

# **Sandvine Corporation**

Consolidated Financial Statements  
**November 30, 2011**



January 11, 2012

## **Independent Auditor's Report**

### **To the Shareholders of Sandvine Corporation**

We have audited the accompanying consolidated financial statements of Sandvine Corporation and its subsidiaries, which comprise the consolidated balance sheets as at November 30, 2011 and November 30, 2010 and the consolidated statements of operations, changes in shareholders' equity and comprehensive income (loss), and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles (Canadian GAAP), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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*PricewaterhouseCoopers LLP, Chartered Accountants  
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2  
T: +1 416 863 1133, F: +1 416 365 8215, [www.pwc.com/ca](http://www.pwc.com/ca)*

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sandvine Corporation and its subsidiaries as at November 30, 2011 and November 30, 2010 and the results of their operations and their cash flows for the years then ended in accordance with Canadian GAAP.

*PricewaterhouseCoopers LLP*

**Chartered Accountants, Licensed Public Accountants**

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# Sandvine Corporation

## Consolidated Balance Sheets

As at November 30, 2011

(in United States dollars, amounts in thousands)

	2011 \$	2010 \$ <i>Restated (note 3)</i>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,952	87,949
Short term investments (note 4)	71,030	-
Accounts receivable (note 8)	28,194	25,485
Inventory (note 5)	18,230	11,268
Other (note 8)	3,586	3,201
	<u>123,992</u>	<u>127,903</u>
<b>Non current assets</b>		
Plant and equipment (note 6)	11,942	12,341
Intangible assets (note 7)	5,454	5,125
Other assets	511	511
	<u>17,907</u>	<u>17,977</u>
	<u>141,899</u>	<u>145,880</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 8)	10,688	12,005
Current portion of deferred revenue	10,269	10,257
	<u>20,957</u>	<u>22,262</u>
<b>Non current liabilities</b>		
Deferred revenue	913	703
	<u>21,870</u>	<u>22,965</u>
<b>Shareholders' equity</b>		
<b>Share capital</b> (note 11)	120,711	119,570
<b>Contributed surplus</b>	12,358	10,007
<b>Accumulated other comprehensive income</b>	19,603	20,218
<b>Deficit</b>	(32,643)	(26,880)
	<u>120,029</u>	<u>122,915</u>
	<u>141,899</u>	<u>145,880</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, 2011

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

	2011 \$	2010 \$ <i>Restated (note 3)</i>
<b>Revenue</b>		
Product	64,085	70,442
Service	25,254	19,217
	<u>89,339</u>	<u>89,659</u>
<b>Cost of sales</b>		
Product	16,493	18,526
Service	6,605	5,273
	<u>23,098</u>	<u>23,799</u>
<b>Gross margin</b>	<u>66,241</u>	<u>65,860</u>
<b>Expenses</b>		
Sales and marketing	20,252	18,682
Research and development (note 16)	31,669	25,093
General and administrative	10,782	8,560
Stock based compensation (notes 11 and 12)	2,760	2,631
Amortization of intangible assets	1,998	1,563
Depreciation	4,482	4,295
Intangible impairment (note 7)	-	643
	<u>71,943</u>	<u>61,467</u>
<b>Income (loss) from operations</b>	(5,702)	4,393
<b>Interest and other income</b>	129	465
<b>Income (loss) before provision for income taxes</b>	<u>(5,573)</u>	<u>4,858</u>
<b>Provision for income taxes</b> (note 10)		
Current	190	145
	<u>190</u>	<u>145</u>
<b>Net income (loss) for the year</b>	<u>(5,763)</u>	<u>4,713</u>
<b>Earnings (loss) per share</b> (note 17)		
Basic	(0.042)	0.035
Diluted	(0.042)	0.033
Basic weighted average number of shares outstanding	137,566,098	136,256,258
Diluted weighted average number of shares outstanding	<u>137,566,098</u>	<u>140,715,500</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, 2011

