

# **Sandvine Corporation**

Unaudited Consolidated Interim Financial Statements  
**May 31, 2007**

# Sandvine Corporation

## Consolidated Interim Balance Sheets

As at May 31, 2007

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

	May 31 2007 \$	November 30 2006 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	3,620	19,564
Marketable securities	61,815	37,515
Accounts receivable	10,231	4,421
Other receivables	965	1,941
Inventory	13,902	9,625
Prepaid expenses	635	365
Future tax asset (note 8)	3,118	-
	<u>94,286</u>	<u>73,431</u>
<b>Non current assets</b>		
Capital assets	8,322	6,115
Deferred charges	203	-
	<u>8,525</u>	<u>6,115</u>
	<u>102,811</u>	<u>79,546</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	3,641	5,591
Current portion of deferred revenue	8,598	700
	<u>12,239</u>	<u>6,291</u>
<b>Deferred revenue</b>	<u>91</u>	<u>88</u>
	<u>12,330</u>	<u>6,379</u>
<b>Shareholders' equity</b>		
<b>Share capital</b> (note 3)	92,141	91,247
<b>Contributed surplus</b>	733	403
<b>Accumulated other comprehensive income</b> (note 2)	(24)	-
<b>Deficit</b>	<u>(2,369)</u>	<u>(18,483)</u>
	<u>90,481</u>	<u>73,167</u>
	<u>102,811</u>	<u>79,546</u>

# Sandvine Corporation

## Consolidated Interim Statement of Operations and Deficit

For the three and six month periods ended May 31, 2007

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

	Three months ended		Six months ended	
	May 31 2007 \$	May 31 2006 \$	May 31 2007 \$	May 31 2006 \$
<b>Revenue</b>				
Product	17,797	6,456	31,355	12,649
Service	2,225	939	4,042	1,695
	<u>20,022</u>	<u>7,395</u>	<u>35,397</u>	<u>14,344</u>
<b>Cost of sales</b>				
Product	3,338	1,767	5,912	3,388
Service	367	267	714	450
	<u>3,705</u>	<u>2,034</u>	<u>6,626</u>	<u>3,838</u>
<b>Gross margin</b>	<u>16,317</u>	<u>5,361</u>	<u>28,771</u>	<u>10,506</u>
<b>Expenses</b>				
Sales and marketing	3,413	2,038	6,464	3,867
Research and development (note 7)	3,823	2,794	6,466	5,233
General and administrative	1,576	998	2,328	1,840
Stock based compensation (note 4)	220	56	404	102
Amortization	642	339	1,162	584
	<u>9,674</u>	<u>6,225</u>	<u>16,824</u>	<u>11,626</u>
<b>Income (loss) from operations</b>	<u>6,643</u>	<u>(864)</u>	<u>11,947</u>	<u>(1,120)</u>
<b>Interest and other income</b>	<u>658</u>	<u>375</u>	<u>1,297</u>	<u>457</u>
<b>Income (loss) before provision for income taxes</b>	<u>7,301</u>	<u>(489)</u>	<u>13,244</u>	<u>(663)</u>
<b>Provision for (recovery of) income taxes</b>				
Current	99	16	170	17
Future (note 8)	(3,118)	-	(3,118)	-
<b>Net income (loss) for the period</b>	<u>10,320</u>	<u>(505)</u>	<u>16,192</u>	<u>(680)</u>
<b>Deficit – Beginning of period</b>	<u>(12,689)</u>	<u>(18,277)</u>	<u>(18,483)</u>	<u>(18,102)</u>
Transition on adoption of financial instruments standards (note 2)	-	-	(78)	-
<b>Deficit – End of period</b>	<u>(2,369)</u>	<u>(18,782)</u>	<u>(2,369)</u>	<u>(18,782)</u>
<b>Earnings (loss) per share</b> (note 6)				
Basic	<u>0.084</u>	<u>(0.005)</u>	<u>0.132</u>	<u>(0.007)</u>
Diluted	<u>0.079</u>	<u>(0.005)</u>	<u>0.125</u>	<u>(0.007)</u>
Basic weighted average number of shares outstanding	<u>123,344,744</u>	<u>108,669,887</u>	<u>123,051,037</u>	<u>100,358,431</u>
Diluted weighted average number of shares outstanding	<u>130,521,184</u>	<u>108,669,887</u>	<u>129,885,661</u>	<u>100,358,431</u>

