



***Sandvine Corporation***

**Annual Information Form  
For The Fiscal Year Ended November 30, 2008**

**January 15th, 2009**

## TABLE OF CONTENTS

GENERAL MATTERS and FORWARD LOOKING INFORMATION.....	2
CORPORATE STRUCTURE .....	3
GENERAL DEVELOPMENT OF THE BUSINESS .....	4
NARRATIVE DESCRIPTION OF THE BUSINESS .....	7
RISK FACTORS.....	13
DIVIDEND POLICY .....	21
CAPITAL STRUCTURE .....	21
MARKET FOR SECURITIES.....	22
DIRECTORS AND OFFICERS .....	22
BOARD COMMITTEES .....	27
LEGAL PROCEEDINGS .....	29
INTERESTS OF MANAGEMENT and OTHERS IN MATERIAL TRANSACTIONS.....	29
TRANSFER AGENT AND REGISTRAR.....	29
MATERIAL CONTRACTS.....	29
INTERESTS OF EXPERTS .....	29
ADDITIONAL INFORMATION .....	29
APPENDIX A - Audit Committee Charter.....	30

## **GENERAL MATTERS and FORWARD LOOKING INFORMATION**

This Annual Information Form ("AIF") is dated as of January 15, 2009 and all dollar amounts stated in this AIF are expressed in Canadian dollars unless otherwise indicated. Unless otherwise noted, or the context otherwise requires, "Sandvine" and the "Company" shall refer to Sandvine Corporation and its subsidiaries.

### **Forward-looking statements**

Certain statements in this AIF 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 the Company'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", "may", "would", "could", "will", "believe", "plan", "aim", "goal", "endeavour" 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 or achievements of The Company to differ materially from the results, performance, achievements or developments expressed or implied by such forward-looking statements. Forward-looking statements are based on management's current plans, estimates, projections, beliefs and opinions, and the Company 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 the Company to differ materially from the results, performance, achievements or developments expressed or implied by such forward-looking statements, including, without limitation, each of the following factors, which are discussed in further detail below under the heading "Risk Factors" beginning on page 13:

- The Company's revenues may fluctuate from quarter to quarter and year to year depending upon sales cycles, customer demand and the timing of customer orders purchase decisions;
- The Company's gross margins may fluctuate from period to period depending upon a variety of factors including product mix in the quarter, competitive pricing pressures and the level of sales generated through indirect channels;
- The Company is dependent upon and expects to continue to derive a large percentage of its revenue from both a small number of key customers and key reseller partners, none of whom are bound to any fixed purchase commitment or exclusivity obligations;
- 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, which decisions may be impacted upon by changing requirements in the area of broadband network management policies and/or changes in the regulatory framework to which the Company's customers may be subject;
- Overall economic conditions and the availability of credit may negatively impact the Company's customers and suppliers.

- The majority of the Company's expenses are denominated in Canadian dollars and New Israeli Shekel while its revenues 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; and
- The introduction and sale of new products by the Company may impact the timing of revenue recognition which could raise greater revenue fluctuations from quarter to quarter than has been experienced historically.

### **CORPORATE STRUCTURE**

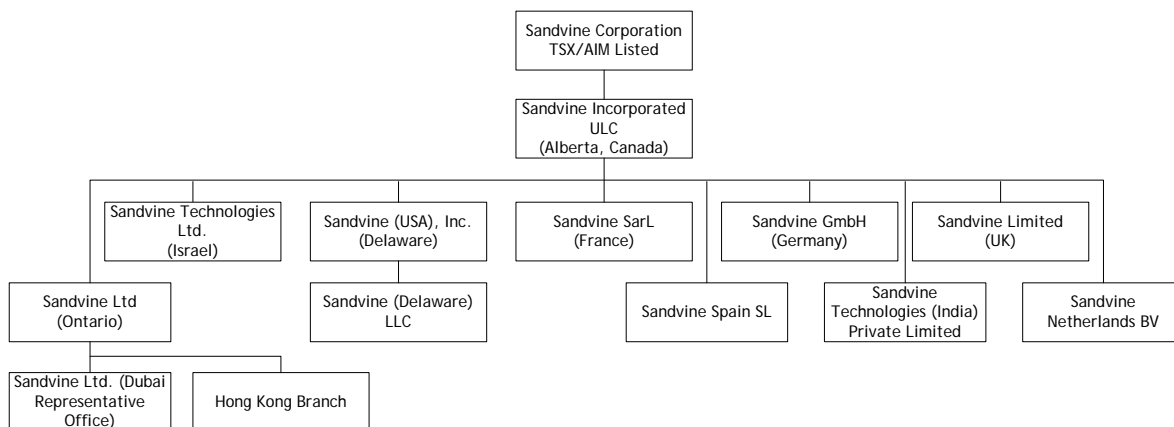
Sandvine Corporation is an Ontario corporation, incorporated under the *Business Corporations Act* (Ontario), with its registered head office at 408 Albert Street, Waterloo, Ontario, Canada N2L 3V3.

The Company filed articles of amendment on March 14, 2006 pursuant to which all of the then issued and outstanding shares of the Company (consisting of class A, class B and common shares) were exchanged for an equivalent number of newly created common shares of the Company (the "Common Shares") and thereupon all previous classes of shares were cancelled. The Common Shares included a redemption feature entitling the holders thereof to redeem the Common Shares on demand in return for a cash payment equal to 90% of their average trading price during the ten trading days preceding the notice of redemption, subject to certain limitations as to the number of cash redemptions to be made in any one month period (the "Redemption Feature").

The Company filed articles of amendment on October 27, 2006 removing the Redemption Feature from the Common Shares.

The Company's shares trade on the Toronto Stock Exchange ("TSX") under the symbol SVC and are listed and posted for trading on the AIM of the London Stock Exchange ("AIM").

The following chart outlines the inter-corporate relationships between the Company and its subsidiaries. Each subsidiary is wholly-owned by its respective parent and the respective jurisdictions of incorporation for each entity is designated in parentheses.



