

# **Sandvine Corporation**

Consolidated Interim Financial Statements

**May 31, 2011**

(unaudited)

# Sandvine Corporation

Consolidated Interim Balance Sheets

As at May 31, 2011

(in United States dollars, amounts in thousands) (unaudited)

	<b>May 31 2011</b>	<b>November 30 2010</b>
	\$	\$
		<i>Restated (note 2)</i>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,114	87,949
Short term investments	78,274	-
Accounts receivable	23,656	25,485
Inventory	13,928	11,268
Other	4,779	3,201
	<u>122,751</u>	<u>127,903</u>
<b>Non current assets</b>		
Plant and equipment	12,219	12,341
Intangible assets (note 12)	6,284	5,125
Other assets	511	511
	<u>19,014</u>	<u>17,977</u>
	<u>141,765</u>	<u>145,880</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	7,441	12,005
Current portion of deferred revenue	11,110	10,257
	<u>18,551</u>	<u>22,262</u>
<b>Non current liabilities</b>		
Deferred revenue	814	703
	<u>19,365</u>	<u>22,965</u>
<b>Shareholders' equity</b>		
Share capital (note 3)	120,347	119,570
Contributed surplus	11,124	10,007
Accumulated other comprehensive income	20,459	20,218
Deficit	(29,530)	(26,880)
	<u>122,400</u>	<u>122,915</u>
	<u>141,765</u>	<u>145,880</u>

On behalf of the Board:

**Roger Maggs**  
Director

**Dave Caputo**  
Director

See accompanying notes to the consolidated interim financial statements

# Sandvine Corporation

## Consolidated Interim Statements of Operations

**For the three and six month periods ended May 31, 2011**

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

	Three months ended		Six months ended	
	May 31 2011 \$	May 31 2010 \$ <i>Restated (note 2)</i>	May 31 2011 \$	May 31 2010 \$ <i>Restated (note 2)</i>
<b>Revenue</b>				
Product	18,075	16,380	31,567	34,177
Service	5,886	5,162	11,609	8,057
	<u>23,961</u>	<u>21,542</u>	<u>43,176</u>	<u>42,234</u>
<b>Cost of sales</b>				
Product	3,861	4,234	8,093	8,623
Service	1,670	1,356	3,077	2,234
	<u>5,531</u>	<u>5,590</u>	<u>11,170</u>	<u>10,857</u>
<b>Gross margin</b>	<u>18,430</u>	<u>15,952</u>	<u>32,006</u>	<u>31,377</u>
<b>Expenses</b>				
Sales and marketing	4,827	4,392	9,830	8,769
Research and development (note 6)	8,419	5,155	15,254	11,365
General and administrative	2,819	1,938	5,255	4,287
Stock based compensation (notes 3 and 4)	724	727	1,358	1,361
Amortization of intangible assets	546	426	902	903
Depreciation	1,027	1,033	2,056	1,959
Intangible impairment	-	643	-	643
	<u>18,362</u>	<u>14,314</u>	<u>34,655</u>	<u>29,287</u>
<b>Income (loss) from operations</b>	<u>68</u>	<u>1,638</u>	<u>(2,649)</u>	<u>2,090</u>
<b>Interest and other income</b>	<u>37</u>	<u>84</u>	<u>79</u>	<u>131</u>
<b>Income (loss) before provision for income taxes</b>	<u>105</u>	<u>1,722</u>	<u>(2,570)</u>	<u>2,221</u>
<b>Provision for income taxes</b>				
Current	<u>42</u>	<u>25</u>	<u>80</u>	<u>59</u>
<b>Net income (loss) for the period</b>	<u>63</u>	<u>1,697</u>	<u>(2,650)</u>	<u>2,162</u>
<b>Earnings (loss) per share (note 8)</b>				
Basic	<u>0.000</u>	<u>0.012</u>	<u>(0.019)</u>	<u>0.016</u>
Diluted	<u>0.000</u>	<u>0.012</u>	<u>(0.019)</u>	<u>0.015</u>
Basic weighted average number of shares outstanding	<u>137,614,545</u>	<u>136,006,036</u>	<u>137,347,444</u>	<u>135,918,460</u>
Diluted weighted average number of shares outstanding	<u>142,104,108</u>	<u>141,153,586</u>	<u>137,347,444</u>	<u>140,450,955</u>

