



MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated: April 11, 2007

The following discussion and analysis provides management's discussion and analysis ("MD&A") of Sandvine Corporation's consolidated results of operations and financial condition. This discussion should be read in conjunction with the Company's consolidated interim financial statements for the first quarter of fiscal 2007, being the period ended February 28, 2007. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are reported in Canadian dollars. The information contained herein is dated as of April 11, 2007, 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 will end on November 30, 2007, is referred to as the "current fiscal year," "fiscal 2007", "2007" or using similar words. The previous fiscal year, which ended on November 30, 2006, is referred to as "previous fiscal year," "fiscal 2006," "2006," 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, 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 "anticipated", "expected", "projected", "targeting", "estimate", "intend" and similar terms are intended to assist in 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 Sandvine 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, and Sandvine does not undertake any obligation to update forward-looking statements should assumptions related to these plans, estimates, projections, beliefs and opinions change.

Many factors could cause the actual results of Sandvine 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, which are further discussed in the Company 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 and customer demand;
- 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 on a small number of key customers for a large percentage of its revenues;
- The Company faces intense competition in markets where there are typically several different competing technologies and rapid technological changes;
- The Company's growth is dependent on the development of the market for intelligent broadband network management solutions and the decisions of the Company's target customers to deploy and further invest in those technologies;
- The Company is dependent on its suppliers to ensure continuous supply on terms that allow the Company to fulfil demand, maintain quality and achieve its projected gross margins.

SELECTED FINANCIAL INFORMATION

The following table sets out selected consolidated financial information for the periods indicated. The selected financial information set out below as at, and for the three month period ended, February 28, 2007 and 2006 respectively, has been derived from the unaudited consolidated interim financial statements and accompanying notes for the three month period ended February 28, 2007 as well as the November 30, 2006 audited consolidated financial statements. Each investor should read the following information in conjunction with those statements and related notes. The financial information for the three months ended February 28, 2007 and 2006 has been prepared by management in accordance with Canadian generally accepted accounting principles in a manner consistent with its annual financial statements.

	Three months ended February 28, (unaudited)	
	<u>2007</u>	<u>2006</u>
	<i>Amounts in thousands of dollars except for share and per share data</i>	
Consolidated Statement of Operations		
Data:		
Revenue		
Product	\$13,558	\$6,193
Service	1,817	756
	15,375	6,949
Cost of Sales		
Product	2,574	1,621
Service	347	183
	2,921	1,804
Gross margin.....	12,454	5,145
Expenses		
Sales and marketing.....	3,051	1,829
Research and development.....	2,722	2,370
Government (assistance) repayments	(79)	69
General and administrative.....	752	842
Stock based compensation	184	46
Amortization	520	245
Total operating expenses.....	7,150	5,401
Income (loss) from operations	5,304	(256)
Interest and other income	639	82
Income (loss) before provision for income taxes	5,943	(174)
Provision for income taxes.....	71	1
Net income (loss) for the period.....	5,872	(175)
Earnings (loss) per share		
Basic.....	0.048	(0.002)
Diluted	0.045	(0.002)
Weighted average common shares outstanding		
Basic	122,751,511	87,746,777
Diluted	129,367,292	87,746,777

	As at February 28, 2007 (unaudited)	As at November 30, 2006
	<i>Amounts in thousands of dollars</i>	
Consolidated Balance Sheet Data:		
Cash and cash equivalents	\$ 9,585	\$19,564
Marketable securities	62,855	37,515
Total assets	100,766	79,546
Total liabilities	21,428	6,379
Shareholders' equity	79,338	73,167

OVERVIEW

Sandvine develops and markets broadband network management equipment and solutions for residential broadband service providers. Sandvine's network management equipment and software solutions help broadband service providers identify and monitor traffic on their networks, with the aim of improving and enhancing subscriber satisfaction, reducing operational costs and increasing the profitability of broadband service providers. With the additional information provided by Sandvine's equipment, broadband service providers can better understand subscriber behaviour, recognize and address network threats like denial of service attacks, spam zombies, worms and spam, classify applications that are utilizing their networks (for example, VoIP, gaming or video streams), more confidently commit to service levels and create profitable tiers for multiple broadband services.