## **CAPITAL REORGANIZATIONS**

### **PRIOR TO AIM LISTING**

In connection with the March 21, 2006 admission to trading of the common shares of the Company on AIM, the Company undertook a capital reorganization, the primary components of which are described below.

#### **Share Exchange Agreement**

In connection with the admission of its common shares to trading on AIM, the Company entered into a share exchange agreement on March 7, 2006 with its operating subsidiary, Sandvine Incorporated, and each shareholder that was then a shareholder of Sandvine Incorporated (each a "Participating Shareholder") (the "Share Exchange Agreement"). The Share Exchange Agreement was the primary document effecting the reorganization of the capital, structure and affairs of the Company prior to the admission of the common shares to trading on AIM. Under the Share Exchange Agreement, Sandvine Corporation, along with Sandvine Incorporated and the Participating Shareholders entered into a share-for-share exchange transaction (the "Share Exchange") pursuant to which the Participating Shareholders exchanged all of their Sandvine Incorporated shares for shares in Sandvine Corporation, causing Sandvine Incorporated to become a wholly-owned subsidiary of Sandvine Corporation. Each Participating Shareholder received the number and class of shares that corresponded to the number and class of Sandvine Incorporated shares held by the Participating Shareholder.

After the Share Exchange, the Company's articles of incorporation were amended on March 14, 2006 to reorganize its share capital (the "Capital Reorganization"), pursuant to which each Participating Shareholder exchanged all of the shares they held in Sandvine Corporation for Common Shares (the Share Exchange and the Capital Reorganization are collectively referred to as the "Reorganization").

#### **Option Exchange Agreements**

Prior to the Capital Reorganization, certain employees of Sandvine Incorporated held options to acquire common shares of Sandvine Incorporated pursuant to the Sandvine Incorporated employee share option plan, dated June 29, 2001, as amended and restated September 1, 2005. Pursuant to option exchange agreements that Sandvine Corporation entered into with Sandvine Incorporated and each of these employees, dated on or about March 7, 2006, each holder of options to acquire Sandvine Incorporated common shares under the Sandvine Incorporated employee share option plan surrendered for cancellation to Sandvine Incorporated its options, and received in exchange options to acquire an equivalent number of Common Shares under the Sandvine Corporation option plan.

### **PRIOR TO TSX LISTING**

In connection with the Company listing its Common Shares on the TSX and becoming a reporting issuer in Canada in October 2006, the Company filed Articles of Amendment to remove the Redemption Feature from the Common Shares.

## ***GENERAL DEVELOPMENT OF THE BUSINESS***

The Company carries on active business operations through its wholly owned subsidiaries, including, Sandvine Incorporated ULC. Sandvine Incorporated, an Ontario corporation, was founded in 2001 by five principals: Dave Caputo, Marc Morin, Brad Siim, Tom Donnelly and Don Bowman. Sandvine Incorporated was continued as Sandvine Incorporated ULC under the Alberta Business Corporations Act by way of Certificate of Continuance dated June 29, 2007.

The Company began to develop its bandwidth management solutions in 2001. The Company launched its first generation Policy Traffic Switch ("PTS") product in 2002. In June, 2006 the Company introduced its next generation PTS product to the market by way of its PTS 14000 platform with support for 10 gigabit per second Ethernet interconnects. The Company's customer base has increased from eight customers in 2003 to over 140 as of the end of fiscal 2008. The Company currently has products installed and operating at customer facilities in over 60 countries around the world, within networks representing over 70 million broadband subscribers.

The following describe significant product and business developments over the last three fiscal years:

#### FY 2006

- In December 2005 the Company announced that Adelphia Communications Corporation, the fifth largest cable television company in the United States, was deploying the Company's products on a network wide basis.
- In February 2006, Sandvine Corporation was incorporated and a series of corporate reorganization activities were undertaken in preparation for the Company's initial public offering, further details of which are found above under the heading "Capital Reorganizations - Prior to AIM Listing".
- In March 2006 the Company completed an initial public offering and listing of its common shares on AIM, raising net proceeds to the Company of approximately \$37 million.
- In June 2006 the Company announced the availability of its PTS 14000 product platform, supporting 10 gigabit per second Ethernet interconnects.
- In October 2006 the Company completed a public offering and listing of its common shares on the Toronto Stock Exchange, raising net proceeds to the Company of approximately \$13.3 million.
- In October 2006 the Company received ISO 900:2001 certification of its manufacturing processes.
- In November 2006 the Company announced the first commercial deployment of its PTS 14000 product platform.
- In November 2006 the Company announced the exercise of the over-allotment option by the underwriters on its TSX public offering, pursuant to which existing shareholders of the Company sold additional shares to those underwriters. No additional shares were issued from treasury and the Company received no additional proceeds from the exercise of the over allotment option.

#### FY 2007

- In March 2007 the Company announced that a major tier 1 broadband service provider in the United States had selected the Company's PTS 14000 product for deployment.
- In March 2007 the Company announced certain broadband service providers, including Hanaro in Korea, had successfully clustered Sandvine's PTS 14000 product by way of Sandvine's Virtual Switch Cluster to support up to 80 gigabits per second of network traffic.

