



MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated: April 6, 2011

This Management's Discussion and Analysis ("MD&A") for the three months ended February 28, 2011 (first quarter of fiscal 2011) provides detailed information on the operating activities, performance and financial position of Sandvine Corporation ("Sandvine" or the "Company"). This discussion should be read in conjunction with the Company's unaudited consolidated interim financial statements and accompanying notes for the first quarter of fiscal 2011. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are reported in United States dollars. The information contained herein is dated as of April 6, 2011, and is current to that date, unless otherwise stated.

The Company's fiscal year commences December 1st of each year and ends on November 30th of the following year. The Company's current fiscal year, which ends on November 30, 2011, is referred to as the "current fiscal year," "fiscal 2011", "2011", "FY-11" or using similar words. The previous fiscal year, which ended on November 30, 2010, is referred to as "previous fiscal year," "fiscal 2010," "2010", "FY-10" or using similar words.

In this document, "we", "us", "our", "Company" and "Sandvine" all refer to Sandvine Corporation collectively with its subsidiaries. The content of this MD&A has been approved by the Board of Directors, on the recommendation of its Audit Committee.

Additional information relating to the Company is available on SEDAR at www.sedar.com, and on the Company's web-site at www.sandvine.com.

CAUTION REGARDING FORWARD LOOKING INFORMATION

Certain statements in this MD&A which are not historical facts constitute forward-looking statements or forward-looking information within the meaning of applicable securities laws ("forward-looking statements"). Statements related to Sandvine's projected revenues, earnings, growth rates, targets, revenue mix and product plans are forward looking statements as are any statements relating to future events, conditions or circumstances. The use of terms such as "may", "anticipated", "expected", "projected", "targeting", "estimate", "intend" and similar terms are intended to assist in the identification of these forward-looking statements. Readers are cautioned not to place undue reliance upon any such forward-looking statements. Such forward-looking statements are not promises or guarantees of future performance and involve both known and unknown risks and uncertainties that may cause the actual results, performance, achievements or developments of the Company to differ materially from the results, performance, achievements or developments expressed or implied by such forward-looking statements. Forward-looking statements are based on management's current plans, estimates, projections, beliefs and opinions.

Many factors could cause the actual results of the Company to differ materially from the results, performance, achievements or developments expressed or implied by such forward-looking statements, including, without limitation, each of the following factors, and those factors which are further discussed in the Company's Annual Information Form ("AIF"), a copy of which is available on SEDAR at www.sedar.com.

- The Company's revenues may fluctuate from quarter to quarter and year to year depending upon sales cycles, customer demand and the timing of customer purchase decisions;
- The Company's gross margins may fluctuate from period to period depending upon a variety of factors including product mix in the quarter, competitive pricing pressures and the level of sales generated through indirect channels;
- The Company is dependent upon and expects to continue to derive a large percentage of its revenue from both a small number of key customers and key reseller partners, none of whom are bound to any fixed purchase commitment or exclusivity obligations and could change their buying patterns and/or source of supply at any time, which could have a material impact on the Company's revenues. The Company's reseller partners may offer their own products which are competitive with the Company's products;
- The Company faces intense competition in markets where there are typically several different competing technologies and rapid technological changes. The Company faces the risk of emergence of new technologies that may be either competitive to those of the Company or that change the requirements of the Company's customers for solutions such as those offered by the Company;
- The Company's growth is dependent on the development of the market for network policy control solutions and the decisions of the Company's target customers to deploy and further invest in those technologies, which decisions may be impacted upon by changing requirements in the area of broadband network management policies and/or changes in the regulatory framework to which the Company's customers may be subject. In particular, numerous telecommunications regulators in various jurisdictions have considered or are considering what, if any, regulations might be appropriate with respect to how internet service providers manage the impact of different types of traffic on their networks. These ongoing processes may cause uncertainty in the network investment decisions of the Company's target customers, and any new rules or regulations that result from these considerations may impact the demand for the Company's products within various markets, including markets that may not be considering any new regulation but where the Company's customers may look to other markets for future guidance or trends;
- The majority of the Company's operating expenses are denominated in Canadian dollars, U.S. dollars and New Israeli Shekels. The Company's earnings are impacted by fluctuations in the exchange rates between the U.S. dollar and these currencies.
- The Company currently has numerous business dealings, both directly and indirectly, with various entities based in Japan and those relationships could be impacted by the current environmental situation being faced in Japan. The Company does have, several suppliers within its supply chain that source sub-components and other materials from suppliers in Japan and to the extent that events in Japan interfere

with the normal operations of those sub-suppliers it could result in an impact to the Company's ability to source materials and components used within the Company's products. In addition, the Company has historically generated a meaningful level of revenue from sales to customers and resellers within Japan. Although the Company has not been advised of any projected changes to network investment plans or projects of its target customers in Japan, it is possible that the current events in Japan could impact the future demand for the Company's products in Japan and thereby impact the Company's reported revenues in future periods.

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.

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 three months ended February 28, 2010 and the twelve months ended November 30, 2010 was an increase of \$388 and \$3,961 respectively.

In addition, all historical financial information contained within this MD&A has also been restated to the USD, unless otherwise indicated.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following table sets out selected consolidated financial information for the periods indicated. The selected financial information set out below has been derived from the unaudited consolidated interim financial statements for the three months ended February 28, 2011 as well as the November 30, 2010 audited consolidated financial statements as restated for the change in reporting currency described in Note 2 to the quarterly financial statements. Each investor should read the following information in conjunction with those statements and related notes. The financial information for the three month periods ended February 28, 2011 and February 28, 2010 has been prepared by management in accordance with Canadian generally accepted accounting principles in a manner consistent with the Company's annual financial statements, other than as indicated in Note 2 of the February 28, 2011 unaudited consolidated interim financial statements.

	Three month period ended	
	February 28 2011	February 28 2010
	\$	\$
	<i>Amounts in US\$ thousands, except share and per share data</i>	
Consolidated Statement of Operations Data:		
Revenue		
Product	13,492	17,797
Service	5,723	2,895
	19,215	20,692
Cost of Sales		
Product	4,232	4,390
Service	1,407	878
	5,639	5,268
Gross margin	13,576	15,424
Expenses		
Sales and marketing	5,047	4,377
Research and development	7,007	6,219
General and administration	2,687	2,349
Net government repayments (assistance)	(467)	(9)
Stock based compensation	634	634
Amortization of intangible assets	356	477
Depreciation	1,029	926
	16,293	14,973
Income (loss) from operations	(2,717)	451
Interest and other income	42	47
	(2,675)	498
Income (loss) before income taxes	(2,675)	498
Provision for income taxes	38	34
	(2,713)	464
Net income (loss) for the period	(2,713)	464
Earnings (loss) per share		
Basic earnings (loss) per share	(0.020)	0.003
Diluted earnings (loss) per share	(0.020)	0.003
Weighted average common shares outstanding		
Basic	137,076,308	135,829,754
Diluted	137,076,308	139,591,777

<i>Amounts in US\$ thousands</i>	As at February 28 2011	As at November 30 2010
Consolidated Balance Sheet Data:		
Cash and cash equivalents	16,785	87,949
Short term investments	73,237	-
Total assets	143,047	145,880
Total liabilities	21,602	22,965
Shareholders' equity	121,445	122,915

Non-GAAP Financial Measures

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

	Three month period ended		
	February 28 2011	November 30 2010	February 28 2010
	\$	\$	\$
	<i>Amounts in US\$ thousands</i>		
Net income (loss)	(2,713)	603	464
Excluded Expenses			
Stock based compensation expense	634	631	634
Amortization of intangible assets acquired through business acquisitions	192	187	374
Net income (loss) excluding the impact of Excluded Expenses	(1,887)	1,421	1,472

	Three month period ended		
	February 28 2011	November 30 2010	February 28 2010
	\$	\$	\$
Diluted earnings (loss) per share	(0.020)	0.004	0.003
Impact on diluted earnings (loss) per share of Excluded Expenses	0.006	0.006	0.008
Diluted earnings (loss) per share excluding the impact of Excluded Expenses	(0.014)	0.010	0.011

OVERVIEW

Our Company

Sandvine develops and markets Network Policy Control solutions for high-speed, or “broadband”, Internet service providers. The Company’s solutions provide the tools to help service providers better understand their networks and apply specific network policies that will improve the quality of service for their subscribers, support the creation of new revenue-generating services, mitigate malicious traffic and/or more efficiently manage network traffic.