Sandvine began initial commercial deployments of its products in 2002 and has experienced growth in its number of customers and deployments since then. Sandvine's customer base has increased from 8 in 2003 to over 80 in March 2007. Sandvine currently has products installed and operating at customer facilities in over 30 countries around the world, with networks representing over 40 million broadband subscribers.

The Market

Sandvine's target market is focused on residential broadband service providers, worldwide, including DSL, cable, wireless and fibre-to-the-home (FTTH) delivery. This market continues to experience strong growth and Sandvine estimates that the top 250 broadband service providers around the world, by subscriber count, hold more than 80% of the worldwide residential broadband subscriber base, making these service providers Sandvine's primary target market.

Residential broadband service providers globally face challenges in an increasingly competitive business environment. Growth in application traffic continues to stress network capacity due largely to the mass-market popularity of bandwidth-hungry file-sharing applications. Service providers are also under constant pressure to maintain the service levels necessary to support latency sensitive applications like VoIP and online video games. At the same time a new breed of "virtual" Internet application providers (e.g. standalone VoIP providers), not burdened with network investment and operations, are aggressively targeting premium users with a broad range of value-added services.

Products and Solutions

Sandvine's products comprise a hardware platform bundled together with various proprietary software modules, and provide a system for residential broadband service providers to identify and monitor specific types of traffic across their networks. These products also provide the tools necessary to apply specific policies and take certain actions to more efficiently manage networks and improve the quality of service for Internet subscribers.

Understanding what applications are consuming the most bandwidth on their networks and managing those applications in a pro-active manner enables service providers to begin to transform their current "best effort" broadband infrastructure into more efficiently utilized "intelligent" networks. In communicating the value proposition of its solutions to its customers, Sandvine refers to this as an "Any Condition Any Action" approach to broadband network management. By accurately identifying various "conditions" that are occurring on its network, a residential broadband service provider can then apply "actions" based on those conditions to pursue the broadband management objectives sought by that service provider.

With an understanding of the type of traffic on its network, residential broadband service providers can also mitigate the effects of bandwidth-intensive applications and network threats by examining trends and preserving bandwidth for the applications that subscribers value most. For example, service providers can establish different revenue-generating tiers within their networks that commit to different service levels for popular, but bandwidth-intensive applications such as on-line gaming and file-sharing, or offer a lower priced tier of service that caters to "light" users who only use the Internet for less bandwidth intensive applications such as email and web surfing. Sandvine's products permit a service provider to distinguish between these various classes of data flowing over their networks and to direct different types of data down different paths, depending upon the relative priority assigned to that class of data.

Sandvine entered 2006 with a strategy of introducing a new hardware platform as well as growing its sales and marketing team throughout the world. On June 5, 2006, the Company announced the introduction of a new hardware platform, with 10 Gigabit Ethernet interconnects, designed to address the needs of the world's largest residential broadband service providers. Sandvine announced the first commercial deployment of this new platform in November 2006 and in March 2007 announced that seven service providers had purchased the platform. Throughout 2006 and into 2007, Sandvine is focused on growing its customer base both through direct sales channels as well as its worldwide and regional channel partners.

