150	(31)
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The current provision primarily relates to taxes owing by the Company's foreign subsidiaries.

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

	2010	2009
	\$	\$
Combined federal and provincial tax rate	29.24%	31.04%
Expected tax provision (recovery)	1,678	(6,068)
Foreign tax rate differences	772	2,544
Enacted tax rate changes	62	1,353
Goodwill impairment	-	753
Book to return differences	(833)	1,000
Stock based compensation and other differences	667	1,248
Decrease in valuation allowance	(2,196)	(861)
	150	(31)

The tax effects of significant temporary differences are as follows:

	2010	2009
	\$	\$
Assets		
Share issuance costs	194	587
Research and development incentives	4,360	7,354
Tax losses	1,480	1,518
Deferred revenue	1,461	1,012
	7,495	10,471
Less: Valuation allowance	4,969	7,166
	2,526	3,305
Liabilities		
Plant and equipment	2,526	2,356
Intangible assets	-	949
	-	-
Net carrying value	-	-

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

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

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

	Investment tax credits	Tax loss carry forwards	Undeducted SR&ED
	\$	\$	\$
2022	247	-	-
2023	628	-	-
2024	140	-	-
2025	513	-	-
2026	1,299	-	-
2027	2,497	-	-
2028	3,429	284	-
2029	4,111	228	-
2030	3,219	69	-
Unlimited	-	-	12,035
	<hr/>	<hr/>	<hr/>
	16,083	581	12,035

Effective with the tax year ending November 30, 2009, all provincial tax balances have been converted to federal tax balances. As the Company's provincial tax balances exceed the federal tax balances, the difference has generated a non-refundable provincial harmonization tax credit that can be applied against Ontario provincial corporate taxes over the subsequent five year period. The Company has a provincial tax harmonization credit at November 30, 2010 of \$1,686 which has not been recognized.

One of the Company's subsidiaries has foreign net operating loss carry forwards of US\$3,416 (CDN\$3,501) of which US\$2,945 (CDN\$3,018) are subject to a cumulative limitation of US\$189 (CDN\$193) per annum. As at November 30, 2010, the Company has not recognized the benefit related to these losses.

In addition, the Company has net operating loss carry forwards of NIS 44,284 (CDN\$12,410) in a foreign jurisdiction in which the Company has been granted a 10 year tax holiday. The Company expects that during the period these tax losses are utilized, its income will be subject to a nil tax rate and the earnings will not be repatriated. Accordingly, the Company has not recognized the tax benefit associated with these losses.

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

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12 Share capital

Share capital consists of the following:

	Common Shares		Common share warrant		Total \$
	#	\$	#	\$	
Balance, November 30, 2008	135,381,698	144,713	1	390	145,103
Issued under the employee stock option plan	230,423	127	-	-	127
Transfer from contributed surplus	256,523	1,330	-	-	1,330
Issued as compensation on business acquisition	-	260	-	-	260
Cancelled from the key employee escrow	(5,913)	-	-	-	-
Balance, November 30, 2009	<u>135,862,731</u>	<u>146,430</u>	<u>1</u>	<u>390</u>	<u>146,820</u>
Issued under the employee stock option plan	1,118,245	673	-	-	673
Transfer from contributed surplus	-	225	-	-	225
Issued as compensation on business acquisition	-	114	-	-	114
Unvested shares held by trust	(71,246)	(125)	-	-	(125)
Balance, November 30, 2010	<u>136,909,730</u>	<u>147,317</u>	<u>1</u>	<u>390</u>	<u>147,707</u>

The Company has authorized an unlimited number of common shares.

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

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On June 30, 2007, the Company acquired all of the outstanding shares of Simplicita Software, Inc. (“Simplicita”), a provider of subscriber mediation software for IP networks, for consideration of 643,395 common shares of the Company valued at approximately \$3,423. In addition to the purchase consideration, common shares were issued and allocated to a key employee escrow to be released over time contingent on the continued employment of certain individuals over a three year period. Net of share cancellations, 163,192 shares were issued and allocated to the key employee escrow. During the year ended November 30, 2010, the Company released 29,681 shares. As of November 30, 2010, there are no shares remaining in escrow. During the year ended November 30, 2010 the Company recognized \$114 as compensation expense relating to this key employee escrow (2009 - \$260). The Company recognized a total of \$825 as non-cash compensation expense over the three year period in which the services were rendered. As at November 30, 2010 there is no further non-cash compensation to be recognized.

During the year ended November 30, 2009, the Company issued 256,523 common shares relating to additional contingent consideration available to specified Simplicita employees on the achievement of certain performance targets, and who continued their employment with the Company through to November 30, 2008. The Company recorded \$1,298 of non cash compensation cost (representing 256,523 common shares) related to this contingent consideration during the year ended November 30, 2008.

During the year, the Company issued 1,118,245 common shares for cash proceeds of \$673 as a result of option holders exercising their options (2009 – 230,423 common shares for net proceeds of \$127).

