

**Sandvine Corporation**  
Consolidated Interim Financial Statements  
**August 31, 2011**  
(unaudited)

# Sandvine Corporation

Consolidated Interim Balance Sheets

As at August 31, 2011

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

	August 31 2011 \$	November 30 2010 \$ <i>Restated (note 2)</i>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	1,796	87,949
Short term investments	73,302	-
Accounts receivable	29,781	25,485
Inventory	17,484	11,268
Other	4,334	3,201
	<u>126,697</u>	<u>127,903</u>
<b>Non current assets</b>		
Plant and equipment	12,598	12,341
Intangible assets (note 12)	5,938	5,125
Other assets	511	511
	<u>19,047</u>	<u>17,977</u>
	<u>145,744</u>	<u>145,880</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	9,718	12,005
Current portion of deferred revenue	11,773	10,257
	<u>21,491</u>	<u>22,262</u>
<b>Non current liabilities</b>		
Deferred revenue	849	703
	<u>22,340</u>	<u>22,965</u>
<b>Shareholders' equity</b>		
Share capital (note 3)	120,425	119,570
Contributed surplus	11,849	10,007
Accumulated other comprehensive income	20,138	20,218
Deficit	(29,008)	(26,880)
	<u>123,404</u>	<u>122,915</u>
	<u>145,744</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 nine month periods ended August 31, 2011

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

	Three months ended		Nine months ended	
	August 31 2011 \$	August 31 2010 \$ <i>Restated (note 2)</i>	August 31 2011 \$	August 31 2010 \$ <i>Restated (note 2)</i>
<b>Revenue</b>				
Product	19,111	17,607	50,678	51,784
Service	6,455	5,660	18,064	13,717
	<u>25,566</u>	<u>23,267</u>	<u>68,742</u>	<u>65,501</u>
<b>Cost of sales</b>				
Product	4,424	4,628	12,517	13,252
Service	1,638	1,490	4,715	3,724
	<u>6,062</u>	<u>6,118</u>	<u>17,232</u>	<u>16,976</u>
<b>Gross margin</b>	<u>19,504</u>	<u>17,149</u>	<u>51,510</u>	<u>48,525</u>
<b>Expenses</b>				
Sales and marketing	5,137	4,628	14,967	13,397
Research and development (note 6)	8,667	6,695	23,921	18,060
General and administrative	2,751	1,893	8,006	6,180
Stock based compensation (notes 3 and 4)	752	639	2,110	2,000
Amortization of intangible assets	544	315	1,446	1,218
Depreciation	1,102	1,104	3,158	3,063
Intangible impairment	-	-	-	643
	<u>18,953</u>	<u>15,274</u>	<u>53,608</u>	<u>44,561</u>
<b>Income (loss) from operations</b>	<u>551</u>	<u>1,875</u>	<u>(2,098)</u>	<u>3,964</u>
<b>Interest and other income</b>	<u>15</u>	<u>112</u>	<u>94</u>	<u>243</u>
<b>Income (loss) before provision for income taxes</b>	<u>566</u>	<u>1,987</u>	<u>(2,004)</u>	<u>4,207</u>
<b>Provision for income taxes</b>				
Current	<u>44</u>	<u>38</u>	<u>124</u>	<u>97</u>
<b>Net income (loss) for the period</b>	<u>522</u>	<u>1,949</u>	<u>(2,128)</u>	<u>4,110</u>
<b>Earnings (loss) per share (note 8)</b>				
Basic	<u>0.004</u>	<u>0.014</u>	<u>(0.015)</u>	<u>0.030</u>
Diluted	<u>0.004</u>	<u>0.014</u>	<u>(0.015)</u>	<u>0.029</u>
Basic weighted average number of shares outstanding	<u>137,760,777</u>	<u>136,466,457</u>	<u>137,490,171</u>	<u>136,101,292</u>
Diluted weighted average number of shares outstanding	<u>141,448,165</u>	<u>140,729,379</u>	<u>137,490,171</u>	<u>140,557,024</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 nine month period ended August 31, 2011