See accompanying notes to the consolidated interim financial statements

# Sandvine Corporation

Consolidated Interim Statements of Changes in Shareholders' Equity and Comprehensive Income (Loss)  
**For the three and six month periods ended May 31, 2011**  
(in United States dollars, amounts in thousands) (unaudited)

	Stated share capital \$	Contributed surplus \$	Retained earnings (deficit) \$	Accumulated other comprehensive income \$	Total \$
<b>Balance, November 30, 2009 Restated</b> <i>(note 2)</i>	118,714	7,680	(31,593)	16,257	111,058
Comprehensive income:					
Net income	-	-	2,162	-	2,162
Net unrealized losses on available for sale financial assets	-	-	-	(27)	(27)
Net unrealized loss on derivative financial instruments designated as cash flow hedges	-	-	-	(65)	(65)
Amount transferred to net income for derivatives designated as cash flow hedges	-	-	-	82	82
Foreign exchange adjustment on change in reporting currency (note 2)	-	-	-	1,517	1,517
Total comprehensive income				3,669	3,669
Stock based compensation (notes 3 and 4)	311	1,168	-	-	1,479
Employee share purchase plan (note 3)	(55)	14	-	-	(41)
Issued as compensation on business acquisition	95	-	-	-	95
<b>Balance, May 31, 2010 Restated</b> <i>(note 2)</i>	119,065	8,862	(29,431)	17,764	116,260
<b>Balance, November 30, 2010 Restated</b> <i>(note 2)</i>	119,570	10,007	(26,880)	20,218	122,915
Comprehensive income:					
Net loss	-	-	(2,650)	-	(2,650)
Net unrealized gain on derivative financial instruments designated as cash flow hedges	-	-	-	506	506
Amount transferred to net income for derivatives designated as cash flow hedges	-	-	-	(265)	(265)
Total comprehensive loss				(2,409)	(2,409)
Stock based compensation (notes 3 and 4)	840	1,075	-	-	1,915
Employee share purchase plan (note 3)	(63)	42	-	-	(21)
<b>Balance, May 31, 2011</b>	120,347	11,124	(29,530)	20,459	122,400

As at May 31, 2011, the total of deficit and accumulated other comprehensive loss was \$(9,071) (May 31, 2010 - \$(11,667)).

See accompanying notes to the consolidated interim financial statements

# Sandvine Corporation

Consolidated Interim Statements of Cash Flows

**For the three and six month periods ended May 31, 2011**

(in United States dollars, amounts in thousands) (unaudited)

	Three months ended		Six months ended	
	May 31 2011 \$	May 31 2010 \$ <i>Restated</i> <i>(note 2)</i>	May 31 2011 \$	May 31 2010 \$ <i>Restated</i> <i>(note 2)</i>
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income (loss) for the period	63	1,697	(2,650)	2,162
Items not affecting cash				
Amortization of intangible assets	546	426	902	903
Depreciation	1,080	1,111	2,162	2,104
Foreign exchange loss (gain)	(94)	154	(80)	274
Stock-based compensation (notes 3 and 4)	724	727	1,358	1,361
Other	(34)	643	(85)	643
	2,285	4,758	1,607	7,447
Changes in non-current balances	194	24	111	(45)
Changes in non-cash working capital balances	(10,565)	(210)	(5,909)	806
	(8,086)	4,572	(4,191)	8,208
<b>Investing activities</b>				
Purchase of plant, equipment and intangible software assets	(1,724)	(1,622)	(4,080)	(2,785)
Purchase of short term investments	(84,697)	(30,407)	(197,915)	(58,445)
Sale of short term investments	79,659	26,370	119,640	57,667
	(6,762)	(5,659)	(82,355)	(3,563)
<b>Financing activities</b>				
Proceeds from the issuance of share capital (note 3)	149	174	602	226
<b>Effect of foreign exchange gain on cash and cash equivalents</b>	28	59	109	75
<b>Net increase (decrease) in cash during period</b>	(14,671)	(854)	(85,835)	4,946
<b>Cash and cash equivalents – Beginning of period</b>	16,785	8,018	87,949	2,218
<b>Cash and cash equivalents – End of period</b>	2,114	7,164	2,114	7,164
<b>Cash and cash equivalents are represented by</b>				
Balances with banks	1,795	5,635	1,795	5,635
Cash equivalents	319	1,529	319	1,529