- In June 2007 the Company announced the acquisition of Cablematrix Technologies, Inc. ("Cablematrix"). Through its acquisition of Cablematrix, the Company enhanced its policy enforcement capabilities. Through universal equipment signaling, the Cablematrix products extend the Company's ability to enforce policy network-wide, from the edge to the core, for all next generation access networks—DSL, Fiber to the Home (FTTH), Broadband Wireless and Cable. Such centralized policy enforcement is an advantage for service providers looking to guarantee Quality of Service across their networks for high-value applications such as voice over internet protocol (VOIP) and internet protocol television (IPTV), and is a component of the emerging standards for the development of next generation networks, including IMS, TISPAN, and PCMM.
- In June 2007 the Company announced the acquisition of Simplicita Software, Inc. ("Simplicita"). Through its acquisition of Simplicita, the Company gained new technology that enables broadband service providers to create network policies based on the "reputation" of network users, as determined from a variety of sources including the Company's platforms, service provider data and third party sources. Initial applications of Simplicita's technology protect service providers' Domain Name Server infrastructures while enabling the creation of new advertising based services.
- In June 2007 the Company announced that it had entered into an agreement with a syndicate of underwriters to issue 8,911,000 common shares on a "bought deal" basis at a price of \$5.05 per share for aggregate proceeds to the Company of approximately \$45 million (the "Bought Deal"). The agreement included an over-allotment option in favour of the underwriters to purchase a further 1,336,650 common shares at \$5.05 per share.
- In July 2007 the Company announced the closing of the Bought Deal and the exercise by the underwriters of the over-allotment option for gross proceeds to the Company from the entire offering of \$51,750,632.
- In October 2007 the Company announced the launch of the Sandvine Protection Center to augment the Company's Network Integrity solution. This solution was enabled by the technology acquired in the Cablematrix acquisition earlier in the year.
- In November 2007 the Company announced the launch of the Sandvine Search Guide to augment the Company's Service Creation portfolio of products. This solution was enabled by technology acquired in the Simplicita acquisition earlier in the year.
- In November 2007 the Company announced the launch of the Sandvine Service Delivery Engine which gives service providers a policy infrastructure from which to launch a portfolio of internet protocol based services (VoIP, streaming media, online gaming, etc.) with network wide quality of service over multiple access technologies such as cable, DSL, FTTH, 3G wireless and WiMAX. This solution was enabled by technology acquired in the Cablematrix acquisition earlier in the year.

#### FY 2008

- In January 2008 the Company announced the release of its PTS 14000 platform for mobile and wireless service providers along with the announcement of two new customers in the mobile and wireless service provider market.
- On March 6, 2008 the Company revised its annual revenue guidance from a previously announced range of \$100 to \$110 million to a new range of \$80 to \$85 million as a result of delays the Company was experiencing in customer ordering patterns.

- Also on March 6, 2008 the Company announced that its Board of Directors had approved the adoption of a stock buy-back program for the repurchase of up to ten percent of its outstanding public float pursuant to the Normal Course Issuer Bid rules of the Toronto Stock Exchange. The Company received the approval of the TSX to commence the Normal Course Issuer Bid effective as of April 9, 2008 for the repurchase of up to 10,152,791 common shares of the Company over the one year period following that date. The Company also announced that it intended to enter into an automatic purchase plan arrangement with CIBC World Markets in order to carry-out any purchases under this program.
- In April 2008 the Company announced the first customer win under the Company's reseller agreement with Mitsubishi Corporation in Japan.
- In May 2008 the Company announced the availability of its Congestion Management for Fairshare product as part of its suite of traffic optimization solutions. This product offering responded to market interest for a solution that combined both application aware and application agnostic network management strategies.
- On July 8, 2008 the Company announced its financial results for the second quarter of fiscal 2008 and in conjunction with such announcement withdrew the Company's annual revenue guidance for fiscal 2008 as a result of continued delays in customer order cycles and its inability to continue to rely upon the material assumptions underlying its previously announced annual guidance for fiscal 2008.
- In July 2008 the Company announced two new customer wins in the Middle East and the opening of a new sales and support office in Dubai, United Arab Emirates to service this growing region.
- In August 2008 the Company announced its Congestion Management for Fairshare solution had been named a finalist for the 2008 International Engineering Consortium (IEC) InfoVision Awards in the category of access network technologies and services.
- In September 2008 the Company announced that Comcast Corporation had selected the Company's Congestion Management for Fairshare solution for deployment within its network as part of the steps being taken by Comcast to comply with recent findings of the Federal Communications Commission in respect of certain network management practices previously being employed by Comcast.
- In September 2008 the Company announced three new customer wins in Latin America, all through global reseller relationships. In November 2008 the Company announced a further five new customer wins in Latin America, again won through global reseller relationships.

## ***NARRATIVE DESCRIPTION OF THE BUSINESS***

### **COMPANY OVERVIEW**

The Company develops and markets network equipment and solutions for broadband and wireless operators. The Company's solutions help identify, monitor and apply policies on network traffic, with the aim of improving and enhancing subscriber satisfaction, enhancing revenues, reducing operational costs and increasing the profitability of broadband and wireless service providers. With the additional information and control provided by The Company's solutions, the Company's customers can: classify applications that are utilizing their networks (for example, VoIP, gaming or video streams); better understand subscriber behaviour; introduce new services or service tiers; more confidently commit to

service levels; recognize and address network threats like denial of service attacks, spam zombies, and worms; and manage valuable network resources.

The Company began initial commercial deployments of its products in 2002 and has experienced growth in its number of customers and deployments since then. The Company's customer base has increased from eight service providers in 2003 to over 140 in November 2008.

The Company has a strong presence in its markets. In all, The Company's customers serve over 70 million broadband subscribers globally. Seventeen of The Company's customers have over one million broadband subscribers each, ranking them among the largest broadband service providers in the world.

The Company currently has operations, including direct sales channels, in the United States, the United Kingdom, France, The Netherlands, Germany, Spain, the United Arab Emirates, India, Argentina, Brazil, Hong Kong and Israel. The Company has approximately 320 full time employees, the majority of whom work at the corporate home office in Waterloo, Ontario.

In addition to direct sales channels, the Company has representation through indirect sales channels in Argentina, Australia, Bangladesh, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Germany, Greece, Israel, Japan, Korea, Mexico, People's Republic of China, Qatar, Russia, Sri Lanka, Switzerland, Taiwan, the United Arab Emirates, Venezuela and the United States. The Company's products are also sold through global reseller arrangements with several tier one network equipment vendors.