Sandvine has over 200 Internet service provider customers in over 80 countries who serve hundreds of millions of fixed line and mobile broadband Internet subscribers.

The Market

Sandvine’s target market is broadband Internet service providers worldwide, including DSL, cable, fixed wireless, mobile and FTTx. Within the fixed line component (DSL, cable and FTTx) of the market, Sandvine primarily targets the top 250 operators around the world, by subscriber count, which hold more than 80% of the global subscriber base. Industry analyst reports estimate that there were between 500 and 600 million fixed line broadband subscribers globally at the end of 2010.

In the mobile data market (fixed wireless and mobile), Sandvine primarily targets the top 350 service providers in the world. According to industry analysts there were just over five billion total mobile subscribers worldwide at the end of 2010. Industry analysts also estimate there are over 400 million mobile *broadband* users – the mobile subscriber of interest for Sandvine’s solutions. This figure is expected to grow to billions of users over the next few years, so while this segment of Sandvine’s market is still in early stages, it is expected to grow rapidly.

Products and solutions

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

Traffic Optimization

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

Service Creation

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

Operations Management

In order to address network issues before they affect subscribers, network operators need to mind their networks for quality trends, malicious traffic, and regulatory compliance purposes. Sandvine’s Operations Management solutions can identify quality issues before subscribers do, mitigate malicious network traffic, including outbound e-mail spam, and simplify regulatory filtering compliance.

Network Business Intelligence

In order to accurately model network operation at a business level, service providers need to combine application- and subscriber-aware network statistics with data from billing and other operational systems. With unique insight and advanced analysis capabilities such as trending, predictive modelling and statistical operations, Sandvine's Network Business Intelligence solutions enable confident business decisions regarding service plans, traffic management policies and capital investments.

Sales and distribution

Sandvine distributes its products and services through a combination of direct and indirect sales channels. The direct sales channel is organized geographically across: (i) North America; (ii) Europe, the Middle East and Africa; (iii) Asia-Pacific; and (iv) the Caribbean and Latin America, and is based out of various jurisdictions throughout the world. The direct sales channel comprises sales where the ultimate end customer purchases products directly from the Company. The indirect sales channel utilizes global third party network equipment vendors and regional value-added resellers to market and sell Sandvine's products, and includes both channel-initiated sales (sales initiated and serviced by third party resellers) and channel-fulfilled sales (sales initiated by the Company and serviced by third party resellers). The indirect sales channel includes sales where a third party equipment vendor purchases the Company's product for the purpose of reselling it to the ultimate end customer. This sales and distribution strategy permits Sandvine to obtain global coverage while at the same time retaining direct contact with the customer base.

Growth strategy

The Company believes that it is at the forefront of an emerging market, and that investing in research and development, and sales and marketing is critical to maximizing the long term success of the Company. Incremental investments during 2011 in research and development will support further product development to continue to broaden and expand the Company's suite of products. Incremental investments in sales and marketing efforts will continue to develop the direct sales force throughout the world and to grow and mature its relationships with both its regional and global resellers. Investors should be aware that operating expenses for any given quarter could fluctuate depending on the activities for that period, including, but not limited to, revenue levels (which impact variable compensation and government repayments) and foreign exchange impacts.

The Company anticipates that throughout fiscal 2011 it will continue to selectively assess acquisition opportunities to strengthen its market position and augment its growth. The evaluation of potential acquisitions will include whether the target company has technology that will extend Sandvine's core technology, has a complementary customer base, has prospective growth rates commensurate with those of the Company, and has a compatible culture.

Target Business Model

In broad terms, excluding the impact of stock based compensation and non-cash acquisition related costs, the Company is working towards a target business model (outlined below) that includes a gross margin at or above 70%, and an operating margin between 10% and 20%. The target business model represents the Company's targeted operating margin goals over the mid to long term and the relative breakdown of the major components impacting upon that targeted operating margin. Readers are cautioned that this information is provided solely as a means to communicate the relative weightings of revenue and expenses within the Company's business that management believes are achievable as the Company's business matures, subject to the various assumptions relied upon in making such projections, including those set out below and the various risk factors contained in this MD&A. Readers are cautioned that use of the information reflected in this target business model may not be appropriate for any other purpose.

The Company continues to invest in its business and incur expenses at levels above those contemplated by this target business model on the basis and belief that this investment level will result in greater long term success as its market matures. As a result, the Company does not anticipate achieving this target business model on a sustained basis until such time as this level of investment yields a sustainable increase in revenues or until such time as the Company revises its assessment of the market opportunity.

Mid to Long Term Target Business Model

Percentage of revenue

Product revenue	85% - 90%
Service revenue	10% - 15%

Percentage of total revenue

Gross margin	70+%
Research and development	20% - 25%
Selling, general and administrative	30% - 35%

Operating margin	10% - 20%
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In arriving at this target business model, and in providing any other forward looking statements contained in this MD&A, management has relied on a number of assumptions, including, but not limited to each of the following:

- The Company’s projected investments in the areas of research and development and sales and marketing will result in growth in the Company’s revenue at targeted rates;
- The Company’s existing customers, including its largest end customers and reseller partners will continue to make significant purchases of the Company’s products and services;
- The Company will be able to maintain its target pricing models for its products and services and obtain its supply of components at pricing that permits the Company to achieve its target gross margins;
- Any increase in sales through the Company’s indirect channel can be managed without significantly impacting the Company’s blended gross margin;
- The regulatory environment applicable to the use of technology of the type marketed by the Company will continue to permit service providers to use the Company’s solutions and its full breadth of applications;
- The Company will be able to continue to attract and retain personnel and third party contractors at compensation levels consistent with the Company’s historical practices;

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

CRITICAL ACCOUNTING ESTIMATES

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

Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimates are reasonably likely to occur from period to period that would materially impact the Company's financial condition or results of operation. The Company's significant accounting policies are discussed in note 2 to the November 30, 2010 audited consolidated financial statements. Other than the changes discussed in *Change in Functional and Reporting Currency* related to the Company's adoption of the U.S. dollar as its reporting currency, there have been no material changes to the Company's critical accounting policies and estimates from those disclosed in the Company's annual MD&A for the fiscal year ended November 30, 2010. Both the audited consolidated financial statements and annual MD&A for the year ended November 30, 2010 are available at www.sedar.com.

ACCOUNTING CHANGES AND IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Change in functional and reporting currency

See *Change in Functional and Reporting Currency* earlier in this document.

Business combinations

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

Consolidated financial statements

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

Transition to International Financial Reporting Standards

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

The Company has established a project team that is led by finance management, and includes representatives from various areas of the organization to plan for and achieve an effective transition to IFRS. The Audit Committee of the Board of Directors regularly receives progress reporting on the status of the IFRS implementation project.

The Company has continued to make progress on its IFRS conversion project. The project was designed with three primary phases as follows:

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

The Company has now completed phase two of the project excluding: the quantification of impacts that will be present in the transition balance sheet of December 1, 2010 and the formal selection of accounting policies by the Board of Directors. The following table provides guidance on the expected timing of these activities. The Company is currently in phase three of the project, with areas of impact being addressed with consideration to complexity and scope of operational impact and the potential magnitude of impact. The Company anticipates the completion of phase three of the project during the first quarter of fiscal 2012.

The Company has completed all activities to date per its detailed project plan and expects to meet all milestones through to completion of its conversion to IFRS. The following table summarizes the key elements of the Company’s plan for transitioning to IFRS and the progress made against each activity:

Key Activities	Milestones	Status
Accounting policies and procedures: <ul style="list-style-type: none"> • Identify differences between IFRS and the Company’s existing policies and procedures; • Analyze and select ongoing policies where alternatives are permitted; • Analyze and determine which IFRS 1 exemptions will be taken on transition to IFRS. 	<ul style="list-style-type: none"> • Senior management approval and Audit Committee review of policy decisions; 	<ul style="list-style-type: none"> • Accounting policy alternatives are being analyzed and recommendations made as work progresses. • Key accounting policy decisions have been approved by senior management. • Approval of key accounting policy decisions by the Audit Committee will occur throughout fiscal 2011.
Financial statement preparation: <ul style="list-style-type: none"> • Prepare pro forma financial statements and note disclosures in compliance with IFRS; • Quantify the impacts of converting to IFRS; • Prepare first time adoption reconciliation required under IFRS 1. 	<ul style="list-style-type: none"> • Senior management approval of pro forma financial statements and disclosures by Q2 2011. 	<ul style="list-style-type: none"> • Preliminary analysis to identify increased IFRS disclosure requirements is under way; • The effects of conversion are being estimated as each area of difference is addressed; however actual impacts will often remain unknown until after the opening balance sheet date (December 1, 2010).
Training and communication: <ul style="list-style-type: none"> • Ensure detailed training is received by members of the project team; • Provide topic specific training to key employees involved with implementation; • Provide timely communication of the impacts of converting to IFRS to the Company’s external stakeholders. 	<ul style="list-style-type: none"> • Relevant training provided; • Impacts of converting to IFRS communicated prior to changeover. 	<ul style="list-style-type: none"> • Detailed training has been received by project team members, senior executives and Board of Director members. Additional training will continue to be considered as IFRS standards change or further focus in a specific area is required; • Topic specific training to key employees is ongoing as areas of difference are addressed; • IFRS disclosure in the MD&A will be updated throughout the project.
Business activities: <ul style="list-style-type: none"> • Identify impacts of conversion on all areas of the business, including; contracts, compensation, hedging and 	<ul style="list-style-type: none"> • Significant areas of impact identified; • Modifications to key impacted areas made as required. 	<ul style="list-style-type: none"> • Identification of key impacts is substantially complete. • Key modifications to business activities supporting functional