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

	Stated share capital \$	Contributed surplus \$	Retained 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	-	-	4,110	-	4,110
Net unrealized losses on available for sale financial assets	-	-	-	(24)	(24)
Net unrealized gain on derivative financial instruments designated as cash flow hedges	-	-	-	52	52
Amount transferred to net income for derivatives designated as cash flow hedges	-	-	-	47	47
Foreign exchange adjustment on change in reporting currency (note 2)	-	-	-	(907)	(907)
Total comprehensive income					3,278
Stock based compensation (notes 3 and 4)	553	1,744	-	-	2,297
Employee share purchase plan (note 3)	(78)	25	-	-	(53)
Issued as compensation on business acquisition	110	-	-	-	110
<b>Balance, August 31, 2010 Restated</b> <i>(note 2)</i>	119,299	9,449	(27,483)	15,425	116,690
<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	-	-	(2,128)	-	(2,128)
Net unrealized losses on available for sale financial assets	-	-	-	(2)	(2)
Net unrealized gain on derivative financial instruments designated as cash flow hedges	-	-	-	266	266
Amount transferred to net income for derivatives designated as cash flow hedges	-	-	-	(344)	(344)
Total comprehensive loss					(2,208)
Stock based compensation (notes 3 and 4)	926	1,776	-	-	2,702
Employee share purchase plan (note 3)	(71)	66	-	-	(5)
<b>Balance, August 31, 2011</b>	120,425	11,849	(29,008)	20,138	123,404

As at August 31, 2011, the total of deficit and accumulated other comprehensive loss was \$(8,870) (August, 31, 2010 - \$(12,058)).

See accompanying notes to the consolidated interim financial statements

# Sandvine Corporation

## Consolidated Interim Statements of Cash Flows

For the three and nine month periods ended August 31, 2011

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

	Three months ended		Nine months ended	
	August 31 2011 \$	August 31 2010 \$ <i>Restated</i> <i>(note 2)</i>	August 31 2011 \$	August 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	522	1,949	(2,128)	4,110
Items not affecting cash				
Amortization of intangible assets	544	315	1,446	1,218
Depreciation	1,153	1,189	3,315	3,293
Foreign exchange loss (gain)	(26)	(102)	(106)	172
Stock-based compensation (notes 3 and 4)	752	639	2,110	2,000
Other	22	-	(63)	643
	2,967	3,990	4,574	11,436
Changes in non-current balances	35	(271)	146	(316)
Changes in non-cash working capital balances	(6,560)	(3,953)	(12,469)	(3,147)
	(3,558)	(234)	(7,749)	7,973
<b>Investing activities</b>				
Purchase of plant, equipment and intangible software assets	(1,749)	(2,102)	(5,829)	(4,887)
Purchase of short term investments	(37,753)	(21,223)	(235,668)	(79,668)
Sale of short term investments	42,722	21,062	162,362	78,729
	3,220	(2,263)	(79,135)	(5,826)
<b>Financing activities</b>				
Proceeds from the issuance of share capital (note 3)	48	204	650	430
<b>Effect of foreign exchange gain on cash and cash equivalents</b>	(28)	(99)	81	(23)
<b>Net increase (decrease) in cash during period</b>	(318)	(2,392)	(86,153)	2,554
<b>Cash and cash equivalents – Beginning of period</b>	2,114	7,164	87,949	2,218
<b>Cash and cash equivalents – End of period</b>	1,796	4,772	1,796	4,772
<b>Cash and cash equivalents are represented by</b>				
Balances with banks	1,768	3,269	1,768	3,269
Cash equivalents	28	1,503	28	1,503

See accompanying notes to the consolidated interim financial statements

# Sandvine Corporation

## Notes to the Consolidated Interim Financial Statements

August 31, 2011

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

---

### 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 nine month periods ended August 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.

# Sandvine Corporation

## Notes to the Consolidated Interim Financial Statements

August 31, 2011

(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 nine months ended August 31, 2010 and the twelve months ended November 30, 2010 was a decrease of \$907 and an increase of \$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
Issued under the employee stock option plan	45,017	48	-	-	48
Transfer from contributed surplus	-	38	-	-	38
Unvested shares held by trust	(494)	(8)	-	-	(8)
<b>Balance, August 31, 2011</b>	137,780,218	120,110	1	315	120,425

# **Sandvine Corporation**

## Notes to the Consolidated Interim Financial Statements

**August 31, 2011**

(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 nine month periods ended August 31, 2011, the Company issued 45,017 and 894,382 common shares for cash proceeds of \$48 and \$650 respectively, as a result of option holders exercising their options (August 31, 2010 – 442,246 and 770,809 common shares for \$204 and \$430).

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 August 31, 2011 are 95,140 unvested common shares which are held by the trust (August 31, 2010 – 56,120).