Sales and Distribution

Sandvine distributes its products and services through a combination of direct and indirect sales channels. The direct sales channel, is organized across the following geographic regions: (i) North America; (ii) Europe, the Middle East and Africa; (iii) Asia-Pacific; and (iv) the Caribbean and Latin America. The direct sales team is based out of various jurisdictions throughout the world. The indirect sales channel utilizes worldwide third party network equipment vendors and regional value-added resellers to market 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). 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

Sandvine enters fiscal 2007 with a strong customer presence in its markets, particularly cable with 9 of the top 12 U.S. MSO's being a Sandvine customer. Seven of the 20 largest broadband services providers in the U.S. are Sandvine customers. Sandvine will continue to increase its investment in research and development in support of further product development to continue to broaden and expand its feature set. In addition, Sandvine will continue with increased sales and marketing investment to expand its direct sales force presence throughout the world and to mature its relationship with both its regional and global resellers. The Company will continue to pursue opportunities in the cable market, and is particularly focused on increasing its sales and marketing efforts in the DSL market, as well as emerging access technology markets such as wireless and FTTH.

In addition, the Company anticipates that throughout 2007 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 a compatible culture, a complementary customer base, has technology that will extend Sandvine's base technology and has prospective growth rates commensurate with those of the Company.

Business Model

The company remains focused on making the necessary investments in its business to capture maximum market share and build on its technological lead. In broad terms, the company continues to work towards a medium-term (12 to 24 months) business model (outlined below) that includes gross margins at or above 70%, and net margins between 10% and 20%. However, based on the nature of its business and customer base, Sandvine also continues to expect that results in the short term or any given reporting period could vary substantially from this model. In addition to the risk factors outlined in the Company's AIF, a copy of which can be obtained on www.sedar.com, factors that could cause the Company's results, and its ability to achieve this targeted business model, to materially differ include the following:

- Customer buying patterns could impact the Company's revenue in any given period
- Significant variation in product mix experienced by the Company from period to period will impact the Company's gross margin
- Sales through the Company's indirect channels could impact the Company's gross margin
- Accelerated investment in the areas of research and development or sales and marketing would cause those expense components to represent a proportionately larger percentage of revenue and impact operating margins
- If revenues do not grow at projected rates, the Company's ongoing investment in research and development and SG&A would cause those expense components to represent a proportionately larger percentage of revenue and impact operating margins

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%

OVERALL PERFORMANCE

Revenue 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 support and maintenance services as well as various professional services including training and installation that is provided to its customers. To date, revenue generated from the professional services component has been nominal.

The Company evaluates its revenue performance based on four geographic regions. Each of those regions including the proportion of total revenue attributable to it is outlined in the following table.

	Three months ended February 28, (unaudited)	
	<u>2007</u>	<u>2006</u>
North America.....	86.8%	94.9%
Caribbean and Latin America.....	0.4%	1.2%
Europe, Middle East and Africa.....	10.4%	1.8%
Asia Pacific.....	2.4%	2.1%
	<hr/>	<hr/>
	100.0%	100.0%

The Company continues to derive a significant portion of its revenue from North American customers. The Company expects to see gradual proportional increases in revenue from regions outside of North America as it increases its presence and investment in sales and marketing resources within those regions.

The majority of the Company's expenses are denominated in Canadian dollars while its sales are generally denominated in U.S. dollars. The Company's earnings are impacted by fluctuations in the exchange rates between these and other currencies in which the Company trades. 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.

Product cost of sales consists of the cost of direct materials, third party software license fees, plus direct labour and an allocation of overhead applied to the product.

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

Sales and marketing expenses consist primarily of salaries 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, certification costs and material costs (including prototype costs) associated with new product introduction. The research and development expenses are presented on the Company's consolidated financial statements net of financial assistance received through the Technology Partnerships Canada program as well as net of the benefit of investment tax credits administered through Canada's Income Tax Act. Effective fiscal 2006, the Company commenced the repayment of funding received through the Technology Partnerships Canada program. Any repayments accrued or paid have been included in the consolidated financial statements as part of the Company's research and development expenses.

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 costs as well as foreign currency gains and losses.

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

The current income tax provision consists of current taxes owing by the Company's foreign subsidiaries.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Revenue Recognition. The Company's networking and communications products are integrated with software that is essential to the functionality of those products. Additionally, the Company provides unspecified software upgrades and enhancements through its maintenance contracts for most of its products.