Key Activities	Milestones	Status
taxation.		currency, multiple element revenue allocation, capital asset reporting, hedging documentation and general ledger reporting have been enacted.
IT systems: <ul style="list-style-type: none"> Identify changes required to IT systems and implement solutions; Determine and implement solution for capturing financial information under Canadian GAAP and IFRS during the year of transition to IFRS (for comparative information). 	<ul style="list-style-type: none"> Necessary changes to IT systems implemented; Solution for capturing financial information under multiple sets of GAAP. 	<ul style="list-style-type: none"> IT changes required are being assessed as each area of difference is reviewed; With conversion to a new ERP system, IFRS record keeping has been implemented within the Company's financial information system to enable the capturing of financial information under multiple sets of GAAP.
Control environment: <ul style="list-style-type: none"> For all changes to policies and procedures identified, assess impact on effectiveness of internal controls over financial reporting ("ICFR") and disclosure controls and procedures ("DC&P") and implement any necessary changes; 	<ul style="list-style-type: none"> Conclude on design effectiveness of internal controls by Q1 2012; Conclude on operating effectiveness of internal controls by Q4 2012. 	<ul style="list-style-type: none"> Internal control modifications are being assessed as each area of difference is reviewed.

Management is in the process of evaluating the expected material differences between IFRS and the current accounting treatment under Canadian GAAP. Based on IFRS standards in effect as of February 28, 2011 and exposure drafts published by the International Accounting Standards Board ("IASB"), and the work performed to date, the key areas being assessed for their potential impact on the Company's consolidated financial statements are as follows:

Accounting Area	Difference and Potential Impact to the Company
Revenue (IAS 18)	On December 1, 2009, the Company early adopted EIC 175, <i>Multiple Deliverable Revenue Arrangements</i> . EIC 175 is largely aligned with current IFRS revenue recognition for multiple element accounting. As a result, the Company does not believe that significant differences exist between its revenue recognition policies under Canadian GAAP and current IFRS standards. However, on June 24, 2010, the International Accounting Standards Board (IASB) published the exposure draft ED 2010/6, <i>Revenue from contracts with customers</i> . The exposure draft addresses several matters which could impact the timing of revenue recognition, such as the allocation of transaction price to elements in a multiple element arrangement, the ability to recognize revenue based on percentage of completion, and other matters. The Company is currently evaluating the potential impact of this exposure draft and will consider early adoption of this standard if it is available when the final standard is released.
Government grants (IAS 20)	The Company has received government assistance related to certain research and development projects. In conjunction with selected agreements, the Company is obligated to pay royalties related to the sales of its products. Under Canadian GAAP, the Company accrues a royalty obligation at the time of sale. Under IFRS, repayable royalty arrangements with the government should be recognized as financial liabilities. The obligation to repay royalties is recorded when the contribution is received, and is estimated based on future projections. Subsequent re-measurement of these obligations will be recognized in earnings. As a result, on transition the Company will recognize the discounted value of the projected future royalty payments as a liability.
Foreign currency (IAS 21)	Under IFRS, each entity must determine its functional currency of the primary economic environment in which the entity operates. This assessment is made by first evaluating primary indicators, which include: 1) currency which mainly influences sales prices; and 2) currency which mainly influences labour material and other costs. If these indicators are mixed, and the functional currency is not obvious, secondary indicators are evaluated to determine the functional currency. Based on the assessment of facts and circumstances, the Company has concluded that the U.S. dollar will become the Company's functional currency, effective December 1, 2010. As a result, the Company does not expect significant differences between Canadian GAAP and IFRS with respect to foreign currency.

Accounting Area	Difference and Potential Impact to the Company
Share based payments (IFRS 2)	Under Canadian GAAP the fair value of share based awards with graded vesting and service only conditions may be treated as one grant by the Company, accordingly the resulting expense is recognized on a straight line basis over the vesting period. Under IFRS, each tranche of a share based award with graded vesting is considered a separate grant for the calculation of fair value, and the related expense is attributed to the vesting period of each tranche of the award. As a result, recognition of share based payment expense is accelerated.
Property, plant and equipment (IAS 16)	The transition from Canadian GAAP to IFRS requires a comparison of the current stratification of plant and equipment for depreciation purposes to that required in IAS 16, and may result in more depreciation categories. This could result in an acceleration/deceleration of depreciation as compared to Canadian GAAP.
First time adoption of IFRS (IFRS 1)	<p>IFRS 1 provides the framework for the first time adoption of IFRS. Certain one-time, optional and mandatory exemptions from full retrospective application of IFRS standards exist and are outlined within the standard. The IFRS 1 optional exemptions that are most relevant to the Company are as follows:</p> <ul style="list-style-type: none"> • Share based payment transactions – For equity-settled share based payment transactions, IFRS 1 provides for exemption to retrospective application of IFRS 2 Share based payments for previously issued equity instruments that are fully vested prior to the date of transition. The Company expects to utilize this exemption. • Business combinations – Under IFRS 1, there is the option available to not apply the full requirements of IFRS 3 Business combinations to business combinations prior to the date of transition. The Company expects to utilize this exemption.
Leases (ED 2010/9)	On August 17, 2010 the IASB published ED 2010/9, <i>Leases</i> . Under the exposure draft, a lessee would be required to recognize a right-to-use asset and a lease obligation for all leases, including those that would be considered to be an operating lease under Canadian GAAP. For leases currently classified as “operating leases” under Canadian GAAP, rent expense would be replaced by amortization expense relating to the right-to-use asset and interest expense. Currently, the Company only has leases which are classified as operating leases under Canadian GAAP. These proposed changes could result in the Company capitalizing its facility leases, and accelerate the recognition pattern of the associated expense. The Company will consider early adoption of this standard if it is available when the final standard is released.
Income taxes	Under Canadian GAAP, income taxes are recognized in a manner consistent with the underlying transaction when the transaction occurs in the same period as the income tax effects recognized. However, when the income taxes are being recognized or re-measured in a subsequent period, they are required to be charged to the income statement, even if the initial recognition was related to an equity or other comprehensive income. Under IFRS, tax consequences of a transaction recorded in equity or other comprehensive income in a previous period must be recorded in other comprehensive income or directly in equity (i.e. backward tracing). As a result, the income tax benefit of share issuance costs which have been recognized as a tax benefit against net income for Canadian GAAP purposes will be recorded in equity under IFRS resulting in an increase of share capital and an increase in accumulated deficit.

This may not be an exhaustive list of all the significant impacts that could occur during the conversion to IFRS.

The Company continues to monitor and assess the impact of evolving differences between Canadian GAAP and IFRS, since the IASB is expected to continue issuing new accounting standards during the transition period. As a result, the final impact of IFRS on the Company’s consolidated financial statements can only be determined once all the applicable IFRS standards as at November 30, 2012 (the Company’s first annual IFRS reporting date) are known.

COMPOSITION OF REVENUES AND EXPENSES

The Company's product revenue consists of revenues derived from the sale of its hardware products and the license of its software products. The Company's service revenue consists of revenues from post contract support (generally referred to as support and maintenance services) as well as various professional services including consulting, training and installation that is provided to its customers. The vast majority of the Company's revenues are denominated in U.S. dollars.

The majority of the Company's operating expenses are denominated in Canadian dollars, U.S. dollars and New Israeli Shekels. The Company's earnings are impacted by fluctuations in the exchange rates between the U.S. dollar and these other currencies. In an attempt to minimize the earnings impact of foreign currency gains and losses associated with foreign exchange rate fluctuations, the Company enters into forward foreign exchange contracts for a portion of this exposure.