See accompanying notes to the consolidated interim financial statements

# Sandvine Corporation

## Notes to the Consolidated Interim Financial Statements

May 31, 2011

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

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### 1 Basis of presentation

The consolidated interim financial statements are prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) applicable to interim consolidated financial statements and prepared on a basis consistent with the audited financial statements for the year ended November 30, 2010, except as described in note 2. These consolidated interim financial statements do not conform in all respects to the requirements of generally accepted accounting principles for annual financial statements and should be read in conjunction with the November 30, 2010 audited consolidated financial statements.

The preparation of these consolidated interim financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated interim financial statements and the accompanying notes. Actual results could differ from these estimates. Operating results for the three and six month periods ended May 31, 2011 are not necessarily indicative of the results that may be expected for the full year ending November 30, 2011. In the opinion of management, all normal recurring adjustments considered necessary for fair presentation have been included in these financial statements.

#### *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 IFRS.

### 2 Accounting policies

#### **Change in functional and reporting currency**

Effective December 1, 2010 (the “Conversion Date”), the Company adopted the U.S. dollar (“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.

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## Notes to the Consolidated Interim Financial Statements

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

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 the six months ended May 31, 2010 and the twelve months ended November 30, 2010 was an increase of \$1,517 and \$3,873 respectively.

### 3 Share Capital

Share capital consists of the following:

	Common Shares		Common share warrant		Total
	#	\$	#	\$	
<b>Balance, November 30, 2010</b>	136,909,730	119,255	1	315	119,570
Issued under the employee stock option plan	639,656	453	-	-	453
Transfer from contributed surplus	-	176	-	-	176
Unvested shares held by trust	(10,449)	(30)	-	-	(30)
<b>Balance, February 28, 2011</b>	137,538,937	119,854	1	315	120,169
Issued under the employee stock option plan	209,709	149	-	-	149
Transfer from contributed surplus	-	62	-	-	62
Unvested shares held by trust	(12,951)	(33)	-	-	(33)
<b>Balance, May 31, 2011</b>	137,735,695	120,032	1	315	120,347

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## Notes to the Consolidated Interim Financial Statements

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

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 CAD 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 three and six month periods ended May 31, 2011, the Company issued 209,709 and 849,365 common shares for cash proceeds of \$149 and \$602 respectively, as a result of option holders exercising their options (May 31, 2010 – 247,205 and 328,563 common shares for \$174 and \$226).

The Company has a trust vehicle to facilitate its employee share purchase plan 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. Excluded from the outstanding common shares of the Company as of May 31, 2011 are 94,646 unvested common shares which are held by the trust (May 31, 2010 – 40,515).

## 4 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 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 May 31, 2011, there were 3,337,162 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 exercise price CAD\$</b>
<b>Options outstanding, November 30, 2010</b>	10,397,237	1.67
Option activity for the period		
Forfeited	(120,748)	3.23
Exercised	(639,656)	0.71
<b>Options outstanding, February 28, 2011</b>	9,636,833	1.71
Option activity for the period		
Granted	1,436,683	2.24
Exercised	(209,709)	0.68
Forfeited	(124,900)	2.63
<b>Options outstanding, May 31, 2011</b>	10,738,907	1.79

# Sandvine Corporation

## Notes to the Consolidated Interim Financial Statements

May 31, 2011

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

### Stock based compensation

Stock based compensation (related to the Company's stock option plan) recognized for the three and six month periods ended May 31, 2011 was \$700 and \$1,312 respectively with a corresponding credit to contributed surplus (May 31, 2010 - \$672 and \$1,253). Previously recognized compensation expense of \$62 and \$238 relating to options exercised during the three and six month periods ended May 31, 2011 has been transferred from contributed surplus to share capital (May 31, 2010 - \$66 and \$85).