## **THE MARKET**

The Company's target market is broadband and wireless operators worldwide, including DSL, cable, FTTx, fixed wireless and mobile operators. Within the broadband service provider market, The Company primarily targets the top 250 operators around the world, by subscriber count, who hold more than 80% of the worldwide broadband subscriber base. In the mobile data market, The Company primarily targets the top 350 service providers in the world. While these networks represent over 2.5 billion total subscribers, only a fraction of them are data subscribers – the subscriber of interest for The Company's solutions – so this segment of The Company's market is still in its early stages.

Globally, broadband service providers face challenges in an increasingly competitive business, creating an environment where quality of service is paramount to avoid subscriber churn. Growth in network traffic continues to stress network capacity due largely to the mass-market popularity of bandwidth-hungry applications, such as file-sharing and streaming video from popular sites like YouTube. 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 "virtual" Internet application providers (for example, standalone VoIP providers like Vonage), not burdened with network investment and operations, are aggressively targeting premium users with a broad range of value-added services.

Wireless operators continue to invest aggressively in network rollouts, while refining traditional service plans to attract new subscribers and encourage the adoption of data usage plans. Traditional flat-rate data plans are quickly being replaced with usage-based billing, application-based services and comprehensive advice-of-charge notification so that subscribers clearly understand their charges whether they are downloading ring tones to their mobile phone, or uploading photos to a social networking site via their laptop or handheld computer. Delivering new personalized services reliably to millions, and even tens of millions of mobile subscribers, in a scalable, cost-effective manner has become paramount to business profitability and customer loyalty.

## **PRODUCTS AND SOLUTIONS**

The Company's solutions comprise a hardware platform and proprietary software modules which are typically bundled together to provide a system for broadband and wireless operators to identify and

monitor specific types of traffic across their networks. These products also provide the tools to help customers apply specific network policies that will improve the quality of service for their subscribers, support the creation of new revenue-generating services, and more efficiently manage networks.

The Company's hardware platforms are high-performance, real-time devices that can be deployed in a wide range of inline and passive configurations. Service providers deploying PTS platforms inline towards the edge of the network have maximum visibility of subscriber traffic, ensuring that application traffic is properly identified as it first enters the network and so that the appropriate policies can be immediately applied. This configuration also allows for complete network-wide reporting.

The Company PTS platforms provide scalability for cost-effective deployments from small remote hubs to large centralized sites. The PTS 14000, PTS 14700 and PTS 8210 platforms offer a broad selection of performance, interface types and port densities that are easily tailored to the wide-ranging sites across large service provider networks. All platforms deliver the same feature sets to ensure that subscriber services and traffic policies are universal across the entire network.

The PTS 14000 family intersects 10-Gigabit Ethernet interconnects and is designed to address the needs of the world's largest broadband and wireless operators. The Company's proprietary Virtual Switch Cluster approach combines the inspection performance and data ports from multiple PTS units to deliver the performance necessary at major network aggregation points, up to 80 Gbps, for handling today's growing multimedia traffic.

The Company's proprietary software modules help customers understand which applications and subscribers are consuming bandwidth when and let them proactively manage their networks so that their current "best effort" networks can be transformed into more efficiently utilized "intelligent" networks. By accurately identifying various conditions that are occurring on their networks, broadband and wireless operators can apply actions (i.e. policies) based on those conditions to pursue the network management objectives sought by that service provider. In communicating the value proposition of its solutions to its customers, The Company refers to this as an "Any Condition Any Action" approach to network management, which is better understood by example.

Example 1: Search Guide. Approximately 1% to 5% of all queried Website names are non-existing domains. Often, this is due to common typos such as missing dots (newscom), transposition (nwes.com), suffix replacement (news.net), character omission (news.cm), character insertion (newws.com) and character replacement (newz.com). The Company Search Guide recognizes common website name typos, helps subscribers more readily find a website, and creates a new revenue stream for service providers. It does this by automatically redirecting subscribers to the target website via a useful search page with suggested search links instead of cryptic browser errors, such as "HTTP 404 - File not found". Service providers are paid by the target website for the redirection and can also earn advertising revenue from ads placed on the search page.

Example 2: Advice of Charge. A wireless operator's subscribers have little idea how much connections might cost when linking wirelessly to websites or downloading files from the Internet over a mobile device. The Company's solution can detect when subscribers are about to incur incremental data charges, display the price to subscribers, and let them choose whether to proceed or not, or even select a related data package that would be more appropriate.

Example 3: Congestion Management for Fair Share. Increasingly, popular applications such as file-sharing and streaming video from social networking and other websites are creating congestion at critical points in the network during peak hours. The Company's solution can help service providers fairly allocate bandwidth among users of the network's busiest links when congestion is at its peak. As traffic levels subside, the solution automatically frees up network resources to allow all subscribers to increase data rates within the available bandwidth.

Example 4: Worm and Denial of Service Traffic Mitigation (WDTM). Network slowdowns as a result of subscriber participation in Distributed Denial of Service attacks, or of worms scanning and

spreading within the network are costly problems for service providers and leave subscribers dissatisfied with network performance – increasing the chances of customer churn. The Company's WDTM solution rapidly detects and mitigates network threats such as worms and denial of service attacks, protecting the critical infrastructure required to deliver network services. The advanced behavioral algorithms provide unparalleled zero-day protection, so defenses are never playing catch-up and providers can avoid operational expenses tied to investigation and recovery efforts.

Together, The Company's policy solutions help broadband and wireless operators introduce new services, more confidently commit to service levels, recognize and address network threats; manage valuable network resources and improve the quality of service that subscribers receive.

The Company's services comprise three components:

- Professional Services — The Company's professional services organization supports customer requirements with consultation, product installation, integration and training relating to the Company's products.
- Software Maintenance Services — The Company's software maintenance services consist of the provision of ongoing support and software maintenance services for the Company's customers by way of online and telephone-based help-desk services, software patches and distribution of regularly scheduled product release updates.
- Security Operations Services — The Company's Security Operations Centre acts as a managed security service, complementing the network-based mitigation that is provided by the Company's Worm/Denial of Service Attack Traffic Mitigation product.