Product cost of sales consists of the cost of direct materials, plus direct labour and an allocation of overhead applied to the product.

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

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

Research and development expenses consist primarily of salaries and other personnel costs, off-shore development costs, certification and material costs (including prototype costs) associated with new product introduction.

General and administrative expenses consist primarily of personnel costs, occupancy costs, professional costs associated with tax, accounting and legal advice, public company costs (including compliance costs), information system and software maintenance costs as well as foreign currency gains and losses.

Sales and marketing, research and development, and general and administrative expenses are presented on the Company's consolidated financial statements including the benefit of government assistance received, as well as repayments of such assistance.

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

A subsidiary of the Company has participated in programs sponsored by a foreign government body's Chief Scientist Office ("CSO") for the support of certain research and development activities. The subsidiary is obligated to pay royalties, amounting to 3% - 3.5% on sales and other related revenues generated from the subsidiary's products up to the amount granted plus interest. The subsidiary's obligation to pay these royalties is contingent on actual sales of its products which incorporate the technology related to the grant, and in the absence of such sales, no payment is required. Any repayments accrued or paid have been included in the consolidated financial statements as part of the Company's research and development expenses.

The Company has entered into an agreement with the Province of Ontario relating to the Next Generation of Jobs Fund program. This program 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 CAD\$18.7 million (the "Initial Grant"). Payments made in respect of the Initial Grant can become conditionally repayable if certain cumulative job targets are not met. In addition, at the end of the agreement, the Company may be entitled to receive up to an additional 4% of

eligible project expenditures (to a maximum of CAD\$6.8 million) if certain incremental targets for new Ontario-based jobs have been met.

Interest and other income consists primarily of interest income (net of related expenses) earned on the Company's cash, cash equivalents and short term investments.

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

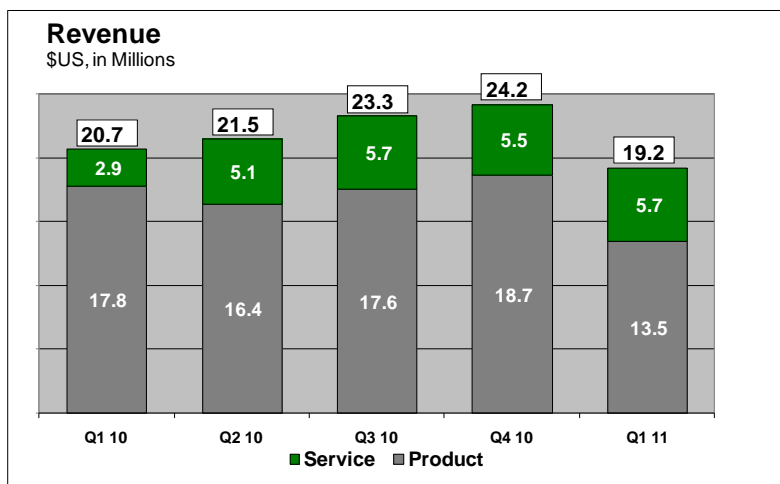
CURRENT PERIOD OPERATING RESULTS

Overview

The Company's total revenues for the current quarter were \$19.2 million, a decrease of \$5.0 million from the \$24.2 million recognized during the fourth quarter of 2010. Product revenue decreased over the period by \$5.2 million while service revenue increased by \$0.2 million. Total revenue decreased across all access technology markets and in every geographic sales region, except Europe, Middle East and Africa (EMEA), where revenue grew compared to Q4 2010. Revenue earned through both the direct and indirect sales channels declined.

The Company does not believe that the decrease in product revenue represents a change in the size of the overall market opportunity for Network Policy Control solutions, nor a change in the Company's competitive position, as the Company did not lose any notable opportunities that it was pursuing during the first quarter. Certain opportunities that the Company was pursuing during the first quarter did not materialize, but the Company believes that these opportunities continue to exist.

During the first quarter, the Company received initial purchase orders from 13 new customers (Q4 2010: five), comprising five DSL service providers, four wireless operators and four cable service providers, and recognized revenue from 11 new customers. The value of orders received from customers during the first quarter of 2011 was greater than total revenue recognized during the quarter.



The Company's GAAP net loss for the current quarter was \$2.7 million, compared to a GAAP net income of \$0.6 million in the fourth quarter of 2010. The Company's non-GAAP loss for the current quarter was \$1.9 million, compared to non-GAAP income of \$1.4 million in the fourth quarter of 2010.

The current quarter decrease in non-GAAP net income compared to the fourth quarter of 2010 is primarily the result of lower revenue in the current quarter earned at a lower blended gross margin rate being partially offset by lower non-GAAP operating expenses. The lower gross margin rate in the current quarter compared to Q4 2010 was largely a result of a high proportion of hardware in the product mix in the current quarter and the reversal of a previously recognized inventory write down that occurred in Q4 2010. Exclusive of "Excluded Expenses" (as defined on page 6 of this document), operating expenses in the first quarter decreased by \$0.6 million compared to the fourth quarter of 2010 as a result of:

- lower variable compensation related to the lower revenue level;
- lower prototype expenses related to the PTS 22000;
- lower travel and product trial expenses;
- all partially offset by higher contract labour costs related to the launch of a new ERP system in Q1 2011 and higher salary costs related to research and development and sales and marketing.

Revenue

	Three month period ended		
	February 28 2011 \$	November 30 2010 \$	February 28 2010 \$
Product	13,492	18,658	17,797
Service			
Support and maintenance	3,944	4,086	2,560
Professional services	1,269	991	241
Training, installation and other	510	423	94
	5,723	5,500	2,895
Total	19,215	24,158	20,692

Amounts in US\$ thousands

Q1 2011 compared to Q4 2010

The Company's total revenues for the current quarter were \$19.2 million, a decrease of \$5.0 million from the \$24.2 million recognized during the fourth quarter of 2010. Product revenue decreased over the period by \$5.2 million while service revenue increased by \$0.2 million. Total revenue decreased across all access technology markets and in every geographic sales region, except Europe, Middle East and Africa (EMEA), where revenue grew compared to Q4 2010. Revenue earned through both the direct and indirect sales channels declined.

The Company does not believe that the decrease in product revenue represents a change in the size of the overall market opportunity for Network Policy Control solutions, nor a change in the Company's competitive position, as the Company did not lose any notable opportunities that it was pursuing during the first quarter. Certain opportunities that the Company was pursuing during the first quarter did not materialize, but the Company believes that these opportunities continue to exist.

Service revenue increased by \$0.2 million to \$5.7 million, as compared to \$5.5 million recognized during the fourth quarter of 2010, largely due to a \$0.3 million increase in professional services revenue, which can vary period to period based on the nature of customer engagements. While the Company's support and maintenance revenue base continues to grow, such growth was offset by delays in receiving certain customers' support and maintenance contract renewals. As a result, support and maintenance revenue decreased by \$0.2 million to \$3.9 million, compared to \$4.1 million the prior quarter.

The Company expects to continue to see significant quarterly fluctuations in the revenues generated from the Company's various access technology markets, sales regions and sales channels due to variability associated with the timing of significant customer purchase decisions.

Q1 2011 compared to Q1 2010

Total revenues recognized during the first quarter of 2011 decreased by \$1.5 million to \$19.2 million, compared to \$20.7 million during the same period last year. Product revenue decreased by \$4.3 million over the period, which was partially offset by an increase in service revenue of \$2.8 million. Revenue from the cable and wireless access technology markets decreased, which was partially offset by revenue growth in the DSL market. Revenue from North America, Caribbean and Latin America decreased, which was partially offset by growth in revenue from Asia Pacific. Revenue from EMEA was flat. Revenue earned through the direct sales channel decreased, which was partially offset by growth in revenue through the indirect sales channel.

The Company does not believe that the decrease in product revenue represents a change in the size of the overall market opportunity for Network Policy Control solutions, nor a change in the Company's competitive position, as the Company did not lose any notable opportunities that it was pursuing during the first quarter. Certain opportunities that the Company was pursuing during the first quarter did not materialize, but the Company believes that these opportunities continue to exist.