(in United States dollars, amounts in thousands)

	Stated share capital \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive income (loss) \$	Total \$
<b>Balance, November 30, 2009 Restated (note 3)</b>	118,714	7,680	(31,593)	16,257	111,058
Comprehensive loss:					
Net income			4,713		4,713
Net unrealized losses on available for sale financial assets				(21)	(21)
Net unrealized gain on derivative financial instruments designated as cash flow hedges				57	57
Amount transferred to net income for derivatives designated as cash flow hedges				52	52
Foreign exchange adjustment on change in reporting currency (note 3)				3,873	3,873
Total comprehensive income					8,674
Stock based compensation (notes 11 and 12)	847	2,292			3,139
Employee share purchase plan (note 11)	(101)	35			(66)
Issued as compensation on business acquisition (note 11)	110	-			110
<b>Balance, November 30, 2010 Restated (note 3)</b>	119,570	10,007	(26,880)	20,218	122,915
Comprehensive loss:					
Net loss			(5,763)		(5,763)
Net unrealized loss on derivative financial instruments designated as cash flow hedges				(722)	(722)
Amount transferred to net income for derivatives designated as cash flow hedges				107	107
Total comprehensive loss					(6,378)
Stock based compensation (notes 11 and 12)	1,230	2,281			3,511
Employee share purchase plan (note 11)	(89)	70			(19)
<b>Balance, November 30, 2011</b>	120,711	12,358	(32,643)	19,603	120,029

As at November 30, 2011, the total of deficit and accumulated other comprehensive loss was \$(13,040) (November 30, 2010 \$(6,662)).

See accompanying notes to the consolidated financial statements

# Sandvine Corporation

## Consolidated Statements of Cash Flows

For the year ended November 30, 2011

(in United States dollars, amounts in thousands)

	2011 \$	2010 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income (loss) for the year	(5,763)	4,713
Items not affecting cash		
Amortization of intangible assets	1,998	1,563
Depreciation	4,678	4,615
Unrealized foreign exchange loss	180	279
Stock-based compensation (notes 11 and 12)	2,760	2,631
Intangible impairment	-	643
Other	(90)	-
	<u>3,763</u>	<u>14,444</u>
Changes in non-current balances	210	(45)
Changes in non-cash working capital balances	<u>(12,102)</u>	<u>(3,627)</u>
	<u>(8,129)</u>	<u>10,772</u>
<b>Investing activities</b>		
Purchase of plant, equipment and intangible software assets	(6,603)	(7,313)
Purchase of short term investments	(243,913)	(79,871)
Sale of short term investments	<u>172,864</u>	<u>161,326</u>
	<u>(77,652)</u>	<u>74,142</u>
<b>Financing activities</b>		
Proceeds from the issuance of share capital (note 11)	<u>833</u>	<u>652</u>
<b>Effect of foreign exchange gain on cash and cash equivalents</b>	<u>(49)</u>	<u>165</u>
<b>Net increase (decrease) in cash during year</b>	(84,997)	85,731
<b>Cash and cash equivalents – beginning of year</b>	<u>87,949</u>	<u>2,218</u>
<b>Cash and cash equivalents – end of year</b>	<u>2,952</u>	<u>87,949</u>
<b>Cash and cash equivalents are represented by</b>		
Balances with banks	28	9,334
Cash equivalents	2,924	78,615

See accompanying notes to the consolidated financial statements

# **Sandvine Corporation**

Notes to the Consolidated Financial Statements

**November 30, 2011**

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

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## **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 (“Canadian GAAP”). 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.

### **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.

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

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### c) Short term investments

Short term investments include interest bearing securities with original maturities of greater than three months and remaining maturities of less than one year. All short term investments are classified as available-for-sale and are initially measured at settlement date. The short term investments 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, finished goods, 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, finished goods, 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 more likely than not that the asset will not be realized. Effective December 1, 2010, in conjunction with the Company's functional currency change, the Company elected to report using the US dollar as the functional currency for its Canadian income tax filings (*note 3*). The Company does not provide for income taxes on undistributed earnings of foreign subsidiaries that are not expected to be repatriated in the foreseeable future.