The Company has a trust vehicle to facilitate its employee share ownership program and hold shares of the Company allocated to individual employees. This trust is considered to be a variable interest entity and has been consolidated by the Company. Included in the outstanding common shares of the Company as of November 30, 2010 are 71,246 unvested common shares which are held by the trust (2009 – 12,010).

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13 Stock options

Stock option plan

The Company has adopted a stock option plan for employees and directors. Options granted prior to March 21, 2006 typically vest over a four year and six month term. Options granted subsequent to this date typically vest over a 5 year term. All options have a contractual life of 10 years and allow for the purchase of one common share per option. The exercise price of the options is the volume weighted average share price of the Company's common shares for the five days prior to the date of grant. As at November 30, 2010, there were 3,606,585 options available for future grants under the stock option plan. A summary of the stock option activity is presented below:

	Options	
	Number	Weighted average price \$
Options outstanding, November 30, 2008	9,667,528	2.22
Option activity for the year		
Granted	2,377,250	0.97
Forfeited	(636,255)	2.45
Cancelled	(780,000)	5.74
Exercised	(230,423)	0.55
Options outstanding, November 30, 2009	10,398,100	1.69
Option activity for the year		
Granted	2,291,250	1.66
Forfeited	(1,173,868)	2.88
Exercised	(1,118,245)	0.60
Options outstanding, November 30, 2010	10,397,237	1.67

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Stock based compensation

Stock based compensation (related to the Company's stock option plan) recognized for the year ended November 30, 2010 was \$2,570 with a corresponding credit to contributed surplus (2009 - \$4,722). Previously recognized compensation expense of \$225 relating to options exercised during the year has been transferred from contributed surplus to share capital (2009 - \$32).

	2010	2009
Number of options granted	2,291,250	2,377,250
Weighted average Black-Scholes value of each option	\$1.64	\$0.84
Assumptions		
Risk free interest rate	2.99%	2.82%
Expected life in years	7.42	8.48
Expected dividend yield	0%	0%
Volatility	90.13%	99.76%

The following table summarizes information regarding stock options outstanding at November 30, 2010:

Options Outstanding				Options Exercisable	
Range of exercise price \$	Number outstanding	Weighted average contractual life (years)	Weighted average exercise price \$	Number outstanding	Weighted average exercise price \$
0.40 - 0.82	2,951,291	4.45	0.65	2,390,121	0.61
1.05 - 2.53	6,302,915	8.04	1.53	1,748,638	1.86
4.11 - 5.50	817,947	6.83	4.38	515,554	4.41
6.59 - 6.95	325,084	6.70	6.71	215,260	6.70
0.40 - 6.95	10,397,237	6.89	1.67	4,869,573	1.73

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

14 Credit facility

The Company has a demand credit facility with a major Canadian chartered bank. Under the terms of the facility, the Company has available to it a \$1,000 operating line to provide letters of credit and a \$2,500 contingency line to permit the Company to enter into foreign currency forward contracts. Borrowings made from the facility attract interest at the bank's prime rate of interest plus 0.5%. Marketable securities with a carrying value and fair value of \$3,500 are pledged as security for the credit facility. The assets pledged as security can be called by the lender upon default of the facility or insolvency of the Company. The facility and the related security will remain in effect until the facility, which has no term, is terminated.

As of November 30, 2010 the Company had issued three letters of credit under its operating line. The individual letters of credit were; US\$292 (CDN\$299) expiring July 15, 2011, US\$16 (CDN\$16) expiring July 24, 2011 and US\$79 (CDN\$81) expiring August 31, 2011. As of November 30, 2010, the Company had not utilized any of its \$2,500 contingency line relating to foreign currency forward contracts.

15 Lease commitments

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

	\$
2011	728
2012	327
2013	7
Thereafter	-
	<hr/>
	1,062
	<hr/>

16 Accumulated other comprehensive loss

	2010	2009
	\$	\$
Accumulated net unrealized gains on available for sale financial assets	-	29
Accumulated unrealized net loss on derivative financial instruments designated as cash flow hedges	-	(119)
	<hr/>	<hr/>
Total accumulated other comprehensive loss	-	(90)
	<hr/>	<hr/>

Sandvine Corporation

Notes to the Consolidated Financial Statements

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

17 Government assistance

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

	2010 \$	2009 \$
Research and development	27,402	28,162
Government repayments	2,596	1,722
Investment tax credits / government assistance	(3,996)	(2,203)
	<hr/> 26,002	<hr/> 27,681

The Company has an agreement with Technology Partnership Canada (“TPC”) who provided partial funding towards one of the Company’s research and development projects. The Company received \$9,500 over a twenty-two month period which ended during fiscal 2005. The agreement requires the contribution to be repaid in the form of royalties to a maximum of \$16,000. Royalties are charged at 2.5% of the Company’s gross revenues. The obligation to pay royalties expires on November 30, 2013. During the year ended November 30, 2010, the Company recognized \$2,345 (2009 - \$1,722) as royalty expense which has been recorded as an increase to research and development expenses. Cumulatively, the Company has accrued or paid total royalties of \$6,703 under the agreement.