## **SALES AND MARKETING**

The Company distributes its products and services through a combination of direct and indirect sales channels. Historically, the majority of revenues have been derived from direct sales efforts. However, going forward, the Company anticipates an increased focus on indirect sales channels to maximize its presence in the global consumer broadband access market and, accordingly, the Company believes that these channels will represent an increased proportion of total revenues over time.

The Company's direct sales team targets a market of over 800 consumer broadband service providers around the world, with a particular emphasis on the 250 largest consumer broadband service providers that the Company believes account for more than 80% of the consumer broadband subscriber market (based on subscriber count). The Company's direct sales channel comprises regional management for each of Europe, Middle East and Africa (EMEA); North America; the Caribbean and Latin America; and Asia Pacific, along with dedicated salespeople who are responsible for each of these regions.

The indirect sales channel utilizes third party network equipment vendors and regional value-added resellers to market the Company's products, and includes both channel-initiated sales (sales initiated and serviced by third party resellers) and channel-fulfilled sales (sales initiated by the Company and serviced by third party resellers).

The Company has general global distribution agreements with three major network equipment vendors: (i) Alcatel-Lucent, which is the leading vendor in the DSL access market and the second-leading vendor in the multi-service edge routing market; (ii) Motorola, which is the second-leading vendor in the cable modem market space; and (iii) Huawei Technologies, a leading provider of fixed and mobile network voice and data communications technology. The Company also has distribution agreements with regional value-added resellers in Argentina, Australia, Bangladesh, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Germany, Greece, Israel, Japan, Korea, Mexico, People's Republic of China, Qatar, Russia, Sri

Lanka, Switzerland, Taiwan, the United Arab Emirates, Venezuela and the United States. These organizations provide an economical solution for local sales and product support presence in strategic regions around the world.

## **COMPETITIVE CONDITIONS**

The market for the Company's products is intensely competitive, rapidly evolving and subject to technological change. There are a number of companies worldwide that have emerged as competitors in the intelligent broadband management and deep packet inspection ("DPI") market space, including Arbor Networks (through its acquisition of Ellacoya Networks ), Cisco Systems (through its acquisition of P-Cube), Allot Communications and Procera Networks. The Company also faces competition from other independent hardware and software vendors who may offer more narrow solutions to meet specific requirements of an individual service provider as well as from in-house development personnel of broadband service providers.

To maintain and improve its competitive position, the Company must continue to develop and introduce in a timely and cost-effective manner, new products, product features, and services that keep pace with offerings by its competitors. The principal competitive factors in the markets in which the Company operates are product attributes such as scalability, compatibility, functionality and ease of use, and qualitative attributes such as reliability, components and architecture, customer support and reputation.

## **ECONOMIC DEPENDENCE**

For the fiscal year ended November 30, 2008, the Company's revenue continued to be predominantly derived from the cable market, which contributed 51.6% of total revenue in fiscal 2008. In addition, the Company continues to be highly dependent on a small number of customers for a large percentage of its overall revenue with two customers representing approximately 23.5% and 15.2% of its total revenue, respectively, for the year. The Company anticipates that it will continue to have a significant percentage of its total revenues derived from a small group of large broadband service providers as it executes on its growth strategy. The Company has no fixed purchase commitments from any of its customers beyond current orders on hand at any given time.

## **GROWTH STRATEGY**

The Company has a strong presence in its markets. In all, the Company's customers serve over 70 million broadband subscribers in 60 countries. Seventeen of the Company's customers have over one million broadband subscribers each, ranking them among the largest broadband service providers in the world. The Company also has a rapidly growing presence among wireless operators.

The Company 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, the Company will continue with increased sales and marketing investment to expand its direct sales force throughout the world and to grow and mature its relationships with both its regional and global resellers. The Company is focused on increasing its sales and marketing efforts, particularly in the DSL and wireless markets and with large opportunities worldwide. The Company's strategy also includes continued dominance of its solutions in the cable market and penetrating emerging access technology markets such as FTTx.

In addition, the Company anticipates that throughout fiscal 2009 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 The Company's core technology and has prospective growth rates commensurate with those of the Company.

## **RESEARCH AND DEVELOPMENT**

The majority of the research and development activities of the Company take place at, or under the direction of, its corporate home office in Waterloo, Ontario with smaller research and development offices located in New York state and Israel. The Company also utilizes the services of an outsourcing firm with its primary operations in India for specific engineering development activities and product support. Research and development expenses have historically been, and will continue to be, a significant portion of the Company's overall cost structure as investment will continue in new product features and new platforms to better serve the existing needs of customers and to address emerging requirements of tomorrow.

The Company's product development plans and initiatives enjoy the benefit of being influenced by experiences and feedback within the Company's growing installed base of customers, helping the Company to prioritize development objectives and capitalize on new opportunities for which customers require solutions.

## **INTELLECTUAL PROPERTY**

Since inception, the Company has had a proactive strategy for the development of its intellectual property portfolio and the protection of that portfolio through a combination of patents, trademarks and copyright. Patent law offers some protection for current and future products of the Company. The Company maintains an active program regarding patent protection for novel elements in its products. Effective patent protection may not be available in some countries in which the Company sells its products.

To date, the Company has filed patent applications in respect of several key inventions and has generally sought registration of those patents in Canada, the United States, the United Kingdom and the European Union. Specifically, to date, the Company has been awarded a patent in the United Kingdom and the European Union for inventions relating to optimization paths for Peer-to-Peer file sharing networks and a patent in the United Kingdom and the United States for inventions relating to a transmission control protocol ("TCP") proxy providing application layer modifications.

There can be no assurance that the Company's products will not infringe the intellectual property rights of other persons. The Company has not made any claim nor is it aware of any claim or pending claims in respect of any intellectual property rights used in its business or products.