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectibility is reasonably assured. In instances where final acceptance of the product, system, or solution is specified by the customer, revenue is deferred until all acceptance criteria have been met.

The Company enters into transactions that represent multiple-element arrangements, which may include any combination of hardware, software, professional services and support. These multiple-element arrangements are assessed to determine whether they can be separated into more than one unit of accounting or element for the purpose of revenue recognition. When the appropriate criteria for separating revenue into more than one element is met, the contract consideration is allocated to the separate elements based on the relative fair value of each element, as determined by internal or third-party analysis of market-based prices. In situations where there is objective and reliable evidence of fair value for all undelivered elements, but not for delivered elements, the residual method is used to allocate the contract consideration. Under the residual method, the amount of revenue allocated to delivered elements equals the total arrangement consideration less the aggregate fair value of any undelivered elements.

The percentage-of-completion method of accounting is used for sales generated from certain contracts, primarily those related to customized network solutions and network build-outs with durations greater than three months. The units-of-delivery or units-of-work performed method is used to measure progress on each contract. The Company exercises significant judgement in estimating revenue and costs on such contracts and in measuring progress towards completion, which determines the timing of revenue recognition and the level of contract profitability. Revenue, cost and profit estimates on long term contracts are revised periodically based on changes in circumstances and any foreseen losses on contracts are recognized in the period that such losses become known. The Company uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangement to establish these estimates. Uncertainties include implementation delays or performance issues that may or may not be within its control. Changes in these estimates could result in a material impact on revenues and net earnings (loss).

Technical support services revenue is deferred and recognized ratably over the period during which the services are to be performed, which is typically one year.

Allowance for doubtful accounts. The allowance for doubtful accounts receivable is based on the Company's assessment of the collectibility of specific customer balances. If there is a deterioration in a customer's credit worthiness or actual defaults under the terms of the sale are higher than the Company's historical experience, the Company's estimate of recoverability for accounts receivable could be adversely affected.

The evaluation of collectibility of customer accounts is typically done on an individual account basis. If based on an evaluation of accounts, the Company concludes that it is probable that a customer will not be able to pay all amounts due, an estimate of the expected loss is made. In developing the estimates for an allowance, the Company considers general and industry economic and market conditions as well as other credit information available for the customer. The Company only records recoveries of provisions when objective verifiable evidence supports the change in the original provision.

Inventory. Raw materials are stated at the lower of cost and replacement cost. Work-in-progress is stated at the lower of cost and net realizable value. The Company's policy for the valuation of inventory, including the determination of obsolete or excess inventory, requires the estimate of future demand for the Company's products. Inventory purchases and purchase commitments are based upon forecasts of future demand. Certain inventory parts are subject to long lead-time order requirements. The Company performs a detailed assessment of inventory each reporting period, which includes a review of, among other factors, anticipated demand requirements, current inventory levels, component part purchase commitments and usage. If customer demand differs from the Company's forecasts, requirements for inventory write-offs could differ from the Company's estimates. If the Company determines that forecasted demand does not allow the Company to sell inventories above cost or at all, such inventory is written down to net realizable value or is written off.

Stock Based Compensation. The Company has adopted a stock option plan as further described in note 7 of the November 30, 2006 audited consolidated financial statements. During 2004, the Company adopted The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments, and applied that policy prospectively to new awards granted on or after December 1, 2003.

In accordance with CICA Handbook Section 3870, awards granted on or after December 1, 2003 are accounted for using the fair value method of accounting, whereby the Company recognizes compensation expense equal to the fair value of the award over its vesting period. Determining the fair value of stock-based awards at the grant date requires judgment, including estimating the expected term of stock options, the expected volatility of the Company's stock and expected dividends. In addition, judgment is also required in estimating the amount of stock-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, stock-based compensation expense and the Company's results of operations could be materially impacted. The fair value of the awards is determined using the Black-Scholes option pricing model.