# Sandvine Corporation

Consolidated Interim Statement of Comprehensive Income

**For the three and six month period ended May 31, 2007**

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

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	<u>Three months ended</u>	<u>Six months ended</u>
	<u>May 31</u>	<u>May 31</u>
	<u>2007</u>	<u>2007</u>
	<u>\$</u>	<u>\$</u>
<b>Net income for the period</b>	10,320	16,192
<b>Other comprehensive income, net of tax</b>		
Unrealized gains (losses) on available for sale financial assets arising during the period (net of \$nil tax)	<u>(30)</u>	<u>(29)</u>
<b>Comprehensive income</b>	<u>10,290</u>	<u>16,163</u>

# Sandvine Corporation

## Consolidated Interim Statements of Cash Flows

For the three and six month period ended May 31, 2007

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

	Three months ended		Six months ended	
	May 31 2007 \$	May 31 2006 \$	May 31 2007 \$	May 31 2006 \$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income (loss) for the period	10,320	(505)	16,192	(680)
Items not affecting cash				
Amortization	642	339	1,162	584
Foreign exchange loss	333	45	7	133
Stock-based compensation (note 4)	220	56	404	102
Future income taxes (note 8)	(3,118)	-	(3,118)	-
Loss on disposal of capital assets	51	28	51	28
	8,448	(37)	14,698	167
Changes in non-current balances	(206)	143	(200)	(11)
Changes in non-cash working capital balances	(14,206)	(44)	(3,517)	2,308
	(5,964)	62	10,981	2,464
<b>Investing activities</b>				
Purchase of capital assets	(1,644)	(1,162)	(3,421)	(1,862)
Net sale (purchase) of marketable securities	1,010	(38,129)	(24,324)	(46,595)
	(634)	(39,291)	(27,745)	(48,457)
<b>Financing activity</b>				
Proceeds from the issuance of share capital (note 3)	633	37,228	820	37,354
<b>Net (decrease) in cash during period</b>	<b>(5,965)</b>	<b>(2,001)</b>	<b>(15,944)</b>	<b>(8,639)</b>
<b>Cash and cash equivalents – Beginning of period</b>	<b>9,585</b>	<b>3,117</b>	<b>19,564</b>	<b>9,755</b>
<b>Cash and cash equivalents – End of period</b>	<b>3,620</b>	<b>1,116</b>	<b>3,620</b>	<b>1,116</b>
<b>Cash and cash equivalents are represented by</b>				
Balances with banks	908	1,116	908	1,116
Cash equivalents	2,712	-	2,712	-

# Sandvine Corporation

Notes to the Interim Consolidated Financial Statements

May 31, 2007

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

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## 1 Basis of presentation

The unaudited consolidated interim financial statements are in accordance with Canadian generally accepted accounting principles applicable to interim consolidated financial statements. These unaudited consolidated interim financial statements should be read in conjunction with the November 30, 2006 audited consolidated financial statements.

The Company was incorporated in February 2006. In March 2006, the Company acquired all of the issued and outstanding shares of Sandvine Incorporated. As both the Company and Sandvine Incorporated were related through common share ownership, the business combination has been recorded using the continuity of interest's method, whereby the financial statements have been prepared on the basis that the Company had always been the sole shareholder of Sandvine Incorporated. Certain comparative information included in these financial statements relates to the financial information of Sandvine Incorporated.