It is the Company's practice to enter into confidentiality and non-disclosure agreements with all employees, consultants, suppliers, resellers and others to attempt to limit access to and distribution of proprietary information. In addition, all of the Company's current employees have entered into agreements that include an assignment to the Company of all intellectual property developed in the course of employment with the Company.

## **MANUFACTURING**

All final assembly and testing of the Company's hardware products is done at its manufacturing facility in Waterloo, Ontario. The Company relies on outside suppliers for the various components that comprise finished hardware units, including such items as computer chips, memory, hard drives, network interface cards and power supplies. The Company also relies on multiple subcontractors for various sub-assemblies which are used in final products. The majority of the components and subcontract assembly work is single-sourced, however, the Company believes that all of its suppliers and subcontractors could be replaced or second-sourced over a relatively short period of time. The Company manages finished inventory and raw materials inventory levels based on a forecasted sales pipeline, taking into account sub-assembly, final test and assembly lead times.

In 2006, the quality management system used in the Company's manufacturing process was certified as ISO 9001: 2000 compliant by BSI Management Systems.

## **PERSONNEL**

The Company has approximately 320 full-time employees. None of the Company's employees are unionized.

## **FOREIGN EXCHANGE**

The operation and activities of the Company in foreign markets creates both foreign currency translation and transaction exposure to changes in exchange rates, primarily to the US dollar and the Euro. In order to attempt to reduce its estimated net foreign currency transaction exposure, the Company maintains a hedging program to help partially mitigate the short-term impact of changes in exchange rates on the Company's operations.

## ***RISK FACTORS***

**In addition to the other information contained in this AIF, prospective investors should give careful consideration to the following risk factors, which are qualified in their entirety by reference to, and must be read in conjunction with, the detailed information appearing elsewhere in this AIF and in the Management's Discussion and Analysis for the fiscal year ended November 30, 2008. Any of the matters highlighted in these risk factors could have a material adverse effect on the business, results of operations and financial condition of the Company, causing an investor to lose all, or part of, his or her investment.**

**The risks and uncertainties described below are not the only ones facing the Company. Additional risks and uncertainties that the Company is not aware of or focused on, or that are currently deemed immaterial may also impair the Company's business operations and cause the trading price of its common shares to decline.**

### **RISKS RELATED TO THE BUSINESS OF THE COMPANY**

#### **The Company's revenues may fluctuate**

The Company has historically derived a significant percentage of its annual revenues from several large customer orders within each fiscal year. Revenues are difficult to forecast and may fluctuate significantly from reporting period to reporting period as a result of factors that are largely outside of the Company's control, including such things as:

- delays and variability in customer buying decisions;
- competitive conditions in the industry and the Company's ability to win new business;
- the ability of the Company to maintain existing relationships with its indirect sales channels and develop new relationships;
- variations in size of orders;
- delays in customer deployment schedules; and,
- the discretionary nature of capital expenditure and information technology related purchase decisions.

Such fluctuations in revenues may have a material adverse effect on the Company's business, financial condition and results of operations.

**The Company is dependent on a small number of key customers and key reseller channels for a large percentage of its revenues**

The Company derives a significant percentage of its total revenues from a small group of large broadband service providers and key reseller relationships, and, in particular, has, in each of the past two fiscal years, been dependent on one particular customer for a significant portion of its revenues. Any change in the Company's relationship with these key customers, key resellers or any other customers that may represent a significant portion of the Company's revenue in the future, or any significant variation in the ordering patterns or deployment schedules of those customers or resellers, could have a material adverse effect on the business, financial condition and results of operations for the Company. The Company's dependence on a small number of key customers and key resellers also exposes it to credit risk in respect of those customers and/or resellers. The failure of the Company's customers or resellers to pay amounts owing, or their failure to pay promptly may have a material adverse effect on the Company's business, financial condition and results of operations.

**The Company faces risks regarding uncertainty around the issue of "Net Neutrality" and in the areas of regulation of the use of the Internet and the manner in which service providers manage their broadband delivery networks.**

Regulation of the Internet and the manner in which service providers manage traffic on their broadband delivery networks is a topic that receives considerable political discussion from time to time, from both a "pro-regulation" and an "anti-regulation" perspective. This debate is often closely associated with the concept of "Net Neutrality" as has been discussed by various political bodies within the United States and elsewhere. Historically, a large percentage of the Company's revenues have been related to the sale of products that have been used by the Company's customers primarily for traffic management on their networks. Should certain regulatory or other legal decisions be rendered which impact upon the ability of service providers to manage their broadband delivery networks in the manner for which the products of the Company are designed, this would have a material adverse effect on the Company's business, financial condition and results of operations. In addition, the uncertainty regarding the impact of decisions that may be made in this area could cause customers or prospective customers of the Company to delay purchase or deployment decisions in respect of the Company's products and thereby have a material adverse effect on the Company's business, financial condition and results of operations.

**The Company faces intense competition**

The Company has experienced, and expects to continue to experience, intense competition from a number of companies. The Company's competitors may announce new products, services or enhancements that better meet the needs of customers or changing industry standards. Further, new competitors or alliances among existing competitors could emerge. The Company's products could become obsolete as the features and functions that such products offer might become standard components of other broader product offerings. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

Several of the Company's competitors and potential competitors have significantly greater resources (including financial, technical, sales, distribution and product support resources) and have a larger installed base of products, longer operating histories or greater name recognition. The Company's customers are particularly concerned that their suppliers will continue to operate and provide upgrades and maintenance over a long-term period. The Company's relatively small size in comparison to its competitors may therefore be considered negatively by prospective customers. In addition, the

Company's competitors may be able to respond more quickly to changes in customer requirements and devote greater resources to the enhancement, promotion and sale of their products.

**The Company's growth is dependent on the development of the market for intelligent broadband network management solutions**

The market for intelligent broadband network management solutions is still emerging and the market demand, price sensitivity and preferred business model to deliver related applications such as converged voice, video and data over the Internet remain highly uncertain. The Company's growth is therefore dependent on, among other things, the size and pace at which the markets for its products develop. Further, the Company's success depends upon the continuing adoption of intelligent broadband network management solutions. If the markets for the Company's products decline, remain constant or grow more slowly than anticipated, the Company's may not be able to grow or sustain its growth.