# Sandvine Corporation

Notes to the Consolidated Financial Statements

November 30, 2011

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

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## 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.

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.

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

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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*

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

### **1) 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

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

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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 12. In accordance with CICA Handbook Section 3870, *Stock-based Compensation and Other Stock-based Payments*, awards granted on or after December 1, 2003 are accounted for using the fair value method of accounting, whereby the Company recognizes compensation expense equal to the fair value of the award over its vesting period. The fair value of awards is determined using the Black-Scholes option pricing model. 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 16). 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.

### **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

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

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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.

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 of the consolidated entity maintains its accounts in US dollars (*note 3*). 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 United States dollars ("USD") using the temporal method. As such, monetary assets and liabilities are

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

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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

The Company will cease to prepare its consolidated financial statements in accordance with Canadian GAAP as set out in Part V of the CICA Handbook – Accounting (“Canadian GAAP”) for the periods beginning on December 1, 2011 when it will start to apply International Financial Reporting Standards as published by the International Accounting Standards Board. Consequently, future accounting changes to Canadian GAAP are not discussed in these consolidated financial statements as they will never be applied by the Corporation.

## 3 Changes in accounting policies

### Functional and reporting currency

Effective December 1, 2010 (the “Conversion Date”), the Company adopted the USD as its functional currency. This is the result of the continuing shift that the Company has experienced in the proportion of its revenues, expenses, assets and liabilities which are denominated in USD, and its expectation that this shift will continue in future periods. Prior to the Conversion Date, the Company’s operations were measured in Canadian dollars (“CAD”). On the Conversion Date the assets and liabilities were translated into USD using the exchange rate in effect on that date and equity transactions were translated at historical rates.

In conjunction with this change in functional currency, the Company chose the USD as the Company’s reporting currency. Historical financial statement information was restated into US dollars using the current rate method as required by the recommendations of Emerging Issues Committee (“EIC”) recommendation EIC-130, *Translation method when the reporting currency differs from the measurement currency or there is a change in the reporting currency*. Under this method, assets and liabilities are translated at the closing rate in effect at the end of the periods reported. Revenues, expenses and cash flows are translated at the average rates in effect throughout the period, or the rates in effect at the date of the transaction for significant transactions. Any exchange differences resulting from the translation are included as part of Accumulated Other Comprehensive Income presented in Statement of Changes in Shareholders’ Equity and Comprehensive Income (loss). As at November 30, 2010, the resulting net adjustment of \$20,218 has been credited to Accumulated Other Comprehensive Income (November 30, 2009 - \$16,345). The impact to Comprehensive Income for year ended November 30, 2010 was an increase of \$3,873.

# Sandvine Corporation

Notes to the Consolidated Financial Statements

November 30, 2011

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

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## 4 Short term investments

Short term investments include the following:

	2011	2010
	\$	\$
United States dollar bonds, debentures and interest bearing securities	71,030	-
	<u>71,030</u>	<u>-</u>

As at November 30, 2011, net unrealized cumulative gains/losses of \$nil have been recorded in accumulated other comprehensive income for bonds, debentures and interest bearing securities (2010 - \$nil).

## 5 Inventory

Inventory includes the following:

	2011	2010
	\$	\$
Raw materials	7,456	6,908
Work-in-process	6,776	1,943
Finished goods	525	-
Demonstration systems	3,473	1,879
Deferred cost of sales	-	538
	<u>18,230</u>	<u>11,268</u>

During the year ended November 30, 2011, the amount of inventory recognized as an expense and included in product cost of sales was \$16,259 (2010 - \$18,401). During the year ended November 30, 2011, the Company recognized an inventory write down of \$588 relating to its inventory balances (2010 - \$1,047), and reversed previously recognized write downs of \$nil (2010 - \$496) relating to sales volumes in excess of forecasts used when the inventory write down occurred.