The preparation of these unaudited 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 and the operating results for the interim periods presented are not necessarily indicative of the results expected for the full year. In the opinion of management, these unaudited consolidated interim financial statements reflect adjustments necessary to state fairly the results for the periods presented.

These unaudited consolidated interim financial statements have been prepared on a basis consistent with the audited financial statements for the year ended November 30, 2006, except as described in note 2.

## 2 Changes in accounting policies

### Financial instruments

The Company adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, *Financial Instruments – Recognition and Measurement*; Section 1530, *Comprehensive Income*, Section 3861, *Financial Instruments – Disclosure and Presentation* and Section 3865, *Hedges* on December 1, 2006. The adoption of these new financial instruments standards resulted in changes in the accounting for financial instruments as well as the recognition of certain transition adjustments that have been recorded in opening accumulated other comprehensive income as described below. The comparative interim consolidated financial statements have not been restated. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

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## Notes to the Interim Consolidated Financial Statements

May 31, 2007

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

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### (a) Financial assets and financial liabilities

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition.

#### *Held for trading*

Financial assets that are purchased and incurred with the intention of generating profits in the near term are classified as held for trading. These instruments are accounted for at fair value with the change in the fair value recognized in net income during the period. Cash and cash equivalents totalling \$10.7 million and foreign currency derivatives of \$11 were classified as held for trading on December 1, 2006.

#### *Available-for-sale*

Financial assets classified as available-for-sale are carried at fair value with the changes in fair value recorded in other comprehensive income. When a decline in fair value is determined to be other-than-temporary, the cumulative loss included in accumulated other comprehensive income is removed and recognized in net income. Gains and losses realized on disposal of available-for-sale securities are recognized in other income. Investments totalling \$46.3 million were classified as available-for-sale on December 1, 2006.

#### *Held-to-maturity*

Securities that have a fixed maturity date and which the Company has positive intention and the ability to hold to maturity are classified as held-to-maturity and accounted for at amortized cost using the effective interest rate method. No investments were classified as held-to-maturity on December 1, 2006.

#### *Receivables*

Receivables are accounted for at amortized cost. This classification is consistent with the classification under the prior accounting standards.

### (b) Embedded derivatives

Derivatives may be embedded in other financial and non-financial instruments (the "host instrument"). Prior to the adoption of the new standards, embedded derivatives were not accounted for separately from the host instrument except in certain circumstances which were not applicable to the Company. Under the new standards, embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in the Statement of Operations and Deficit as an element of general and administrative expenses.

# **Sandvine Corporation**

Notes to the Interim Consolidated Financial Statements

**May 31, 2007**

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

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The Company enters into certain non-financial instrument contracts which contain embedded foreign currency derivatives. In cases where the contract is not leveraged, does not contain an option feature and is denominated in a currency that is commonly used in the economic environment where the transaction takes place, the embedded derivative is not accounted for separately from the host contract.

The change in accounting policy related to embedded derivatives resulted in an increase of \$78 to the opening deficit at the date of adoption. As of May 31, 2007, the fair value of the embedded derivative asset is \$200. The Company recognized a gain of \$272 and \$185 for the three and six month periods ended May 31, 2007 respectively on its embedded derivatives.

## **(c) Determination of fair value**

The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, fair value is determined by using valuation techniques which refer to observable market data.

## **(d) Comprehensive income**

Comprehensive income is composed of the Company's net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on available-for-sale securities, net of income taxes. The components of comprehensive income are disclosed in the Consolidated Interim Statement of Comprehensive Income. The change in accounting policy resulted in the recognition of a \$5 unrealized gain on available-for-sale securities in accumulated other comprehensive income on the date of adoption.

## **(e) Hedge accounting**

There was no impact on the Company as a result of adopting Section 3865.