Service revenue increased by \$2.8 million to \$5.7 million, compared to \$2.9 million recognized during the first quarter of 2010, as revenue from all service revenue categories grew over the period. Support and maintenance revenue grew by \$1.4 million as a result of ongoing growth in the support and maintenance revenue base driven by incremental product sales since the comparative period, as well as lower than expected support and maintenance revenues for the first quarter of 2010 as the Company had experienced an unusual amount of delays in receiving certain customers' support and maintenance contract renewals during that period. Other services revenue grew by \$1.4 million, consistent with growth in business related to the Company's non-traffic-optimization solutions. Such solutions often require consulting services for integration to adjacent business systems.

The Company expects to continue to see significant quarterly fluctuations in the revenues generated from the Company's various access technology markets, sales regions and sales channels due to variability associated with the timing of significant customer purchase decisions.

Revenue by access technology

The breakdown of total revenue generated by customer access technology is outlined in the following table.

	Three month period ended		
	February 28 2011 %	November 30 2010 %	February 28 2010 %
Cable	21.9	18.3	35.8
DSL	59.1	59.6	36.2
Fixed Wireless/Mobile/FTTx	17.4	22.0	27.8
Other*	1.6	0.1	0.2
Total	100.0	100.0	100.0

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

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

The Company expects the DSL and Wireless access technology markets to grow more rapidly than the cable market as DSL is the dominant means of broadband Internet access globally, and Wireless continues to emerge as a preferred technology for Internet access.

Revenue by sales channel

To help market and sell its products, the Company continues to invest in the development of its indirect sales channel, comprising global third party network equipment vendors, regional value-added resellers and systems integrators. The breakdown of revenue by the direct and indirect sales channel is as follows:

	Three month period ended		
	February 28 2011 %	November 30 2010 %	February 28 2010 %
Direct	36.2	36.1	58.5
Indirect	63.8	63.9	41.5
Total	100.0	100.0	100.0

The Company continues to expect significant revenue to be generated through its indirect sales channel as sales outside of North America, where such channels are more commonly used, continue to be a significant component of the Company's revenue.

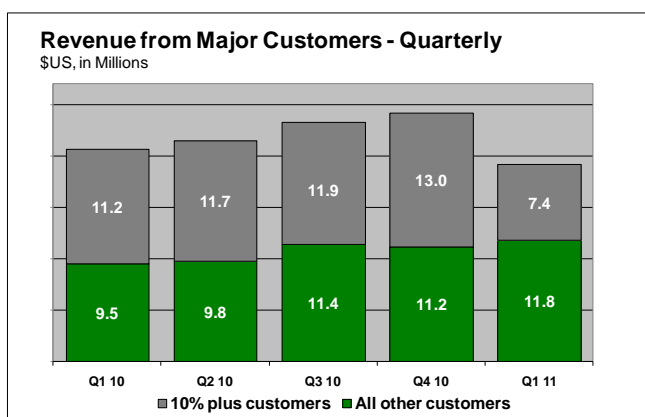
Revenue by geographic region

The Company evaluates its revenue performance based on four geographic regions. The proportion of total revenue attributable to each is outlined in the following table. In situations where a reseller has purchased equipment for resale to an end customer, the location of the end customer is used in allocating revenue to the various geographic regions.

	Three month period ended		
	February 28	November 30	February 28
	2011	2010	2010
	%	%	%
North America	28.5	28.4	51.9
Caribbean and Latin America	4.4	11.6	8.5
Europe, Middle East and Africa	25.1	17.3	22.8
Asia Pacific	42.0	42.7	16.8
Total	100.0	100.0	100.0

Revenue derived from major customers

“Major Customers” are customers who represent more than 10% of total revenues in a given period. Currently, the Company’s quarterly revenues can be significantly impacted by the buying patterns of any individual large customer, which can also impact the Company’s revenue split by region, sales channel and/or access technology. The Company continues to expand its number of customers and the identity of the individual service providers or resellers who are Major Customers often changes between quarters.



The following summarizes revenue from Major Customers on a quarterly basis.

	Three month period ended				
	February 28	November 30	August 31	May 31	February 28
	2011	2010	2010	2010	2010
	%	%	%	%	%
Percentage of revenue					
Major Customers	38.8	53.9	51.0	54.4	54.3
Other customers	61.2	46.1	49.0	45.6	45.7
Total	100.0	100.0	100.0	100.0	100.0

The following chart outlines the revenue generated from Major Customers during the first quarter of 2011, and their respective percentages from the previous four quarters.

	Three month period ended				
	February 28 2011 %	November 30 2010	August 31 2010 %	May 31 2010 %	February 28 2010 %
Mitsubishi	38.8	28.8	9.1	15.5	7.7
Total	38.8	28.8	9.1	15.5	7.7

Mitsubishi resells the Company's solutions in Japan. In situations where a particular customer is a reseller who has purchased equipment for resale to an end user customer, the Company has aggregated all of the sales to that reseller in determining whether they represent more than 10% of the Company's revenue for a particular period.

Deferred revenue

The Company enters into complex arrangements that may involve meeting customer-based specifications or multiple deliverable revenue arrangements. This may result in the deferral of revenue if the Company has not completed the customer-based specification requirements, or has not established that the delivered elements of a multiple deliverable revenue arrangement represent a separate unit(s) of accounting. Where the Company has sold post contract support, the resulting revenue is deferred and recognized rateably over the service period, which is typically one to three years. The Company does not recognize any revenue or deferred revenue related to initial support and maintenance or support and maintenance renewals until evidence of such an arrangement exists or cash in respect of such renewal is received.

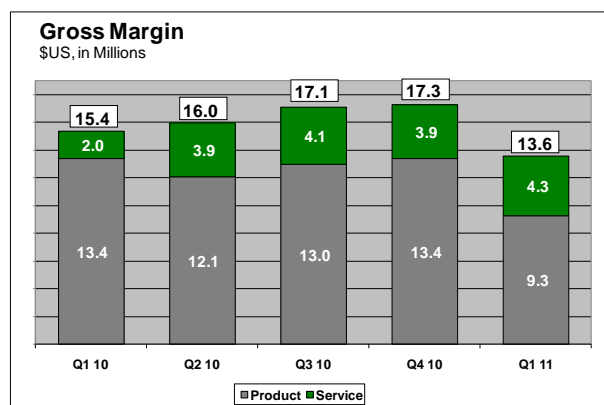
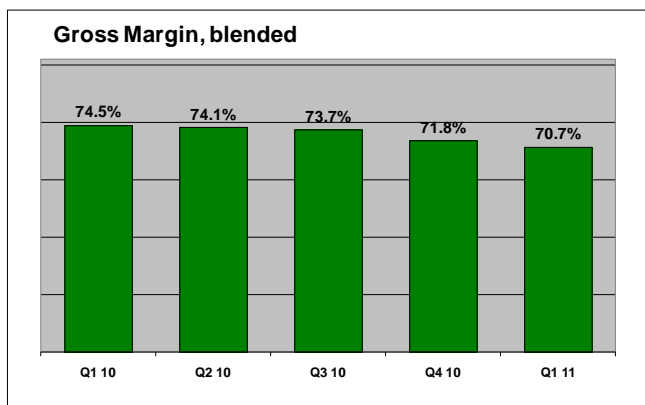
The breakdown of deferred revenue is as follows:

	February 28 2011 \$	November 30 2010 \$	February 28 2010 \$
<i>In US\$ thousands</i>			
Deferred revenue:			
Service	8,964	8,252	6,366
Product	3,109	2,708	3,077
Total	12,073	10,960	9,443
Reported as:			
Current	11,453	10,257	8,764
Non-current	620	703	679
Total	12,073	10,960	9,443

Fluctuations in deferred service revenue are primarily related to the timing of significant support and maintenance renewals. Service deferred revenue increased from November 30, 2010 levels as many customers renew their support and maintenance contracts at the end of the calendar year, which falls in the Company's first fiscal quarter. Product deferred revenue increased from November 30, 2010 levels, primarily due to several arrangements where recognition of policy software revenue will be recognized in conjunction with the related professional services. Growth in this deferred revenue balance is consistent with growth in business related to the Company's non-traffic-optimization solutions, which often require consulting services for integration to adjacent business systems.

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

Gross margin



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

	Three month period ended		
	February 28 2011 %	November 30 2010 %	February 28 2010 %
Product	68.6	71.7	75.3
Service	75.4	71.8	69.7
Blended	70.7	71.8	74.5

Q1 2011 compared to Q4 2010

The blended gross margin realized in the current quarter was 1.1 percentage points lower than in the fourth quarter of 2010, resulting from a lower product gross margin, partially offset by a higher service gross margin. Product gross margin was 68.6% in the current quarter compared to 71.7% for the fourth quarter of 2010. The decrease was primarily due to a high proportion of hardware in the product mix in the current quarter and the reversal of a previously recognized inventory write down that occurred in Q4 2010. Service gross margin was 75.4% in the current quarter compared to 71.8% in the fourth quarter of 2010. The increase primarily related to higher margins on certain professional service contract engagements in the quarter.