Income Tax Expense. As at February 28, 2007 the Company had approximately \$0.9 million of losses for Canadian income tax purposes, approximately \$13.5 million of unused research and development expenditures for Canadian income tax purposes, and \$2.6 million of unrecognized investment tax credits which may be applied against future Canadian income taxes otherwise payable.

No future income tax asset has been recorded on the Company's consolidated balance sheet to date as a full valuation allowance has been provided for the amount of any benefit. The Company has provided a full valuation allowance as it has not yet been demonstrated that future realization of the tax benefit is more likely than not given that we have a history of losses.

ACCOUNTING CHANGES

Effective December 1, 2006, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3861, Financial Instruments – Disclosure and Presentation; Section 3865, Hedges, and, Section 1530, Comprehensive Income, prospectively without restatement. These new Handbook Sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition, measurement and disclosure of financial instruments and on the use of hedge accounting. In addition, Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and therefore, the comparative figures have not been restated. The adoption of these Handbook Sections resulted in an adjustment of \$0.1 million to increase the Company's opening deficit amount. Under Section 3855, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net income. Upon adoption of these new standards, the Company designated its cash, cash equivalents and derivatives as held-for trading, which are measured at fair value. Marketable securities are classified as available for sale which are measured at fair value, with the changes in fair value being recognized in other comprehensive income during the period. Accounts receivable are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities which are measured at amortized cost.

CURRENT PERIOD OPERATING RESULTS

Revenue

For the first quarter of fiscal 2007, the Company's total revenues were \$15.4 million compared to \$6.9 million for the same period last year, representing a 121.3% increase.

For the first quarter of fiscal 2007, the Company's product revenues were \$13.6 million compared to \$6.2 million for the same period last year, representing a 118.9% increase. The increase in product revenue predominantly relates to new customer wins and the continued deployment of the Company's products by its largest customer throughout the period.

Service revenue for the first quarter of 2007 was \$1.8 million or 11.8% of revenue, compared to \$0.8 million or 10.9% of revenue for the same period last year. This increase primarily results from higher on going and one time support and maintenance fees, which is consistent with growing product revenue throughout fiscal 2006 and the first quarter of fiscal 2007.

The Company's customers are predominantly cable and DSL service providers. The majority of the Company's revenue continued to be derived from the cable market with a significant portion of revenue being recognized from a small number of customers. For the first quarter of fiscal 2007, two customers represented 74.8% of total revenue as compared to two customers representing 81.7% of its revenue for the same period last year. The following chart outlines the revenue generated from select customers.

	<u>Q1-07</u>	<u>Q1-06</u>
Customer A	63.0%	70.8%
Customer B	11.8%	Nil
Customer C	<u>Nil</u>	<u>10.9%</u>
Total	<u>74.8%</u>	<u>81.7%</u>

Gross Margin

For the first quarter of fiscal 2007, product gross margins increased by 7.2% to 81.0% compared to 73.8% for the same period last year. The increase in product gross margin predominantly relates to higher stand alone or follow on software sales in the current quarter from the Company's existing customers.

For the first quarter of fiscal 2007, service gross margins increased by 5.1% to 80.9% as compared to 75.8% for the same period last year. The increase predominantly relates to increased service revenue (consistent with increased product sales and one time support and maintenance fees) without a proportionate increase in service cost of sales.

Management does not believe that the product gross margin realized in the first quarter of fiscal 2007 is necessarily indicative of margins that will be experienced throughout the balance of fiscal 2007. Changes to product mix as well as the level of sales recognized through the Company's indirect sales channel may impact the Company's gross margin throughout the remainder of the year.