**Overall economic conditions and the availability of credit may impact the demand for the Company's products and/or increase the credit risk to the Company.**

General economic conditions and the availability of credit to the Company's customers may impact upon the ability of those customers to purchase the Company's products or may impact the timing and level to which those customers invest in technologies such as those sold by the Company. This may also increase the credit risk to the Company in the event that the ability of the Company's customers to pay amounts when due is impacted.

**The Company's revenues are difficult to forecast**

As a result of lengthy and variable sales cycles faced by the Company, competitive conditions in the market, the relatively early stage of adoption of the technology sold by the Company in the market and the fact that the Company's annual revenues have typically relied upon several large individual orders, it is difficult for the Company to accurately forecast its revenues. The Company invests and incurs significant expenses to pursue new markets and new opportunities and to add new technological features to its products, which investments and expenses may not result in additional revenues to the Company within the projected time-frame or at all. The failure to achieve the forecasted revenues upon which the investment decisions made by the Company have been based would adversely affect the Company's results of operations and financial condition.

**Currency fluctuations may adversely affect the Company**

A substantial portion of the Company's revenue is earned in United States dollars, but a substantial portion of its operating expenses is incurred in Canadian dollars. Fluctuations in the exchange rates between currencies in which the Company trades may have a material adverse effect on its business, financial condition and operating results. The Company's current policy is to manage a portion of its foreign currency exposure with the objective of minimizing the impact of adverse foreign currency exchange movements. However, the Company may not succeed in managing the entire exposure related to any one foreign currency and it may not manage its exposure at all with respect to certain foreign currencies. Although certain agreements to manage some of its exposure have been entered into, there can be no assurance that the Company will continue to be able to enter into such agreements on commercially reasonable terms or that these agreements will protect it fully against its exchange rate risk. Accordingly, there can be no assurance that future exchange rate fluctuations between certain other currencies and the Canadian dollar will not have a material adverse effect on its business, financial condition and result of operations.

### **The Company faces risks of its international operations**

The Company has operations in various jurisdictions throughout the world and also generates its revenues through international sales efforts. Operating on a global basis exposes the Company to a number of risks, including:

- the political, security and economic instability of those foreign jurisdictions in which the Company has direct operations, from which the Company secures sources of supply or in which the Company generates revenues;
- changes in and compliance with local laws and regulations, including export control laws, tax laws, labour laws, employee benefits, currency restrictions and similar requirements;
- differences in tax regimes and potentially adverse tax consequences of operating in foreign jurisdictions;
- difficulty in accounts receivable collection;
- difficulty in intellectual property protection; and
- foreign currency fluctuations.

Any of these factors could have a material adverse impact on the Company's business, results of operations and financial condition.

### **The Company is dependent on its suppliers**

The Company licenses certain technologies used in its products from third parties, generally on a non-exclusive basis. The termination of any of these licenses, or the failure of the licensors to maintain or update their products adequately, could delay its ability to ship its products while it seeks to implement alternative technology offered by other sources that may require significant unplanned investments on its part. In addition, alternative technology may not be available on commercially reasonable terms. In the future, it may be necessary or desirable to obtain other third-party technology licenses relating to one or more of the Company's products or relating to current or future technologies to enhance its product offerings. There is a risk that the Company's will not be able to obtain licensing rights to the needed technology on commercially reasonable terms, if at all.

The Company is dependent on certain single-sourced suppliers for key components of finished products, including the supplier of computer chips and the supplier of power supply units, and is also dependent upon certain outsourced research and development activities provided by a supplier with its primary operations in India. Although the Company believes that substitute manufacturers and/or service providers are available, replacement of these suppliers would require a certain lead time and would also involve the commitment of development resources to modify necessary configurations and/or provide training, all of which could impact the Company's ability to meet customer demand and/or meet product release schedules.

The Company is dependent upon all of its suppliers to supply various components on a timely basis and have limited control over the quality, reliability or availability of many of these components. If the Company is unable to manufacture its products due to a lack of suitable components and were unable to redesign its products to use alternative components in a timely manner, the Company's business, results of operations and financial condition would be adversely impacted.

### **The Company's failure to successfully manage growth may adversely impact its operating results**

The growth of the Company's operations places a strain on managerial, financial and human resources. The Company's ability to manage future growth will depend in large part upon a number of factors, including its ability to rapidly:

- build and maintain a network of channel partners to create an expanding presence in the evolving marketplace for its products and services;
- build a sales team to keep end-users and channel partners informed regarding the technical features, issues and key selling points of its products and services;
- attract and retain qualified technical personnel in order to continue to develop reliable and flexible products and provide services that respond to evolving customer needs;
- develop support capacity for end-users as sales increase, so that the Company can provide post-sales support without diverting resources from product development efforts; and
- expand its internal management and financial controls significantly, so that the Company can maintain control over its operations and provide support to other functional areas as the number of personnel and size increases.

The Company's inability to achieve any of these objectives could have a material adverse effect on its business, financial condition and results of operations.

### **The Company is exposed to a number of risks relating to acquisitions.**

The Company has previously announced certain acquisitions and may in the future, seek to acquire, additional products or businesses that it believes are complementary to the Company's business plan. Acquisitions involve a number of risks, including:

- diversion of management's attention from current operations;
- disruption of the Company's ongoing business;
- difficulties in integrating and retaining all or part of the acquired business, its customers and its personnel;
- assumption of disclosed and undisclosed liabilities;
- dealing with unfamiliar laws, customs and practices in foreign jurisdictions; and
- inappropriate valuations being given to all or any part of the acquired business.

The inability of the Company to effectively manage these risks or the inability of the Company to successfully realize upon the intended benefits of the acquisition could have a material adverse effect on its business, financial condition and results of operations.