Q1 2011 compared to Q1 2010

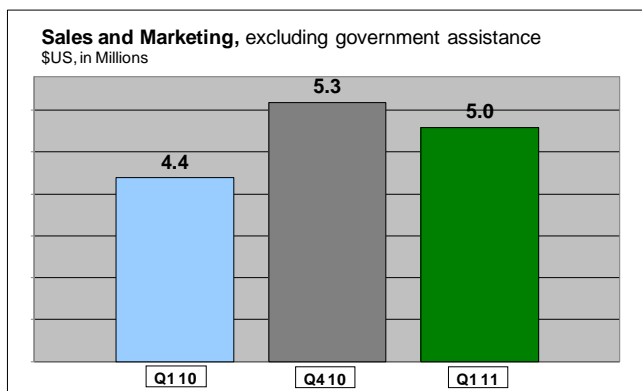
The blended gross margin realized in the current quarter was 3.8 percentage points lower than in the first quarter of 2010, resulting from a lower product gross margin, partially offset by a higher service gross margin. The product gross margin was 6.7 percentage points lower than in the first quarter of 2010. The decrease was largely attributable to a higher proportion of hardware in the product mix and a higher proportion of revenue earned through the indirect sales channel in the current quarter. The current quarter service gross margin was 5.7 percentage points higher than for the same period in 2010. The increase was primarily related to a higher gross margin on support and maintenance revenue resulting from unusual delays during the first quarter of 2010 in receiving certain customers' support and maintenance contract renewals, which prevented the Company from recognizing the related revenue until subsequent periods.

Operating expenses

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

	Three month period ended		
	February 28 2011 \$	November 30 2010 \$	February 28 2010 \$
	<i>Amounts in US\$ thousands</i>		
Revenue	19,215	24,158	20,692
Sales and marketing <i>% of revenue</i>	5,047 26.3%	5,318 22.0%	4,377 21.2%
Research and development <i>% of revenue</i>	7,007 36.5%	6,956 28.8%	6,219 30.1%
General and administration <i>% of revenue</i>	2,687 14.0%	2,609 10.8%	2,349 11.4%
Net government repayments (assistance) <i>% of revenue</i>	(467) (2.4%)	(185) (0.8%)	(9) (0.0%)
Stock based compensation <i>% of revenue</i>	634 3.3%	631 2.6%	634 3.1%
Amortization of intangible assets <i>% of revenue</i>	356 1.9%	345 1.4%	477 2.3%
Depreciation <i>% of revenue</i>	1,029 5.4%	1,232 5.1%	926 4.5%
Total operating expenses <i>% of revenue</i>	16,293 85.0%	16,906 69.9%	14,973 72.6%

Sales and marketing expenses



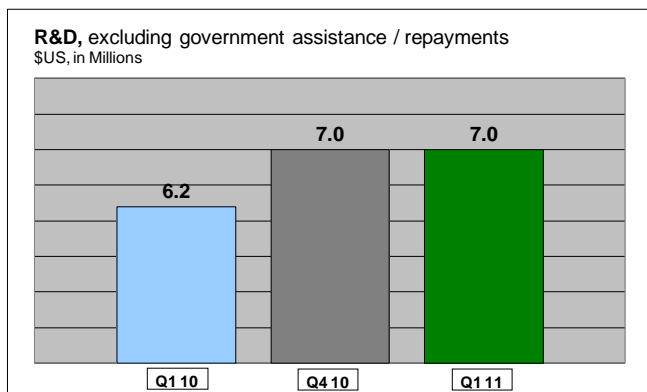
Q1 2011 compared to Q4 2010

Exclusive of government assistance, sales and marketing expenditures during the first quarter of 2011 were \$5.0 million, representing a \$0.3 million decrease (5.1%) from the \$5.0 million incurred during the fourth quarter of 2010. The decrease primarily related to lower variable compensation, travel and trial costs, partially offset by higher salary costs.

Q1 2011 compared to Q1 2010

Exclusive of government assistance, sales and marketing expenditures during the current quarter increased by \$0.6 million (15.3%) from the \$4.4 million incurred for the same period last year. The increase primarily related to higher salary and travel costs, partially offset by lower variable compensation costs.

Research and development expenses



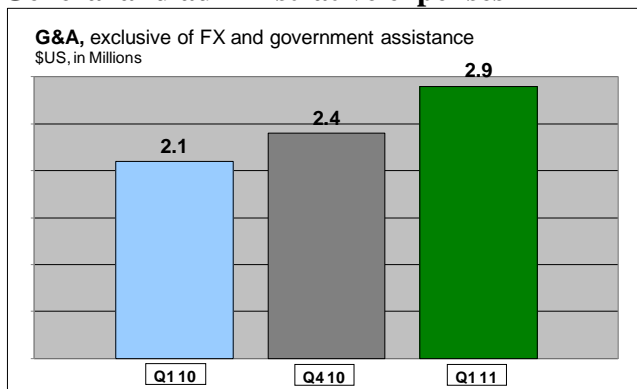
Q1 2011 compared to Q4 2010

Exclusive of government assistance and repayments, research and development expenses during the first quarter of 2011 were \$7.0 million, equal to the \$7.0 million incurred during the fourth quarter of 2010. Higher salary costs in the current quarter were offset by lower prototype costs related to the PTS 22000 during the period.

Q1 2011 compared to Q1 2010

Exclusive of government assistance and repayments, research and development expenses during the current quarter increased by \$0.8 million (12.7%) from the \$6.2 million incurred during the first quarter of 2010. The increase primarily related to higher salary and contract labour costs.

General and administrative expenses



Q1 2011 compared to Q4 2010

Exclusive of government assistance and foreign exchange gains/losses, general and administrative expenditures during the current quarter increased by \$0.5 million (22%) to \$2.9 million, compared to \$2.4 million recorded in the prior quarter. The increase was primarily due to higher contract labour costs related to implementation of an ERP system during the current quarter as well small increases to several different expense categories.

Q1 2011 compared to Q1 2010

For the first quarter of fiscal 2011 general and administrative expenditures, exclusive of government assistance and foreign exchange gains/losses, increased by \$0.8 million (38%) from the \$2.1 million incurred during the first quarter of 2010. The increase relates to higher contract labour costs related to implementation of an ERP system during the current quarter and higher salary costs.

Impact of foreign exchange on operating expenses

During the first quarter of fiscal 2011, the Company recorded a \$0.2 million gain (Q4 2010: \$0.2 million loss; Q1 2010: \$0.2 million loss) relating to foreign exchange (“FX”). These gains and losses are reported within the Company’s general and administrative expenses and relate primarily to realized and unrealized FX on the Company’s foreign denominated cash, accounts receivable and accounts payable.

The Company also has a significant percentage of its operating expenses denominated in currencies other than U.S. dollars, including Canadian dollars and New Israeli Shekels. Changes in foreign exchange rates can cause fluctuations in the Company’s operating expenditures from period to period, and are reflected in the individual operating expense line item. A summary of these impacts is as follows:

Q1 2011 compared to Q4 2010

Fluctuations in foreign exchange rates between the current quarter and the fourth quarter of 2010 resulted in an increase in operating expenses of \$0.2 million, primarily due to weakening of the U.S. dollar relative to the Canadian dollar over the period.

Q1 2011 compared to Q1 2010

Fluctuations in foreign exchange rates between current quarter and the first quarter of 2010 resulted in an increase in operating expenses of \$0.5 million, primarily due to weakening of the U.S. dollar relative to the Canadian dollar over the period.

Government assistance and repayments

Operating expenses are presented on the Company's consolidated financial statements including the benefit of government assistance received, as well as the expense associated with recording the repayment of such assistance. The following table provides details regarding government assistance and repayments.

	Three month period ended		
	February 28 2011 \$	November 30 2010 \$	February 28 2010 \$
	<i>Amounts in US\$ thousands</i>		
Assistance			
Repayable	-	-	(599)
Non-repayable	(964)	(854)	-
	(964)	(854)	(599)
Repayments	497	669	585
Net government repayments (assistance)	(467)	(185)	(14)

During the second quarter of fiscal 2010, the Company entered into an agreement with the Province of Ontario relating to the Next Generation of Jobs Fund program. During the first quarter of fiscal 2011, the Company recorded \$0.8 million of funding against operating expenses related to this program.