# Sandvine Corporation

Notes to the Consolidated Financial Statements

November 30, 2011

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

## 6 Plant and equipment

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Computer hardware	30,293	20,428	9,865
Furniture and fixtures	1,552	775	777
Leasehold improvements	2,105	805	1,300
	<hr/>	<hr/>	<hr/>
	33,950	22,008	11,942

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Computer hardware	26,918	16,170	10,748
Furniture and fixtures	1,107	605	502
Leasehold improvements	1,646	555	1,091
	<hr/>	<hr/>	<hr/>
	29,671	17,330	12,341

## 7 Intangible assets

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>2011</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Computer software	8,754	3,993	4,761
Non-patented technology assets	4,119	3,426	693
	<hr/>	<hr/>	<hr/>
	12,873	7,419	5,454

	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Computer software	6,427	2,795	3,632
Non-patented technology assets	4,119	2,626	1,493
	<hr/>	<hr/>	<hr/>
	10,546	5,421	5,125

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

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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 \$643 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 \$1,068. 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, 2011, the Company capitalized \$1,520 (2010 – \$2,733) relating to the ongoing implementation of a new Enterprise Resource Planning ("ERP") system. Of this amount, \$320 (2010 - \$386) relates to internally capitalized costs. The new ERP system was put into use during the three months ended May 31, 2011.

## 8 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:

	2011	2010
	\$	\$
<b>Held for trading</b>		
Cash and cash equivalents	2,952	87,949
Derivatives designated as held for trading – gain / (loss) *	-	(19)
Derivatives designated as cash flow hedges – gain / (loss) *	(615)	-
<b>Available-for-sale</b>		
Short term investments	71,030	-
<b>Loans and receivables</b>		
Accounts receivable	27,126	25,039
Other receivables	1,800	2,298
<b>Other financial liabilities</b>		
Accounts payable and accrued liabilities	10,073	12,005

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

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

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### 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 short term investments (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.

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. The fair values of currency forward contracts are based upon the difference between the forward exchange rate and the contract rate. The Company's foreign exchange forward contracts 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 short term investments 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. Net unrealized cumulative gains for the year recorded in accumulated other comprehensive income as at November 30, 2011 were \$nil (November 30, 2010 - \$nil). During the current period, \$nil of realized gains have been recognized in the consolidated statement of operations on the Company's short term investments (November 30, 2010 - \$nil).

### 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*

Due to a change in the Company's functional currency, the Company's financial exposure to foreign currency risk has changed from that disclosed at November 30, 2010 (note 3).

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

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The Company's financial results are reported in United States dollars. The Company transacts business in multiple currencies, the most significant of which are the USD, the CAD, 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 the USD. If a significant sales transaction is generated in a currency other than the USD, and this transaction exceeds the natural hedge provided by expenditures in those currencies the Company may enter 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, primarily payroll and related expenditures, in the CAD and New Israeli Shekels which exceed the natural hedge provided by inflows in these currencies. The Company utilizes a hedging program to manage these net foreign currencies using forward foreign exchange contracts. The Company also incurs rent costs, in CAD which are hedged 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 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.

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, 2011 and November 30, 2010:

<b>Designation</b>	<b>Currency Sold</b>	<b>Currency Bought</b>	<b>Notional Amount Sold</b>	<b>Weighted Average Rate</b>
<b>2011</b>				
Held for trading: Cash flow hedges	USD	CAD	17,387	0.996
Held for trading: Cash flow hedges	USD	ILS	2,785	3.565
<b>2010</b>				
Held for trading: Call option (short)	CAD	USD	72,000	0.975
Held for trading: Put option (long)	CAD	USD	72,000	0.940

Management estimates that a loss of \$615 would be realized if these foreign exchange contracts were terminated on November 30, 2011 (2010 – loss of \$20).