# Sandvine Corporation

## Notes to the Interim Consolidated Financial Statements

May 31, 2007

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

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### 3 Share capital

Share capital consists of the following:

	Common shares		Common share warrant		Total
	#	\$	#	\$	\$
<b>Balance, November 30, 2006</b>	122,668,416	90,857	1	390	91,247
Issued under the employee stock option plan	313,115	187	-	-	187
Transfer from contributed surplus	-	7	-	-	7
<b>Balance, February 28, 2007</b>	122,981,531	91,051	1	390	91,441
Issued under the employee stock option plan	1,126,524	633	-	-	633
Transfer from contributed surplus	-	67	-	-	67
<b>Balance, May 31, 2007</b>	124,108,055	91,751	1	390	92,141

The Company has authorized an unlimited number of common shares.

The Company has one outstanding and authorized common share purchase warrant which entitles the holder to acquire 619,280 common shares for \$0.00001 at any time prior to March 31, 2023. This transaction was a non-cash transaction. The Company determined that the fair value of the warrant was \$390 at the time of issue.

During the three months ending May 31, 2007, the Company issued 1,126,524 common shares for net proceeds of \$633 as a result of option holders exercising their options (1,439,639 common shares for net proceeds of \$820 for the six month period ending May 31, 2007).

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Notes to the Interim Consolidated Financial Statements

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## 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 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 following the date of grant. As at May 31, 2007, there were 4,301,923 options available for future grants under the stock option plan. A summary of the stock option activity is presented below:

	<b>Options</b>	
	<b>Number</b>	<b>Weighted average price \$</b>
<b>Options outstanding, November 30, 2005</b>	<b>7,587,951</b>	<b>0.562</b>
Option activity for the period		
Granted during the period	2,143,600	1.884
Forfeited and expired	(406,830)	0.686
Exercised	(370,800)	0.537
<b>Options outstanding, November 30, 2006</b>	<b>8,953,921</b>	<b>0.875</b>
Option activity for the period		
Granted during the period	526,000	2.530
Forfeited and expired	(24,000)	2.288
Exercised	(313,115)	0.596
<b>Options outstanding, February 28, 2007</b>	<b>9,142,806</b>	<b>0.976</b>
Option activity for the period		
Granted during the period	170,500	4.140
Forfeited and expired	(77,900)	1.680
Exercised	(1,126,524)	0.562
<b>Options outstanding, May 31, 2007</b>	<b>8,108,882</b>	<b>1.093</b>

# Sandvine Corporation

## Notes to the Interim Consolidated Financial Statements

May 31, 2007

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

### Stock based compensation

The Company has recognized \$220 and \$404 for the three and six month periods ended May 31, 2007 respectively as compensation expense for stock-based grants (May 31, 2006 – \$56 and \$102), with a corresponding credit to contributed surplus. Previously recognized expense of \$67 and \$74 for the three and six month periods ending May 31, 2007 respectively relating to options exercised during the period has been transferred from contributed surplus to share capital (May 31, 2006 - \$nil and \$nil).

	For the three months ended		For the six months ended	
	May 31 2007	May 31 2006	May 31 2007	May 31 2006
Number of options issued	170,500	209,600	696,500	680,000
Weighted average Black-Scholes value of each option	\$3.04	\$1.45	\$2.07	\$0.59
Assumptions				
Risk free interest rate	4.18%	4.35%	4.17%	4.18%
Expected life in years	10	10	10	10
Expected dividend yield	0%	0%	0%	0%
Volatility	62.80%	45.00%	57.29%	13.87%

The following table summarizes information regarding stock options outstanding at May 31, 2007:

Range of exercise price \$	Options Outstanding			Options Exercisable	
	Number outstanding at May 31, 2007	Weighted average contractual life (years)	Weighted average exercise price \$	Number outstanding at May 31, 2007	Weighted average exercise price \$
0.40 - 0.63	5,823,782	6.16	0.57	3,943,362	0.54
1.52 - 2.53	2,119,600	9.32	2.30	39,941	1.96
4.14	165,500	9.87	4.14	-	-
0.40 – 4.14	8,108,882	7.06	1.09	3,983,303	0.55