Amortization of intangible assets

Q1 2011 compared to Q4 2010

In connection with an acquisition completed during fiscal 2007, the Company is amortizing certain acquired intangible assets. During the first quarter of 2011 the Company recorded \$0.2 million in amortization related to these acquired intangible assets, compared to \$0.2 million during the prior quarter. Also included within current quarter amortization of intangible assets is \$0.2 million of amortization related to computer software assets, compared to \$0.2 million last quarter.

Q1 2011 compared to Q1 2010

During the first quarter fiscal 2011, the Company recorded \$0.2 million of amortization related to acquired intangible assets, as compared to \$0.4 million during the same period last year. The decrease is the result of certain intangible assets having been impaired during the second quarter of fiscal 2010. During the current quarter, computer software amortization of \$0.2 million was recorded, compared with \$0.1 million for the same period last year.

Interest and other income

Q1 2011 compared to Q4 2010

For the first quarter of 2011, interest and other income was \$42,000, down from \$0.2 million last quarter, primarily due to a lower investment yield in the current quarter. In the current quarter, the Company converted the majority of its cash and cash equivalents to the USD, and invested in USD-denominated investments, which offer lower yields. During the current quarter the annualized yield earned on the Company's investment portfolio was approximately 0.2% compared to 1.3% during the fourth quarter of 2010.

Q1 2011 compared to Q1 2010

For the first quarter of 2011, interest and other income was \$42,000, relatively unchanged from the \$47,000 recorded in the same period last year. During the current quarter the annualized yield earned on the Company's investment portfolio was approximately 0.2% compared to 0.6% for the same period in 2010. The higher yield in Q1 2010 was somewhat offset by a loss on disposal of capital assets in the period.

LIQUIDITY AND CAPITAL

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

	February 28 2011	November 30 2010
Key Balance Sheet Amounts and Ratios:	<i>US\$ Thousands, except balance sheet ratios and metrics</i>	
Cash, cash equivalents and short term investments	90,022	87,949
Working capital	103,152	105,641
Working capital ratio	5.9:1	5.7:1
Days sales outstanding in accounts receivable	103 days	91 days
Pro forma days sales outstanding in accounts receivable	83 days	77 days
Inventory turnover	1.4 times	1.8 times
Pro forma inventory turnover	1.8 times	2.3 times

The Company uses working capital, working capital ratio, days sales outstanding in accounts receivable, pro forma days sales outstanding in accounts receivable, inventory turnover and pro forma inventory turnover as measures to enhance comparisons between periods. These terms do not have a standardized meaning under GAAP and are unlikely to be comparable to similarly titled measures reported by other issuers. The calculation of each of these items is more fully described below.

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

Pro forma days sales outstanding - The Company has calculated pro forma days sales outstanding in the same manner as DSO. However, the beginning and ending accounts receivable balances have been reduced for amounts which are also included in the Company’s deferred revenue balance (February 28, 2011 - \$4.6 million; November 30, 2010 - \$4.1 million; August 31, 2010 - \$3.6 million).

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

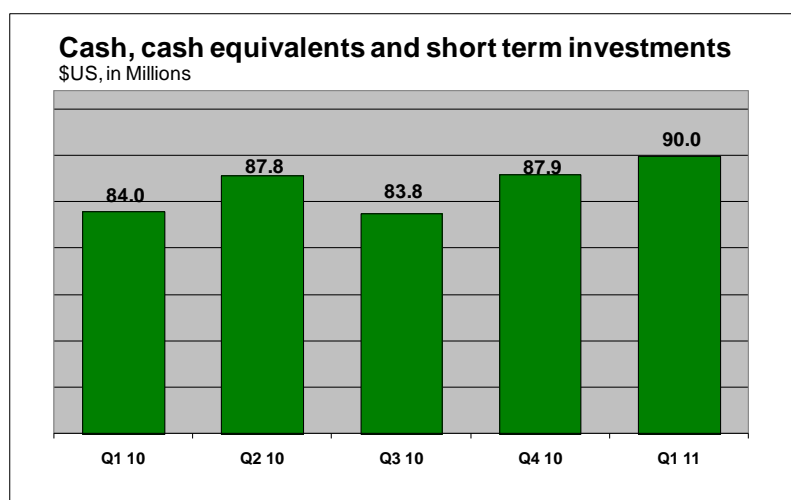
Pro forma inventory turnover - The Company has calculated its pro forma inventory turnover using the annualized most recent three months product cost of sales and the average of the beginning and ending inventory balances excluding demonstration inventory and deferred cost of sales inventory for such three month period (demonstration inventory: February 28, 2011 – \$1.9 million; November 30, 2010 - \$1.9 million; August 31, 2010 - \$2.0 million) (deferred cost of sales: February 28, 2011 - nil; November 30, 2010 - \$0.5 million; August 31, 2010 - \$0.1 million).

Cash and cash equivalents and short term investments

Cash and cash equivalents include cash on hand, balances with banks and short term investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Short term investments include debt securities maturing within twelve months of the balance sheet date. Short term investments are measured at fair value, with the changes in fair value being recognized in other comprehensive income during the period.

Investments in cash equivalents and short term investments are governed by the Company’s investment policy guidelines as approved by the Board of Directors. The policy stipulates that investments will at all times be based on the requirements for safety, liquidity and yield in that order of importance.

The Company's short-term investment portfolio of \$73.2 million at February 28, 2011 included high interest savings accounts (18% of portfolio), promissory notes (18% of portfolio), bank bearer deposit notes (27% of portfolio) and provincial T-bills (37% of portfolio), with yields ranging from 0.14% to 0.45%.



At February 28, 2011, the Company cash, cash equivalents and short term investments increased by \$2.1 million, to \$90.0 million, compared to \$87.9 million at November 30, 2010. The increase is primarily due to \$4.0 million provided by operating activities (largely due to fluctuations in non-cash working capital balances offsetting the Q1 2011 loss), \$0.5 million provided by the issuance of share capital related to the exercise of employee stock options, partially offset by the use of \$2.4 million for capital asset and intangible software asset acquisitions during the period.

Working capital

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance decreased by \$2.4 million to \$103.2 million at February 28, 2011 from \$105.6 million at the end of fiscal 2010. This decrease primarily relates to a \$7.5 million decrease in accounts receivable, which was somewhat offset by a \$2.1 million increase in cash and short term investments and a \$2.5 million decrease in accounts payable and accrued liabilities. The Company's working capital ratio at February 28, 2011 (current assets divided by its current liabilities) increased to 5.9:1 compared to 5.7:1 at November 30, 2010.

In periods of low sales, such as in the current quarter, the annualized revenues and cost of sales used in calculating the DSOs and Inventory Turnover ratios will result in higher DSOs and decreased inventory turnover. The Company's DSO's increased to 103 days, compared to 91 days reported at the end of fiscal 2010. The Company's pro-forma DSO's were 83 days at February 28, 2011, compared to 77 days at the end of fiscal 2010. The Company expects that pro forma DSO's will typically be in the range of 60 – 75 days. Pro forma DSO's were above the typical level in the current quarter due to the low level of Q1 2011 revenue and because accounts receivable balances have been high relative to sales in the last two quarters. During the February 28, 2011 and November 30, 2010 quarters a large proportion of sales occurred within the last half of the quarter, which increased the amount of uncollected balances at quarter end.

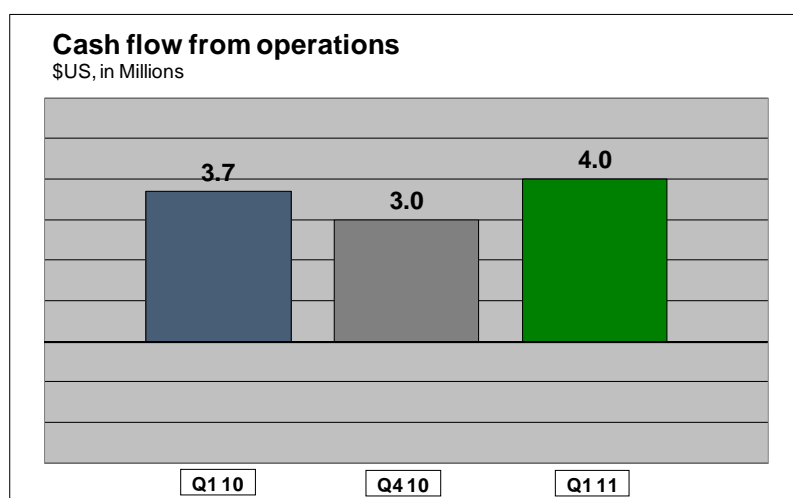
The Company's inventory turnover for the current quarter was 1.4 times per year, compared to 1.8 times per year for the fourth quarter of 2010. The Company also assesses its inventory turnover on a pro forma basis, which excludes demonstration inventory and deferred cost of sales inventory. The Company's pro forma inventory turnover for the current quarter was 1.8 times per year, compared to 2.3 times per year for the fourth quarter of 2010. The decreased turnover rate reflects the low level of Q1 2011 cost of sales (related to the low level of sales) and to the high inventory balance in the current quarter, as the Company ordered inventory in anticipation of winning certain business that did not materialize prior to quarter end (see *Revenue* section).