The Company has assessed the net foreign currency exposure of its foreign denominated financial instruments relative to the USD. 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, 2011 of +/- \$1,029 and on net income for the year ended November 30, 2011 of approximately +/- \$13.

For the year ended November 30, 2011, general and administrative expenses included a foreign exchange gain of \$448 (2010 – loss of \$472).

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

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### *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 short term investments. The Company's short term investments 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 short term investments 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 short term investments due to the short term maturity of its short term investments. The Company does not use financial instruments to mitigate this interest rate risk. During 2011, 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 short term investments for the year ended November 30, 2011 was \$129 (2010 - \$465).

At November 30, 2011, a change in interest rates of +/- 25 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, would have resulted in no impact to net loss for the period ending November 30, 2011 (2010 - \$nil). Other comprehensive income would have increased/decreased by \$21, arising mainly as a result of the impact of the change in interest rates to forward rates used to value foreign currency forward contracts (2010 - \$nil).

### *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, short term investments, 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 short term investments and held the proceeds in cash in order to facilitate the conversion to U.S. dollars on December 1, 2010. Subsequent to December 1, 2010 the Company reverted to purchasing short term investments. As at November 30, 2011 approximately \$71 million was held as short term investments. 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 short term investments 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. As at November 30, 2011 one issuer, a Schedule 1 Bank, represented 53% of the total short-term investments, with no other individual issuer representing more than 12% of the total short-term investments. The Company minimizes its credit risk of its accounts receivable and other receivables by performing credit reviews for each of its

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

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customers, routinely reviewing the status of individual accounts receivable balances and contacting customers who have overdue balances.

As at November 30, 2011, 2 companies, with greater than ten percent concentration in accounts receivable, accounted for 42.0% of the Company's total accounts receivable (2010 – three; 56.5%). The Company's allowance for doubtful accounts is not significant. Of the Company's accounts receivable, \$6,975 was past due as of November 30, 2011 (2010 - \$8,122). 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, 2011, \$2,485 (2010 - \$6,148) has been subsequently collected. As at January 11, 2012, the remaining overdue balances are as follows:

	<b>2011</b>	<b>2010</b>
	\$	\$
0 – 30 days past due	564	938
31 – 60 days past due	367	145
61 – 90 days past due	1,307	482
Greater than 91 days past due	2,252	409
	<hr/>	<hr/>
	4,490	1,974
	<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:

	<b>2011</b>	<b>2010</b>
	%	%
United States	34.9	14.5
Other	65.1	85.5
	<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 and short term investments. 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 short term investments which are highly liquid, which enables their use

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

to meet financial obligations if necessary. During 2011, 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, 2011 and November 30, 2010 is as follows:

	<b>2011</b>	<b>2010</b>
	\$	\$
Due within 1 month	7,777	8,188
Due later than 1 month and not later than 3 months	2,228	3,226
Due later than 3 months and not later than 1 year	68	591
	<u>10,073</u>	<u>12,005</u>

## 9 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 to be capital (note 11). 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.

## 10 Income taxes

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

	<b>2011</b>	<b>2010</b>
	\$	\$
Current		
Canadian	-	-
Foreign	190	145
	<u>190</u>	<u>145</u>
Future		
Canadian	-	-
Foreign	-	-
	<u>-</u>	<u>-</u>
	<u>190</u>	<u>145</u>

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

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:

	2011	2010
	\$	\$
Combined federal and provincial tax rate	26.63%	29.24%
Expected tax provision (recovery)	(1,484)	1,622
Foreign tax rate differences	1,386	746
Enacted tax rate changes	(4)	60
Book to return differences	129	(805)
Stock based compensation and other differences	1,196	645
Decrease in valuation allowance	(1,033)	(2,123)
	<u>190</u>	<u>145</u>

The tax effects of significant temporary differences are as follows:

	2011	2010
	\$	\$
<b>Assets</b>		
Share issuance costs	-	188
Research and development incentives	3,035	4,215
Tax losses	1,207	1,431
Deferred revenue	1,838	1,412
	<u>6,080</u>	<u>7,246</u>
Less: Valuation allowance	<u>3,640</u>	<u>4,804</u>
	2,440	2,442
<b>Liabilities</b>		
Plant and equipment	<u>2,440</u>	<u>2,442</u>
<b>Net carrying value</b>	<u>-</u>	<u>-</u>

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

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

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

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:

	<b>Investment tax credits</b>	<b>Tax loss carry forwards</b>	<b>Undeducted SR&amp;ED</b>
	\$	\$	\$
2022	241		
2023	611		
2024	136		
2025	500		
2026	1,266	1,825	
2027	2,433	810	
2028	3,341	423	
2029	4,005		
2030	3,635		
2031	3,172		
Unlimited			7,137
	<hr/>	<hr/>	<hr/>
	19,340	3,058	7,137

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, 2011 of \$1,472 (2010 - \$1,630) which has not been recognized.

One of the Company's subsidiaries has foreign net operating loss carry forwards of \$3,058 of which \$2,635 are subject to a cumulative limitation of \$189 per annum. As at November 30, 2011, the Company has not recognized the benefit related to these losses.

In addition, the Company has net operating loss carry forwards of NIS 24,927 (USD \$7,135) in a foreign jurisdiction in which the Company has been granted a 10 year tax holiday. The Company has not recognized the benefit related to 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.

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

### 11 Share capital

Share capital consists of the following:

	Common Shares		Common share warrant		Total \$
	#	\$	#	\$	
<b>Balance, November 30, 2009</b>	135,862,731	118,399	1	315	118,714
Issued under the employee stock option plan	1,118,245	652	-	-	652
Transfer from contributed surplus	-	195	-	-	195
Issued as compensation on business acquisition	-	110	-	-	110
Unvested shares held by trust	(71,246)	(101)	-	-	(101)
<b>Balance, November 30, 2010</b>	136,909,730	119,255	1	315	119,570
Issued under the employee stock option plan	1,068,431	833	-	-	833
Transfer from contributed surplus	-	397	-	-	397
Unvested shares held by trust	(33,617)	(89)	-	-	(89)
<b>Balance, November 30, 2011</b>	137,944,544	120,396	1	315	120,711

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 \$315 at the time of issue.

During the year, the Company issued 1,068,431 common shares for cash proceeds of \$833 as a result of option holders exercising their options (2010 – 1,118,245 common shares for net proceeds of \$652).

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, 2011, are 104,863 unvested common shares which are held by the trust (2010 – 71,246).

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

### 12 Stock options

#### Stock option plan

The Company has adopted a stock option plan for employees and directors. Options granted prior to March 21, 2006 typically vested 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 7 or 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, 2011, there were 3,220,117 options available for future grants under the stock option plan. A summary of the stock option activity is presented below:

	<b>Options</b>	
	<b>Number</b>	<b>Weighted average price CAD \$</b>
<b>Options outstanding, November 30, 2009</b>	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
<b>Options outstanding, November 30, 2010</b>	10,397,237	1.67
Option activity for the year		
Granted	2,326,337	2.25
Forfeited	(767,796)	2.29
Exercised	(1,068,431)	0.77
<b>Options outstanding, November 30, 2011</b>	10,887,347	1.84

#### Stock based compensation

Stock based compensation (related to the Company's stock option plan) recognized for the year ended November 30, 2011 was \$2,678 with a corresponding credit to contributed surplus (2010 - \$2,485). Previously recognized compensation expense of \$397 relating to options exercised during the year has been transferred from contributed surplus to share capital (2010 - \$195).