	Three months ended		Six months ended	
	May 31 2011	May 31 2010	May 31 2011	May 31 2010
Number of options issued	1,436,683	1,277,000	1,436,683	1,277,000
Weighted average Black-Scholes value of each option (CAD \$)	\$1.46	\$1.80	\$1.46	\$1.80
Assumptions				
Risk free interest rate	2.85%	3.23%	2.85%	3.23%
Expected life in years	5.91	7.44	5.91	7.44
Expected dividend yield	0%	0%	0%	0%
Volatility	84.50%	90.93%	84.50%	90.93%

The following table summarizes information regarding stock options outstanding at May 31, 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	2,236,000	4.58	0.68	1,726,250	0.65
1.03 - 2.63	7,448,982	7.43	1.67	1,997,795	1.83
4.05 - 4.91	768,925	6.32	4.40	561,787	4.42
6.59 - 6.95	285,000	6.19	6.70	214,060	6.70
0.63 - 6.95	10,738,907	6.72	1.79	4,499,892	1.93

# Sandvine Corporation

## Notes to the Consolidated Interim Financial Statements

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

### 5 Lease commitments

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

	\$
2011	672
2012	1,411
2013	1,284
2014	1,398
2015	957
Thereafter	5,186
	<u>10,908</u>

### 6 Government assistance

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

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>May 31</u>	<u>May 31</u>	<u>May 31</u>	<u>May 31</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	\$	\$	\$	\$
Research and development	8,268	6,860	15,275	13,079
Government repayments	682	615	1,179	1,200
Investment tax credits / government assistance	(531)	(2,320)	(1,200)	(2,914)
	<u>8,419</u>	<u>5,155</u>	<u>15,254</u>	<u>11,365</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 (\$9,808 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 (\$16,518 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 three and six month periods ended May 31, 2011, the Company recognized \$575 and \$1,048 respectively (May 31, 2010 - \$546 and \$1,066) 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 \$7,749 CAD (\$7,962 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 three and six month periods ended May 31, 2011, the Company recognized \$107 and \$131 respectively (May 31, 2010 - \$69 and \$134) as royalty expense which has been recorded as an increase to research and development expenses. As of May 31, 2011, the subsidiary has received cumulative grants of \$2,326. Cumulatively, the Company has accrued or paid total royalties of \$671 under the agreement.

# Sandvine Corporation

## Notes to the Consolidated Interim Financial Statements

May 31, 2011

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

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Non repayable government assistance recorded during the three and six month periods ended May 31, 2011 of nil and \$156 (2010 – nil and nil) relates to funding received through a Canadian government program in respect of certain research and development activities undertaken by the Company.

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 (\$19,306 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 (\$7,020 USD)) if certain Ontario-based job targets have been met. As at May 31, 2011, cumulative funding received under this program is \$6,974 CAD (\$6,862 USD). The amount of funding received in respect of eligible expenses, including capital acquisitions, is as follows:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>May 31 2011</b>	<b>May 31 2010</b>	<b>May 31 2011</b>	<b>May 31 2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales and marketing	20	299	64	299
Research and development	531	2,154	1,044	2,154
General and administrative	196	647	447	647
	<b>747</b>	<b>3,100</b>	<b>1,555</b>	<b>3,100</b>
Purchase of plant, equipment and intangible software assets	117	549	211	549
	<b>864</b>	<b>3,649</b>	<b>1,766</b>	<b>3,649</b>

# Sandvine Corporation

## Notes to the Consolidated Interim Financial Statements

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

### 7 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:

	Three months ended		Six months ended	
	May 31 2011 \$	May 31 2010 \$	May 31 2011 \$	May 31 2010 \$
Sales				
Canada	1,048	151	1,333	676
United States	10,480	10,814	15,662	21,032
Caribbean and Latin America	2,059	1,465	2,909	3,210
Europe, Middle East and Africa	6,505	4,997	11,336	9,714
Asia Pacific	3,869	4,115	11,936	7,602
	<u>23,961</u>	<u>21,542</u>	<u>43,176</u>	<u>42,234</u>
	%	%	%	%
Sales				
Canada	4.4	0.7	3.1	1.6
United States	43.8	50.2	36.3	49.8
Caribbean and Latin America	8.6	6.8	6.7	7.6
Europe, Middle East and Africa	27.1	23.2	26.3	23.0
Asia Pacific	16.1	19.1	27.6	18.0
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

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 locations included United Kingdom, which represented 18.4% and 11.7% of revenue for the three and six month periods ended May 31, 2011 (May 31, 2010 – 2.7% and 4.2%).