Operating Expenses

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

	Three months ended February 28, (unaudited) <i>In thousands of dollars</i>	
	<u>2007</u>	<u>2006</u>
Revenue	\$15,375	\$6,949
Sales and marketing.....	3,051	1,829
<i>% of revenue</i>	19.8%	26.3%
Research and development.....	2,722	2,370
<i>% of revenue</i>	17.7%	34.1%
Government (assistance) repayments	(79)	69
<i>% of revenue</i>	(0.5%)	1.0%
General and administrative.....	752	842
<i>% of revenue</i>	4.9%	12.1%
Stock based compensation	184	46
<i>% of revenue</i>	1.2%	0.7%
Amortization.....	520	245
<i>% of revenue</i>	3.4%	3.5%
Total operating expenses	7,150	5,401
	46.5%	77.7%
Net income (loss) for the period	5,872	(175)
<i>% of revenue</i>	38.2%	n/a

Sales and Marketing Expenses

For the first quarter of 2007, sales and marketing expenditures increased by \$1.2 million to \$3.1 million, which represents a 66.8% increase from the \$1.8 million incurred for the same period last year. Major factors contributing to the increase include increased compensation and travel costs associated with additional staff being added to the group.

The sales and marketing team consists of 47 employees which is made up of 31 employees dedicated to selling activities and 16 employees dedicated to marketing and product management.

Research and Development Expenses

Exclusive of government assistance, government assistance repayments and investment tax credits (Q1-07 – net assistance of \$0.1 million; Q1-06 – net repayments of \$0.1 million), research and development expenses for the first quarter of 2007 increased by \$0.3 million to \$2.7 million, which represents a 14.9% increase from the \$2.4 million incurred for the same period last year. The increase over the prior period mainly results from 14 additional people in the research and development group, plus increased consulting costs, partially offset by a reduction in prototype and tooling expenses.

During the three month period ended February 28, 2007, as a result of legislative changes the Company recognized \$0.2 million of government assistance in the form of refundable research and development tax credits in respect of its fiscal 2006 tax year. As a result of becoming a public Company, the Company is no longer entitled to receive any refundable research and development tax credits in the future.

General and Administrative

For the first quarter of 2007 general and administrative expenditures remained relatively constant at \$0.8 million. Although the expenditures remained relatively constant, the make up of the general and administrative expenses changed slightly, including increased staffing costs (\$0.1 million) and increased professional fees (\$0.1 million). These items were partially offset by a foreign exchange gain of \$0.3 million in 2007 as compared to a \$0.1 million foreign exchange loss in the first quarter of 2006 (\$0.4 million impact).

Interest and Other Income

For the first quarter of 2007 the Company earned \$0.6 million of investment income compared to \$0.1 million for the same period last year. The increase is a result of the increased cash, cash equivalents and marketable securities balance throughout the first quarter of fiscal 2007 compared to the same period last year. The increased cash, cash equivalents and marketable securities balances is a result of the Company's equity financings (and related AIM and TSX listings) that took place during fiscal 2006 as well as the increased cash resources generated from operations during the first quarter of 2007.

Income Tax Expense

The Company's current income tax provision for fiscal 2007 is \$0.1 million as compared to \$1,000 for the same period last year. The current provision for income taxes consists of an estimate of taxes owing by the Company's foreign subsidiaries.

LIQUIDITY AND CAPITAL

Since its inception, the Company has financed its operations and met its capital expenditure requirements primarily through the sale of equity securities and the receipt of financial assistance from Canada's Technology Partnerships program.

At February 28, 2007, the Company had \$72.4 million of cash, cash equivalents and marketable securities compared to \$57.1 million as at November 30, 2006. The increase in these balances primarily relates to the positive first quarter 2007 operating results, including \$17.0 million of cash generated from operations during the period.