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

	2011	2010
Number of options granted	2,326,337	2,291,250
Weighted average Black-Scholes value of each option (CAD \$)	\$1.51	\$1.64
Assumptions		
Risk free interest rate	2.64%	2.99%
Expected life in years	5.89	7.42
Expected dividend yield	0%	0%
Volatility	83.88%	90.13%

The following table summarizes information regarding stock options outstanding at November 30, 2011:

Options Outstanding				Options Exercisable	
Range of exercise price CAD\$	Number outstanding	Weighted average contractual life (years)	Weighted average exercise price CAD\$	Number outstanding	Weighted average exercise price CAD\$
0.63 - 0.82	2,110,573	4.11	0.68	1,672,697	0.65
1.03 - 2.63	7,747,325	6.88	1.73	2,300,197	1.76
4.05 - 4.91	758,533	5.77	4.40	631,743	4.43
6.59 - 6.95	270,916	5.60	6.70	232,019	6.70
0.40 - 6.95	10,887,347	6.24	1.84	4,836,656	1.96

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

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### 13 Credit facility

The Company has a demand credit facility with a major Canadian chartered bank. During the first quarter the credit facility was amended to a USD facility. Under the terms of the facility, the Company has available to it a \$1,000 operating line to provide letters of credit and a \$3,750 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%. Short term investments with a carrying value and fair value of \$4,750 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. In addition, the Company has available to it a \$10,000 spot foreign exchange facility.

As of November 30, 2011 the Company had issued two letters of credit under its operating line. The individual letters of credit are: US\$16 expiring July 24, 2012 and US\$79 expiring September 15, 2013. As of November 30, 2011, the Company had utilized \$1,362 of its contingency line relating to foreign currency forward contracts.

### 14 Commitments and contingencies

#### a) Lease Commitments

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

	\$
2012	1,346
2013	1,227
2014	1,103
2015	1,103
2016	980
Thereafter	4,014
	<hr/>
	9,773
	<hr/>

#### b) Litigation and claims

From time to time, the Company may be involved in certain claims and litigation arising out of the ordinary course and conduct of business. Management assesses such claims and, if considered likely to result in a loss and, when the amount of the loss is quantifiable, provisions for loss are made, based on management's assessment of the most likely outcome. The Company does not provide for claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable. As at November 30, 2011, no accrual has been made for any such claims.

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

### 15 Accumulated other comprehensive loss

	2011	2010
	\$	\$
Cumulative translation adjustment	20,218	20,218
Accumulated unrealized net loss on derivative financial instruments designated as cash flow hedges	(615)	-
Total accumulated other comprehensive loss	<u>19,603</u>	<u>20,218</u>

### 16 Government assistance

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

	2011	2010
	\$	\$
Research and development	31,546	26,450
Government repayments	2,452	2,539
Investment tax credits / government assistance	(2,329)	(3,896)
	<u>31,669</u>	<u>25,093</u>

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 CAD (\$9,311 USD) 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 CAD (\$15,682 USD). 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, 2011, the Company recognized \$2,225 (2010 - \$2,297) 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 \$8,901 CAD (\$9,139 USD) 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, 2011, the Company recognized \$227 (2010 - \$242) as royalty expense which has been recorded as an increase to research and development expenses. As of November 30, 2011, the subsidiary has received cumulative grants of \$2,326. Cumulatively, the Company has accrued or paid total royalties of \$767 under the agreement.

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

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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 CAD (\$18,328 USD) (the "Initial Grant"). Payments made in respect of the Initial Grant can become conditionally repayable under certain circumstances, including 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 CAD (\$6,665 USD)) if certain Ontario-based job targets have been met. As at November 30, 2011, cumulative funding received under this program is \$8,450 CAD (\$8,348 USD).

The amount of funding received in respect of eligible expenses, including capital acquisitions, is as follows:

	<b>2011</b>	<b>2010</b>
	\$	\$
Sales and marketing	99	374
Research and development	2,084	2,972
General and administrative	751	1,049
	<hr/> 2,934	<hr/> 4,395
Purchase of plant, equipment and intangible software assets	328	691
	<hr/> 3,262	<hr/> 5,086

Other, non repayable government assistance recorded during the year of \$156 (2010 - \$134) relates to funding received through a Canadian government program in respect of certain research and development activities undertaken by the Company.