A subsidiary of the Company participates in programs sponsored by a foreign government 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, and in the absence of such sales, no payment is required. During the year ended November 30, 2010, the subsidiary received additional funding of \$734 USD (\$774 CAD) under these programs (2009 - \$723 USD (\$885 CAD)). As of November 30, 2010, the subsidiary has received cumulative grants of \$2,326 USD (\$2,527 CAD). During the year ended November 30, 2010, the Company recognized \$251 (2009 - \$nil) as royalty expense which has been recorded as an increase to research and development expenses. Cumulatively, the Company has accrued or paid total royalties of \$540 USD (\$581 CAD) under the agreement.

Non repayable government assistance recorded during the year of \$137 (2009 - \$1,000) relates to funding received through a Canadian government program in respect of certain research and development activities undertaken by the Company. The Company has been approved to receive up to \$250 (in total) under the program.

The Company has entered into an agreement with the Province of Ontario relating to the Next Generation of Jobs Fund, which will provide funding relating to one of the Company’s projects. Under the agreement, the Company will be eligible to receive funding equal to 11% of eligible project expenditures from February 24, 2009 to February 24, 2014 to a maximum of \$18,700 (the “Initial Grant”). Payments made in respect of the Initial Grant can become conditionally repayable if certain cumulative job targets are not met. In addition, at the end of the agreement, the Company may be entitled to receive up to an additional 4% of eligible project expenditures (to a maximum of \$6,800) if certain Ontario-based job targets have been met. During the year ended November 30, 2010, the Company recorded \$4,523 of funding eligible from the program. The amount of funding received in respect of eligible expenses is as follows:

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	2010 \$	2009 \$
Sales and marketing	384	-
Research and development	3,058	-
General and administrative	1,081	-
	<u>4,523</u>	<u>-</u>
Purchase of plant, equipment and intangible software assets	721	-
	<u>5,244</u>	<u>-</u>

18 Earnings (loss) per share

	2010 \$	2009 \$
Numerator for basic and diluted earnings (loss) per share available to common shareholders	<u>5,590</u>	<u>(19,517)</u>
Denominator for earnings (loss) per share, weighted average number of shares outstanding		
Basic	136,256,258	135,636,736
Effect of warrant outstanding	619,280	-
Effect of stock options issued	3,830,193	-
Effect of contingently returnable shares	9,769	-
Diluted	<u>140,715,500</u>	<u>135,636,736</u>
Earnings (loss) per share:		
Basic	0.041	(0.144)
Diluted	0.040	(0.144)

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

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19 Segment disclosures

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

	2010	2009
	\$	\$
Sales		
Canada	1,578	4,589
United States	37,595	31,437
Caribbean and Latin America	8,382	5,776
Europe, Middle East and Africa	21,209	17,562
Asia Pacific	24,998	9,484
	<hr/>	<hr/>
	93,762	68,848
	<hr/>	<hr/>
	2010	2009
	%	%
Sales		
Canada	1.7	6.6
United States	40.1	45.7
Caribbean and Latin America	8.9	8.4
Europe, Middle East and Africa	22.6	25.5
Asia Pacific	26.7	13.8
	<hr/>	<hr/>
	100.0	100.0
	<hr/>	<hr/>

In situations where a sale is made through a reseller, revenue associated with that sale is attributed to the geographic location of the end customer. Revenue from individually significant countries contained within these geographic regions included Japan, which represented 15.6% of revenue for the year ended November 30, 2010 (2009 – 8.8%).

Major customers are customers which represent more than 10% of total revenues for a given period. For the year ended November 30, 2010 three major customers represented 46.8% of total revenue respectively (2009 – one, 15.3%). The breakdown of major customers for the year ended November 30, 2010 is as follows:

	2010	2009
	%	%
Customer A	15.7	15.3
Customer B	15.6	8.8
Customer C	15.5	7.1
	<hr/>	<hr/>
	46.8	31.2
	<hr/>	<hr/>

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November 30, 2010

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

	2010 \$	2009 \$
Plant and equipment, intangibles and goodwill		
Canada	16,097	13,535
United States	92	2,232
Europe, Middle East and Africa	1,741	2,480
	<hr/> 17,930	<hr/> 18,247
Total assets		
Canada	147,128	130,728
United States	268	2,377
Europe, Middle East and Africa	2,363	3,164
	<hr/> 149,759	<hr/> 136,269

20 Supplemental cash flow information

For the year ended November 30, 2010 the Company paid \$202 for income tax in cash (2009 - \$107). The Company did not pay any interest in cash during the year ended November 30, 2010 (2009 - \$nil).

During the year ended November 30, 2010, the Company recorded \$721 (2009 – nil) of government assistance relating to plant, equipment and intangible software asset acquisitions. This government assistance has been netted against plant, equipment and intangible software asset purchases as disclosed in the consolidated statement of cash flows. Exclusive of government assistance, purchases of plant, equipment and intangible software were \$8,262 for the year ended November 30, 2010 (2009 – \$5,798).

21 Comparative figures

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