Historically, the Company has carried relatively high levels of inventory as a result of variability in product mix, the need to secure supply of long lead time parts and a strategic decision to maintain inventory levels that permit the Company to minimize customer delivery times.

Cash flow

	Three month period ended		
	February 28 2011	November 30 2010	February 28 2010
	\$	\$	\$
	<i>Amounts in US\$ thousands</i>		
Cash inflows and (outflows) by activity:			
Operating activities	3,976	2,987	3,652
Investing activities	(75,593)	79,967	2,096
Financing activities	453	222	52
Net increase (decrease) in cash	(71,164)	83,176	5,800

Cash provided by operating activities



Q1 2011 compared to Q4 2010

During the current quarter the Company generated \$4.0 million of cash from operating activities, compared to generating \$3.0 million in the fourth quarter of 2010. The increase in cash flow from operations occurred despite incurring a loss in the current quarter and pertains primarily to the impact of changes in working capital, which can fluctuate significantly from quarter to quarter. During the current quarter, the Company had a net loss, adjusted for items not affecting cash, of \$0.7 million (Q4 2010: \$3.0 million income) and generated cash of \$4.7 million (Q4 2010: used \$0.5 million) from changes in working capital balances.

Q1 2011 compared to Q1 2010

During the current quarter the Company generated \$4.0 million of cash from operating activities, compared to generating cash of \$3.7 million for the first quarter of 2010. The increase in cash flow from operations occurred (despite incurring a net loss in the current quarter) primarily due to the impact of changes in working capital, which can fluctuate significantly from quarter to quarter. During the current quarter, the Company had a net loss, adjusted for items not affecting cash, of \$0.7 million (Q1 2010: \$2.7 million income) and generated \$4.7 million (Q1 2010: used \$1.0 million) from changes in working capital balances.

Purchase of capital and intangible software assets

Exclusive of government assistance (Q1 2011: \$0.1 million, Q1 2010: \$nil), additions to capital and intangible software assets were \$2.4 million during the first quarter of fiscal 2011, compared to \$1.2 million for the same period last year. The current quarter additions primarily relate to costs incurred to date for a new enterprise resource planning (“ERP”) system (\$1.6 million). No such costs were incurred in the first quarter of 2010. The remainder of the current period acquisitions primarily related to continued investment in hardware equipment to support the Company’s research and development activities.

During the first quarter of fiscal 2011, the Company capitalized \$0.1 million of internally manufactured assets, as compared to \$0.3 million for the same period last year. These additions predominantly relate to continued investment in hardware equipment to support the Company’s research and development activities.

Liquidity and capital resource requirements

Given the items outlined above and the Company’s performance expectations, the Company believes that it has sufficient working capital to fund its current operating and working capital requirements for at least 12 months.

FINANCIAL INSTRUMENTS

Management of foreign exchange currency exposure is governed by the Company’s foreign exchange policy as approved by its Board of Directors. The objective of the policy is to minimize the earnings impact of foreign currency gains and losses associated with foreign exchange rate fluctuations. The Company enters into forward contracts to reduce its exposure to fluctuations in foreign exchange rates. The following table summarizes the Company’s commitments to buy and sell foreign currencies under foreign exchange contracts, all of which have a maturity date of less than one year, as at February 28, 2011:

Designation	Currency Sold	Currency Bought	Notional Amount Bought	Weighted Average Rate
Held for trading; cash flow hedges	USD	ILS	9,930	0.28
Held for trading; cash flow hedges	USD	CAD	15,650	1.01

Management estimates that a gain of \$0.2 million would be realized if these foreign exchange contracts were terminated on February 28, 2011.

The fair value of accounts receivable, other receivables, accounts payable and accrued liabilities approximates their carrying value due to the immediate or short-term maturity of these financial instruments. At February 28, 2011, the Company had a significant concentration of credit risk with two customers representing 46.0% (25% and 21%) of the Company’s accounts receivable balance (November 30, 2010; three customers representing 56.5% (22.4%, 20.1 and 14.0%))

OUTSTANDING SHARE DATA

The Company has one class of shares consisting of an unlimited number of common shares. As of April 6, 2011, the Company has issued 137,641,909 common shares, one common share purchase warrant which entitles the holder to acquire 619,280 common shares and 9,558,471 common share options under the Company’s stock option plan (as further described in note 4 of its February 28, 2011 consolidated financial statements).

OFF BALANCE SHEET ARRANGEMENTS

The Company has entered into forward currency contracts (disclosed under “Financial Instruments” above), and letters of credit (disclosed under note 10 of the February 28, 2011 consolidated financial statements) which are considered “off-balance sheet” arrangements as that term is described in National Instrument 51-102F.

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROLS AND PROCEDURES

The CEO and CFO are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company's management, under the supervision of the CEO and CFO have evaluated whether there were changes to the Company's internal control over financial reporting during the interim period ended February 28, 2011 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. The company implemented a new ERP system including general ledger, sales distribution, project management, manufacturing, supply chain, capital asset and human resource modules during the first quarter of fiscal 2011. The system went live in February 2011, replacing the legacy ERP system. As a result of the new ERP system, the Company reviewed policies and procedures materially impacted by the ERP implementation. The Company will continue to amend its internal control processes in future quarters as more reliance is placed on the new ERP system. There were no other material changes to the Company's internal controls during the first quarter of fiscal 2011.

Management, including the CEO and CFO, does not expect that the Company's disclosure controls or internal controls over financial reporting will prevent or detect all errors and all fraud or will be effective under all future conditions. A control system is subject to inherent limitations and, no matter how well designed and operated, can provide only reasonable, not absolute assurance that the control system objectives will be met.

SELECTED CONSOLIDATED QUARTERLY FINANCIAL INFORMATION

The following table provides an analysis of the Company's unaudited operating results for each of the quarters ended on the date indicated:

Fiscal 2011 <i>(in thousands of US dollars)</i>	Three months ended	
	February 28 2011	
	\$	
Revenue	19,215	
Operating expenses	16,293	
Net income	(2,713)	
Basic earnings per share	(0.020)	
Diluted earnings per share	(0.020)	
Total assets	143,047	

Fiscal 2010 <i>(in thousands of US dollars)</i>	Three months ended				Fiscal year ended
	February 28 2010	May 31 2010	August 31 2010	November 30 2010	November 30 2010
	\$	\$	\$	\$	\$
Revenue	20,692	21,542	23,267	24,158	89,659
Operating expenses	14,973	14,314	15,274	16,906	61,467
Net income	464	1,697	1,949	603	4,713
Basic earnings per share	0.003	0.012	0.014	0.004	0.035
Diluted earnings per share	0.003	0.012	0.014	0.004	0.033
Total assets	130,058	135,046	136,872	145,880	145,880

Fiscal 2009 <i>(in thousands of US dollars)</i>	Three months ended				Fiscal year ended
	February 28 2009	May 31 2009	August 31 2009	November 30 2009	November 30 2009
	\$	\$	\$	\$	\$
Revenue	15,211	13,220	14,501	17,820	68,848
Operating expenses	15,429	14,249	14,543	17,682	71,321
Net loss	(3,752)	(4,174)	(3,851)	(4,473)	(19,517)
Basic loss per share	(0.028)	(0.031)	(0.028)	(0.033)	(0.144)
Diluted loss per share	(0.028)	(0.031)	(0.028)	(0.033)	(0.144)
Total assets	113,696	125,050	123,747	129,089	129,089

Historically, the Company's operating results have fluctuated on a quarterly basis and it is expected that quarterly financial results will continue to fluctuate in the future. Fluctuations in results relate to the growth in the Company's revenue, the timing of revenue being recognized and sales to reseller customers, which may place large single orders in any one quarter, and to the timing of staffing and infrastructure additions to support growth.