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

### 17 Earnings (loss) per share

	2011 \$	2010 \$
Numerator for basic and diluted earnings (loss) per share available to common shareholders	(5,763)	4,713
Denominator for earnings (loss) per share, weighted average number of shares outstanding		
Basic	137,566,098	136,256,258
Effect of warrant outstanding	-	619,280
Effect of stock options issued	-	3,830,193
Effect of contingently returnable shares	-	9,769
Diluted	137,566,098	140,715,500
Earnings (loss) per share:		
Basic	(0.042)	0.035
Diluted	(0.042)	0.033

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.

### 18 Segment disclosures

The Company has one reportable segment. The Company's operations are substantially all related to the research, design, manufacturing and sales of Network Policy Control solutions for high-speed or "broadband", Internet service providers. Selected financial information is as follows:

	2011 \$	2010 \$
Sales		
Canada	2,551	1,524
United States	33,511	35,953
Caribbean and Latin America	9,484	7,980
Europe, Middle East and Africa	26,680	20,263
Asia Pacific	17,113	23,939
	89,339	89,659

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

	<b>2011</b>	<b>2010</b>
	%	%
Sales		
Canada	2.9	1.7
United States	37.5	40.1
Caribbean and Latin America	10.5	8.9
Europe, Middle East and Africa	29.9	22.6
Asia Pacific	19.2	26.7
	<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 11.2% of revenue for the year ended November 30, 2011 (2010 – 15.6%).

Major customers are customers which represent more than 10% of total revenues for a given period. For the year ended November 30, 2011 three major customers represented 41.5% of total revenue (2010 – three, 46.8%). The breakdown of major customers for the year ended November 30, 2011 is as follows:

	<b>2011</b>	<b>2010</b>
	%	%
Customer A	10.5	15.6
Customer B	20.3	7.5
Customer C	10.7	2.5
	<hr/>	<hr/>
	41.5	25.6
	<hr/>	<hr/>

The breakdown of assets by region is as follows:

	<b>2011</b>	<b>2010</b>
	\$	\$
Plant and equipment, intangibles and goodwill		
Canada	15,504	15,680
United States	76	90
Europe, Middle East and Africa	891	1,696
Asia Pacific	925	-
	<hr/>	<hr/>
	17,396	17,466
	<hr/>	<hr/>

# Sandvine Corporation

## Notes to the Consolidated Financial Statements

November 30, 2011

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

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Total assets		
Canada	138,411	143,317
United States	835	261
Europe, Middle East and Africa	1,533	2,302
Asia Pacific	1,120	-
	<hr/>	<hr/>
	141,899	145,880

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### 19 Supplemental cash flow information

For the year ended November 30, 2011 the Company paid \$118 for income tax in cash (2010 - \$193). The Company did not pay any interest in cash during the year ended November 30, 2011 (2010 - \$nil).

During the year ended November 30, 2011, the Company recorded \$328 (2010 - \$691) of government assistance relating to plant, equipment and intangible software asset acquisitions. This government assistance has been netted against plant, equipment and intangible software purchases as disclosed in the consolidated statement of cash flows. Exclusive of government assistance, purchases of plant, equipment and intangible software were \$6,931 for the year ended November 30, 2011 (2010 - \$8,004).

### 20 Subsequent Event

On January 11, 2012 the Company's Board of Directors approved the repurchase by the Company, from time to time, on the Toronto Stock Exchange, of up to an aggregate of approximately 12.0 million common shares over a twelve month period. This represents approximately 8.7% of the Company's outstanding shares. The program is subject to the Company obtaining requisite regulatory approvals, including the number of common shares eligible for repurchase.

### 21 Comparative figures

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