# Sandvine Corporation

Notes to the Interim Consolidated Financial Statements

May 31, 2007

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

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## 5 Lease commitments

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

	\$
2007	253
2008	437
2009	437
2010	437
2011	437
Thereafter	219
	<hr/>
	2,220
	<hr/>

## 6 Earnings (loss) per share

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	May 31 2007	May 31 2006	May 31 2007	May 31 2006
Numerator for basic and diluted earnings (loss) per share available to common shareholders	10,320	(505)	16,192	(680)
Denominator for basic earnings (loss) per share, weighted average number of shares outstanding	123,344,744	108,669,887	123,051,037	100,358,431
Denominator for diluted earnings (loss) per share, weighted average number of shares and assumed conversions	130,521,184	108,669,887	129,885,661	100,358,431
Earnings (loss) per share:				
Basic	0.084	(0.005)	0.132	(0.007)
Diluted	0.079	(0.005)	0.125	(0.007)

In periods where the Company incurred losses applicable to common shares, the common share purchase warrant and the options granted under the Company's stock option plan have been excluded in the diluted loss per share calculation as their inclusion would have been anti-dilutive.

# Sandvine Corporation

## Notes to the Interim Consolidated Financial Statements

May 31, 2007

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

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### 7 Government assistance

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 \$9.5 million 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 million on gross revenues of the Company. From December 1, 2005 to November 30, 2007, royalties will be paid at a rate of 1%. On the earlier of December 1, 2007 or the date the Company’s cumulative gross revenues exceeds \$85 million, the royalty rate will increase to 2.5%. The obligation to pay royalties will continue until November 30, 2013. During the three and six month periods ending May 31, 2007, the Company recognized \$200 and \$354 respectively (May 31, 2006 - \$74 and \$143) 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 \$671 under the agreement.

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

	<u>For the three months ended</u>		<u>For the six months ended</u>	
	<b>May 31 2007</b>	<b>May 31 2006</b>	<b>May 31 2007</b>	<b>May 31 2006</b>
	\$	\$	\$	\$
Research and development	3,623	2,720	6,345	5,090
Government repayments	200	74	354	143
Investment tax credits	-	-	(233)	-
	<u>3,823</u>	<u>2,794</u>	<u>6,466</u>	<u>5,233</u>

### 8 Income taxes

The Company determined at May 31, 2007 the future tax assets associated with temporary differences and reserves with a value totalling \$3,118 are more likely than not to be realized given the Company’s expectations of future profitability. A valuation allowance of approximately \$673 has been applied against the Company’s remaining future tax assets associated with temporary differences and reserves. In addition, the Company has not recognized the benefit associated with its unrecognized non-refundable investment tax credits.

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

The Company has not provided for Canadian future income taxes or foreign withholding taxes that would apply on the distribution of the earnings of its non-Canadian subsidiaries, since these earnings are intended to be reinvested indefinitely.

# Sandvine Corporation

## Notes to the Interim Consolidated Financial Statements

May 31, 2007

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

### 9 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 equipment for the computer communications equipment industry. Selected financial information is as follows:

	For the three months ended		For the six months ended	
	May 31 2007 \$	May 31 2006 \$	May 31 2007 \$	May 31 2006 \$
Sales				
Canada	56	83	176	160
United States	19,420	6,832	32,645	13,342
Caribbean and Latin America	43	13	100	100
Europe, Middle East and Africa	362	339	1,963	465
Asia Pacific	141	128	513	277
	<u>20,022</u>	<u>7,395</u>	<u>35,397</u>	<u>14,344</u>
	%	%	%	%
Sales				
Canada	0.3	1.1	0.5	1.1
United States	97.0	92.4	92.2	93.0
Caribbean and Latin America	0.2	0.2	0.3	0.7
Europe, Middle East and Africa	1.8	4.6	5.6	3.3
Asia Pacific	0.7	1.7	1.4	1.9
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

For the three and six month periods ended May 31, 2007 major customers represented 83.9% and 74.8% respectively (May 31, 2006 – 75.4% and 72.7%) of total revenue. For the three and six month periods ended May 31, 2007 one customer represented 47.3% and 54.1% respectively (May 31, 2006 - 75.4% and 72.7%) of total revenue. A second customer represented 36.6% and 20.7% of total revenue for the three and six month periods ended May 31, 2007 respectively (May 31, 2006 – \$nil and \$nil).