# Sandvine Corporation

## Notes to the Consolidated Interim Financial Statements

August 31, 2011

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

### 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 August 31, 2011, there were 2,758,721 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
Option activity for the period		
Granted	771,654	2.39
Exercised	(45,017)	1.05
Forfeited	(143,837)	2.29
<b>Options outstanding, August 31, 2011</b>	11,321,707	1.83

#### Stock based compensation

Stock based compensation (related to the Company's stock option plan) recognized for the three and nine month periods ended August 31, 2011 was \$739 and \$2,051 respectively with a corresponding credit to contributed surplus (August 31, 2010 - \$614 and \$1,867). Previously recognized compensation expense of \$38 and \$276 relating to options exercised during the three and nine month periods ended August 31, 2011 has been transferred from contributed surplus to share capital (August 31, 2010 - \$39 and \$124).

# Sandvine Corporation

## Notes to the Consolidated Interim Financial Statements

August 31, 2011

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

	Three months ended		Nine months ended	
	August 31 2011	August 31 2010	August 31 2011	August 31 2010
Number of options issued	771,654	916,600	2,208,337	2,193,600
Weighted average Black-Scholes value of each option (CAD \$)	\$1.67	\$1.39	\$1.53	\$1.63
Assumptions				
Risk free interest rate	2.40%	2.76%	2.69%	3.03%
Expected life in years	5.92	7.44	5.91	7.44
Expected dividend yield	0%	0%	0%	0%
Volatility	83.00%	89.31%	83.98%	90.25%

The following table summarizes information regarding stock options outstanding at August 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	2,214,100	4.32	0.68	1,732,099	0.65
1.03 - 2.63	8,069,432	7.15	1.74	2,292,866	1.77
4.05 - 4.91	763,175	6.06	4.40	596,078	4.43
6.59 - 6.95	275,000	5.94	6.70	220,269	6.69
0.63 - 6.95	11,321,707	6.49	1.83	4,841,312	1.92

# Sandvine Corporation

## Notes to the Consolidated Interim Financial Statements

August 31, 2011

(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	335
2012	1,394
2013	1,269
2014	1,139
2015	1,139
Thereafter	5,193
	<u>10,469</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>Nine months ended</u>	
	<u>August 31</u>	<u>August 31</u>	<u>August 31</u>	<u>August 31</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
	\$	\$	\$	\$
Research and development	8,530	6,415	23,805	19,494
Government repayments	710	638	1,889	1,838
Investment tax credits / government assistance	(573)	(358)	(1,773)	(3,272)
	<u>8,667</u>	<u>6,695</u>	<u>23,921</u>	<u>18,060</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 (\$9,700 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 (\$16,336 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 nine month periods ended August 31, 2011, the Company recognized \$638 and \$1,686 respectively (August 31, 2010 - \$588 and \$1,654) as royalty expense which has been recorded as an increase to research and development expenses. Cumulatively, the Company has accrued or paid total royalties of \$8,374 CAD (\$8,601 USD) under the agreement.

A subsidiary of the Company participated 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 nine month periods ended August 31, 2011, the Company recognized \$72 and \$203 respectively (August 31, 2010 - \$50 and \$184) as royalty expense which has been recorded as an increase to research and development expenses. As of August 31, 2011, the subsidiary has received cumulative grants of \$2,326. Cumulatively, the Company has accrued or paid total royalties of \$743 under the agreement.

# Sandvine Corporation

## Notes to the Consolidated Interim Financial Statements

August 31, 2011

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

---

Non repayable government assistance received recorded during the three and nine month periods ended August 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 (\$19,093 USD) (the "Initial Grant"). Payments made in respect of the Initial Grant can become conditionally repayable under certain circumstances, including if certain cumulative job targets are not met. In addition, at the end of the agreement, the Company may be entitled to receive up to an additional 4% of eligible project expenditures (to a maximum of \$6,800 CAD (\$6,943 USD)) if certain Ontario-based job targets have been met. As at August 31, 2011, cumulative funding received under this program is \$7,704 CAD (\$7,612 USD). The amount of funding received in respect of eligible expenses, including capital acquisitions, is as follows:

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>August 31 2011</b>	<b>August 31 2010</b>	<b>August 31 2011</b>	<b>August 31 2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Sales and marketing	23	43	88	342
Research and development	573	358	1,617	2,512
General and administrative	154	173	601	820
	<b>750</b>	<b>574</b>	<b>2,306</b>	<b>3,674</b>
Purchase of plant, equipment and intangible software assets	72	57	283	606
	<b>822</b>	<b>631</b>	<b>2,589</b>	<b>4,280</b>

# Sandvine Corporation

## Notes to the Consolidated Interim Financial Statements

August 31, 2011

(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		Nine months ended	
	August 31 2011 \$	August 31 2010 \$	August 31 2011 \$	August 31 2010 \$
Sales				
Canada	550	233	1,883	917
United States	8,011	8,586	23,673	29,607
Caribbean and Latin America	3,210	2,001	6,119	5,240
Europe, Middle East and Africa	10,740	6,398	22,076	16,113
Asia Pacific	3,055	6,049	14,991	13,624
	<u>25,566</u>	<u>23,267</u>	<u>68,742</u>	<u>65,501</u>
	%	%	%	%
Sales				
Canada	2.2	1.0	2.7	1.4
United States	31.3	36.9	34.5	45.2
Caribbean and Latin America	12.6	8.6	8.9	8.0
Europe, Middle East and Africa	42.0	27.5	32.1	24.6
Asia Pacific	11.9	26.0	21.8	20.8
	<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.