	February 28, 2007 (unaudited)	November 30, 2006
Key Balance Sheet Amounts and Ratios:		
	<i>(In thousands of dollars, except balance sheet ratios and metrics)</i>	
Cash, cash equivalents and marketable securities	72,440	57,079
Working capital*	72,061	67,140
Working capital ratio*	4.4:1	11.7:1
Days sales outstanding in account receivable*	33 days	53 days
Inventory turnover*	0.9 times	1.0 times

	Three months ended	
	February 28,	
	(unaudited)	
	<i>(In thousands of dollars)</i>	
	<u>2007</u>	<u>2006</u>
Cash Inflows and (Outflows) by Activity:		
Operating activities.....	16,951	2,402
Investing activities.....	(27,117)	(9,166)
Financing activities.....	187	126
Net cash inflows (outflows)	(9,979)	(6,638)

* The Company uses working capital, working capital ratio, days sales outstanding in accounts receivable and inventory turnover as a measure to enhance comparisons between periods. These terms do not have a standardized meaning under GAAP and are not necessarily comparable to similar measures presented by other companies. The calculation of each of these items is more fully described below.

Cash and Cash Equivalents and Marketable Securities

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. Marketable securities include debt securities maturing within twelve months of the balance sheet date. Marketable securities 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 marketable securities 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.

At February 28, 2007, the Company had \$72.4 million of cash and cash equivalents and marketable securities compared to \$57.1 million for the year ended November 30, 2006. The increase in cash is consistent with the Company's improved operating performance during the quarter. In addition, the Company generated \$15.8 million of cash through an increase in its deferred revenue balance (see Cash Provided by (used in) Operating Activities, below) since November 30, 2006.

Working Capital

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance increased to \$72.1 million at February 28, 2007 compared to \$67.1 million at the end of fiscal 2006. The Company's working capital ratio (which is its current assets divided by its current liabilities) decreased to 4.4:1 compared to 11.7:1 at November 30, 2006. The decrease mainly relates to the significant increase in the Company's current deferred revenue balance, which was \$16.5 million at February 28, 2007 compared to \$0.7 million at November 30, 2006.

The Company's days sales outstanding in accounts receivable ("DSO") decreased to 33 days at February 28, 2007 from 53 days at the end of fiscal 2006. The decrease relates to certain customers paying for products that they purchased in advance of the Company recognizing the related revenue, as well as revenue being earned earlier in the quarter. The Company does not expect that its DSO will remain at current levels, but instead will be more consistent with historical levels: 50 to 60 days. During periods of high growth, the Company calculates DSO (as experienced during the first quarter of 2007 and fiscal 2006) based on the recent three months annualized revenue and the average of the beginning and ending accounts receivable balance for such three month period.

The February 28, 2007 inventory turnover of 0.9 times per year is slightly lower than the 1.0 times per year at November 30, 2006. The decrease relates to the increased “deferred cost of sales” inventory balance at February 28, 2007 (\$1.7 million) as compared to November 30, 2006 (\$0.4 million). The Company now calculates its inventory turnover based on the actual costs of product sales for the period and the average of the inventory balance at the beginning of the period and the ending inventory balance for the period. Included in the Company’s inventory balance is \$2.0 million related to demonstration units and \$1.7 million related to deferred cost of product sales.

Cash Provided by (used in) Operating Activities

Cash provided by operations was \$17.0 million for the first quarter of fiscal 2007 compared to \$2.4 million for the same period last year. The increase over the period relates to higher net income (Q1 2007: \$5.9 million; Q1 2006: \$(0.2) million) and favourable fluctuations in non-cash working capital balances (Q1 2007: \$10.7 million; Q1 2006: \$2.4 million), primarily current deferred revenue, which grew to \$16.5 million at February 28, 2007 compared to \$0.7 million at November 30, 2006. The Company’s deferred revenue balance as at February 28, 2007 is primarily made up of deferred support and maintenance revenue as well as certain amounts being collected in advance of the associated product revenue being recognized.

The Company enters into complex arrangements that involve acceptance tests, multiple deliverables and/or post contractual support which remain undelivered at the end of the period. Generally, this results in the deferral of revenue because, in most cases, the Company has not established fair value for the undelivered elements. Where the Company has sold post contract support, the resulting revenue is 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 post contract support or post contract support 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:

	<u>February 28,</u> <u>2007</u> <u>(unaudited)</u>	<u>November 30,</u> <u>2006</u>
	<i>In thousands of dollars</i>	
Deferred revenue:	2007	2006
Service	\$ 4,211	\$693
Product	12,376	95
Total	<u>\$16,587</u>	<u>\$788</u>
Reported as:		
Current	\$16,493	\$700
Non-current	94	88
Total	<u>\$16,587</u>	<u>\$ 788</u>

Purchase of Capital Assets

Additions to capital assets were \$1.8 million in the first quarter of 2007 as compared to \$0.7 million for the same period last year.