Major customers are customers which represent more than 10% of total revenues for a given period. For the three and six month periods ended May 31, 2011 major customers represented 50.0% and 51.6% of total revenue respectively (May 31, 2010 – 54.4% and 57.1%). The breakdown of major customers for the three months ended May 31, 2011 is as follows:

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

	Three months ended		Six months ended	
	May 31	May 31	May 31	May 31
	2011	2010	2011	2010
	%	%	%	%
Customer A	27.3	0.3	19.2	0.2
Customer B	22.7	1.0	14.0	2.9

The breakdown of assets by region is as follows:

	May 31	November 30
	2011	2010
	\$	\$
Plant and equipment, intangibles and goodwill		
Canada	16,903	15,680
United States	71	90
Europe, Middle East and Africa	1,368	1,696
Asia Pacific	161	-
	<hr/>	<hr/>
	18,503	17,466
	<hr/>	<hr/>
Total assets		
Canada	134,822	143,317
United States	4,651	261
Europe, Middle East and Africa	1,952	2,302
Asia Pacific	340	-
	<hr/>	<hr/>
	141,765	145,880
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## Notes to the Consolidated Interim Financial Statements

May 31, 2011

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

### 8 Earnings (loss) per share

	Three months ended		Six months ended	
	May 31 2011 \$	May 31 2010 \$	May 31 2011 \$	May 31 2010 \$
Numerator for basic and diluted earnings (loss) per share available to common shareholders	63	1,697	(2,650)	2,162
Denominator for earnings (loss) per share, weighted average number of shares outstanding				
Basic	137,614,545	136,006,036	137,347,444	135,918,460
Effect of warrant outstanding	619,280	619,280	-	619,280
Effect of stock options issued	3,870,283	4,515,624	-	3,894,315
Effect of contingently returnable shares	-	12,646	-	18,900
Diluted	142,104,108	141,153,586	137,347,444	140,450,955
Earnings (loss) per share:				
Basic	0.000	0.012	(0.019)	0.016
Diluted	0.000	0.012	(0.019)	0.015

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.

### 9 Supplemental cash flow information

For the three and six month periods ended May 31, 2011 the Company paid \$22 and \$38 for income tax in cash (May 31, 2010 - \$109 and \$118). The Company did not pay any interest in cash during the three and six month periods ended May 31, 2011 and May 31, 2010.

### 10 Financial Instruments

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.

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

# Sandvine Corporation

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

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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 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 foreign currencies under foreign exchange contracts, all of which have a maturity date of less than one year, as at May 31, 2011:

Designation	Currency Sold	Currency Bought	Notional Amount Bought	Weighted Average Rate
Held for trading; cash flow hedges	USD	ILS	9,930	0.2817
Held for trading; cash flow hedges	USD	CAD	15,650	1.0176

Management estimates that a gain of \$240 would be realized if these foreign exchange contracts were terminated on May 31, 2011 (November 30, 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 period ended May 31, 2011 of +/- \$993 and on net income for the period ended May 31, 2011 of approximately +/- \$163.

## 11 Credit facility

The Company has a demand credit facility with a major Canadian chartered bank. During the previous 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

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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 May 31, 2011 the Company had issued three letters of credit under its operating line. The individual letters of credit are: US\$16 expiring July 24, 2011, US\$292 expiring July 15, 2011 and US\$79 expiring August 31, 2011. As of May 31, 2011, the Company had utilized \$754 of its contingency line relating to foreign currency forward contracts.

### **12 Acquisition of intangible software asset**

During the three and six months ended May 31, 2011, the Company capitalized nil and \$1,520 respectively, relating to the implementation of a new Enterprise Resource Planning (“ERP”) system. The new ERP system was put into use during the three months ended May 31, 2011.