Major customers are customers which represent more than 10% of total revenues for a given period. For the three and nine month periods ended August 31, 2011 major customers represented 22.6% and 45.1% of total revenue respectively (August 31, 2010 – 51.0% and 45.9%).

There was one major customer representing 22.6% and 20.5% of revenues for the three and nine months ended August 31, 2011 respectively (August 31, 2010 - 16.3% and 0.2%).

# Sandvine Corporation

## Notes to the Consolidated Interim Financial Statements

August 31, 2011

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

The breakdown of assets by region is as follows:

	August 31 2011 \$	November 30 2010 \$
Plant and equipment, intangibles and goodwill		
Canada	16,467	15,680
United States	76	90
Europe, Middle East and Africa	1,126	1,696
Asia Pacific	867	-
	<u>18,536</u>	<u>17,466</u>
Total assets		
Canada	141,090	143,317
United States	1,773	261
Europe, Middle East and Africa	1,704	2,302
Asia Pacific	1,177	-
	<u>145,744</u>	<u>145,880</u>

## 8 Earnings (loss) per share

	Three months ended		Nine months ended	
	August 31 2011 \$	August 31 2010 \$	August 31 2011 \$	August 31 2010 \$
Numerator for basic and diluted earnings (loss) per share available to common shareholders	522	1,949	(2,128)	4,110
Denominator for earnings (loss) per share, weighted average number of shares outstanding				
Basic	137,760,777	136,466,457	137,490,171	136,101,292
Effect of warrant outstanding	619,280	619,280	-	619,280
Effect of stock options issued	3,068,108	3,642,304	-	3,823,438
Effect of contingently returnable shares	-	1,338	-	13,014
Diluted	<u>141,448,165</u>	<u>140,729,379</u>	<u>137,490,171</u>	<u>140,557,024</u>
Earnings (loss) per share:				
Basic	0.004	0.014	(0.015)	0.030
Diluted	0.004	0.014	(0.015)	0.029

# Sandvine Corporation

## Notes to the Consolidated Interim Financial Statements

August 31, 2011

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

---

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 nine month periods ended August 31, 2011 the Company paid \$68 and \$106 for income tax in cash (August 31, 2010 - \$45 and \$163). The Company did not pay any interest in cash during the three and nine month periods ended August 31, 2011 and August 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 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 August 31, 2011:

Designation	Currency Sold	Currency Bought	Notional Amount Bought	Weighted Average Rate
Held for trading; cash flow hedges	USD	ILS	9,930	0.2848
Held for trading; cash flow hedges	USD	CAD	15,650	1.0202

# **Sandvine Corporation**

## Notes to the Consolidated Interim Financial Statements

**August 31, 2011**

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

---

Management estimates that a loss of \$77 would be realized if these foreign exchange contracts were terminated on August 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 August 31, 2011 of +/- \$916, respectively and on net income for the period ended August 31, 2011 of approximately +/- \$122.

### **11 Credit facility**

The Company has a demand credit facility with a major Canadian chartered bank. During the first quarter the credit facility was amended to a USD facility. Under the terms of the facility, the Company has available to it a \$1,000 operating line to provide letters of credit and a \$3,750 contingency line to permit the Company to enter into foreign currency forward contracts. Borrowings made from the facility attract interest at the bank's prime rate of interest plus 0.5%. Short term investments with a carrying value and fair value of \$4,750 are pledged as security for the credit facility. The assets pledged as security can be called by the lender upon default of the facility or insolvency of the Company. The facility and the related security will remain in effect until the facility, which has no term, is terminated. In addition, the Company has available to it a \$10,000 spot foreign exchange facility.

As of August 31, 2011 the Company had issued two letters of credit under its operating line. The individual letters of credit are: US\$16 expiring July 24, 2012 and US\$79 expiring September 15, 2013. As of August 31, 2011, the Company had utilized \$939 of its contingency line relating to foreign currency forward contracts.

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

During the three and nine months ended August 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.