The current period additions mainly relate to continued investment in hardware equipment and software to support the Company’s research and development activities as well as continued investment in IT infrastructure.

During the first quarter of fiscal 2007, the Company capitalized \$0.7 million of internally manufactured assets. The majority of these additions related to hardware equipment used within the Company’s research and development lab.

Issuance of Equity Shares

During the first quarter of fiscal 2007, the Company issued 313,115 common shares upon exercise of stock options. The issuance of those shares resulted in approximately \$0.2 million of net proceeds to the Company.

As of the date of this document the number of common shares in issue is 122,992,731.

Liquidity and Capital Resource Requirements

Given the items outlined above and the Company's current revenue 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

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.

At February 28, 2007, the Company has open forward foreign exchange contracts outstanding in the amount of US \$4.0 million. The effect of these forward foreign exchange contracts is that it fixes the conversion rate for US \$4.0 million of the Company's net US dollar asset position at a weighted average rate of 1.1605. The Company is carrying these contracts at their fair value. The Company has not applied hedge accounting to its forward foreign exchange contracts as they do not relate to specific future contractual obligations or commitments.

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. On February 28, 2007, the Company had a significant concentration of credit risk with two customers representing 66.7% (49.4% and 17.3% respectively) of the Company's accounts receivable.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's CEO and 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 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, 2007 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified through their evaluation.

Selected consolidated quarterly financial information

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

Fiscal 2007 <i>(in thousands of dollars)</i>	Three months ended (unaudited)
	<u>February 28,</u> <u>2007</u>
Sales	15,375
Operating expenses	7,150
Net income – total	5,872
Basic earnings (loss) per share	0.048
Diluted earnings (loss) per share	0.045
Total assets	100,766

Fiscal 2006 <i>(in thousands of dollars)</i>	Three months ended (unaudited)				Fiscal year ended
	<u>February 28,</u> <u>2006</u>	<u>May 31,</u> <u>2006</u>	<u>August 31,</u> <u>2006</u>	<u>November 30,</u> <u>2006</u>	<u>November 30,</u> <u>2006</u>
Sales	6,949	7,394	8,076	9,246	31,665
Operating expenses	5,401	6,225	6,260	6,929	24,815
Net income (loss) – total	(175)	(506)	183	116	(382)
Basic earnings (loss) per share	(0.002)	(0.005)	0.002	0.001	(0.004)
Diluted earnings (loss) per share	(0.002)	(0.005)	0.002	0.001	(0.004)
Total assets	26,747	63,578	65,912	79,546	79,546

Fiscal 2005 <i>(in thousands of dollars)</i>	Three months ended (unaudited)		Fiscal year ended
	<u>August 31,</u> <u>2005</u>	<u>November 30,</u> <u>2005</u>	<u>November 30,</u> <u>2005</u>
Sales	4,051	6,412	15,809
Operating expenses	4,379	4,474	14,661
Net income (loss) – total	(1,406)	377	(2,979)
Basic earnings (loss) per share	(0.016)	0.004	(0.039)
Diluted earnings (loss) per share	(0.016)	0.004	(0.039)
Total assets	24,517	27,770	27,770

***The Company has not prepared quarterly financial results prior to August 31, 2005

Historically, our operating results have fluctuated on a quarterly basis and we expect that quarterly financial results will continue to fluctuate in the future. Fluctuations in results relate to the timing of revenue and sales to OEM and reseller customers, which may place large single orders in any one quarter, and to the timing of staffing and infrastructure additions to support growth.