As at May 31, 2007, two companies, with greater than ten percent concentration in accounts receivable, accounted for 58.7% and 17.9% of the Company's total accounts receivable (2006 – two; 56.6% and 20.8%).

# Sandvine Corporation

## Notes to the Interim Consolidated Financial Statements

May 31, 2007

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

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	May 31 2007 \$	November 30 2006 \$
Capital assets		
Canada	8,322	6,115
Total assets		
Canada	102,747	79,419
United States	31	15
Europe, Middle East and Africa	33	112
	<u>102,811</u>	<u>79,546</u>

### 10 Supplemental cash flow information

For the three and six month periods ending May 31, 2007 the Company paid \$7 and \$60 respectively for income tax in cash (May 31, 2006 - \$2 and \$9). The Company did not pay any interest in cash during the three and six month period ended May 31, 2007 (May 31, 2006 - \$nil and \$nil).

### 11 Credit facility

The Company has a demand credit facility with a major Canadian chartered bank. Under the terms of the facility, the Company has available to it a \$500 operating line to provide letters of credit and a US\$15 million forward contract 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. Marketable securities in the amount of \$2.5 million are pledged as security for the credit facility.

As of May 31, 2007 the Company has issued letters of credit under its operating line for US\$84 (CDN\$89) expiring July 31, 2007 and US\$64 (CDN\$68) expiring December 29, 2007.

As of May 31, 2007 the Company has two foreign currency forward contracts that have the effect of fixing the conversion of \$2 million of the Company's net US dollar asset position to Canadian dollars at a weighted average rate of 1.0871. These contracts mature on or before July 31, 2007 and have fair value of \$26 at period end. The Company recognized a gain of \$119 relating to the change in fair value of foreign currency forward contracts which settled during the period.

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Notes to the Interim Consolidated Financial Statements

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

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## 12 Subsequent events

On June 14, 2007, the Company acquired of all the outstanding shares of CableMatrix Technologies Inc. ("CMX"), a provider of policy management software for IP networks, for approximately \$4.5 million USD (\$4.8 million CDN) in cash. Upon acquisition, all of the outstanding common share options of CableMatrix were converted into options to acquire 370,000 common shares of the Company pursuant to the terms of the assumed CableMatrix stock option plan.

Effective June 30, 2007, the Company acquired all of the outstanding shares of Simplicita Software, Inc. ("Simplicita"), a provider of subscriber mediation software for IP networks, for consideration of 866,678 common shares of the Company valued at approximately \$4.5 million. Of this consideration, approximately 237,000 shares were allocated to a key employee escrow and will be released from escrow upon the continued employment of certain individuals over the next three years. Additional share consideration of up to 555,555 common shares will be made to certain Simplicita shareholders on the achievement of certain performance targets and who continue their employment with the Company as of November 30, 2008. Upon acquisition, 385,250 common share options of Simplicita were converted into options to acquire 23,333 common shares of the Company pursuant to the Company's existing stock option plan.

On June 21, 2007 the Company announced a bought deal financing, subject to normal regulatory approval, to issue 8,911,000 common shares for gross proceeds of approximately \$45 million. In connection with this offering, the Company has granted the underwriters an option to purchase up to an additional 1,336,650 common shares for gross proceeds of approximately \$6.8 million for a period of 30 days following closing. Closing of the offering is expected to take place on July 12, 2007.