### **The Company may be affected by rapid technological changes**

The markets for the Company's products are characterized by rapidly changing technology, evolving industry standards and increasingly sophisticated customer requirements. The introduction of

products embodying new technology and the emergence of new industry standards may render the Company's existing products obsolete and unmarketable and may exert price pressures on existing products. It is critical to the Company's success that it be able to anticipate changes in technology or in industry standards and to develop and introduce successfully new, enhanced and competitive products on a timely basis. The Company cannot give assurances that it will successfully develop new products or enhance and improve its existing products, that new products and enhanced and improved existing products will achieve market acceptance or that the introduction of new products or enhancing existing products by others will not render its products obsolete. The Company's inability to develop products that are competitive in technology and price and meet customer needs could have a material adverse effect on its business, financial condition or results of operations.

### **The Company is dependent on relationships with sales channel partners**

As the Company expects to sell an increasing proportion of its products and services through sales channel partners, it is increasingly dependent upon its ability to establish and develop new relationships and to build on existing relationships with sales channel partners. The Company cannot guarantee that it will be successful in advancing its relationships with sales channel partners or that the sales channel partners will always act in a manner that will promote the success of its products and services. Failure by the sales channel partners to promote and support its products and services could adversely affect its business, results of operations and financial condition.

Some channel partners also sell products and services of the Company's competitors. If some of the Company's competitors offer their products and services to channel partners on more favourable terms or have more products or services available to meet their needs, there may be pressure on the Company to reduce the price of its products or services or increase the commissions payable to channel partners, failing which the channel partners may stop carrying its products or services or de-emphasize the sale of its products and services in favour of the products and services of competitors.

### **The Company uses open-source software which is not maintained or supported by original developers**

The Company uses certain "open-source" or "free-ware" software tools in the development of its software products which are not maintained or supported by the original developers thereof. The Company has conducted no independent investigation to determine whether the sources of these tools have the rights necessary to permit it to use these tools free of claims of infringement by third parties. The Company could be required to replace these components with internally developed or commercially licensed equivalents, which could delay product development plans, interfere with its ability to support its customers and/or require the Company to pay licensing fees.

### **The Company is focused on key markets**

The Company has, to date, focused solely on the delivery of its products and services to the consumer broadband service provider market. The Company's success is largely dependent upon the continued growth of consumer broadband usage and a slow-down in the forecasted growth rates of that market could have a material adverse effect on revenues, financial condition and results of operations. In addition, a significant portion of historical revenues have been derived in the United States and any industry or macro-economic event that impacts the capital expenditure patterns in the consumer broadband service provider market in the United States would have a material adverse effect on revenues, financial condition and results of operations.

### **The Company is dependent upon key intellectual property**

The Company's success depends in part on its ability to protect its rights in its intellectual property. The Company relies upon various forms of intellectual property protection, including patents,

copyright, trademarks, trade secrets and contractual provisions, to preserve its intellectual property rights. Despite these protections, it may be possible for third parties to obtain and use the Company's intellectual property without the Company's authorization. Policing unauthorised use of intellectual property is difficult, and some foreign laws do not protect proprietary rights to the same extent as the laws of Canada, the United Kingdom or the United States. In addition, effective patent protection may not be available in some countries in which the Company's products are sold.

To protect the Company's intellectual property, it may become involved in litigation, which could result in substantial expenses, divert the attention of management, cause significant delays, materially disrupt the conduct of its business or adversely affect its revenue, financial condition and results of operations.

### **The Company may infringe on the intellectual property rights of others**

The Company believes that its products and other intellectual property do not infringe upon the proprietary rights of third parties. The Company's commercial success depends, in part, upon not infringing intellectual property rights owned by others. A number of the Company's competitors and other third parties have been issued patents and may have filed patent applications or may obtain additional patents and proprietary rights for technologies similar to those used by the Company in its products. Some of these patents may grant very broad protection to the owners of the patents. The Company cannot determine with certainty whether any existing third party patents or the issuance of any third party patents would require the Company to alter its technology, obtain licenses or cease certain activities. The Company may become subject to claims by third parties that its technology infringes their intellectual property rights. The Company may become subject to these claims either directly or through indemnities against these claims that the Company routinely provides to its end-users and channel partners.

In addition, the Company may receive in the future claims from third parties asserting infringement and other related claims. Litigation may be necessary to determine the scope, enforceability and validity of third party proprietary rights or to establish its proprietary rights. Some of the Company's competitors have, or are affiliated with companies having, substantially greater resources than the Company and these competitors may be able to sustain the costs of complex intellectual property litigation to a greater degree and for a longer period of time. Regardless of their merit, any such claims could, among other things:

- be time consuming to evaluate and defend;
- result in costly litigation;
- cause product shipment delays or stoppages;
- divert management's attention and focus away from the Company's business;
- subject the Company to significant liabilities;
- require the Company to enter into costly royalty or licensing agreements; or
- require the Company to modify or stop using the infringing technology.

The Company may be prohibited from developing or commercializing certain technologies and products unless the Company obtains a license from a third party. There can be no assurance that the Company will be able to obtain any such license on commercially favourable terms, or at all. If the Company does not obtain such a license, its business, results of operations and financial condition could be materially adversely affected and the Company could be required to cease related business operations in some markets and to restructure its business to focus on operations in other markets.

### **The Company may have potential defects in its products**

Although the Company employs a vigorous testing and quality assurance program, its products may contain defects or errors, particularly when first introduced or as new versions are released. The Company may not discover such defects or errors until after a product has been released to its customers and this could materially impact its reputation, result in significant remediation costs, delay product release schedules and impair its ability to sell products in the future. The costs necessary to remedy a product defect, including possible recall costs, could be substantial and could negatively impact operating results and financial condition.

### **The Company may be subject to product liability exposure**

The Company's agreements with its customers typically contain provisions designed to limit its exposure to potential product liability claims. Despite this, it is possible that these limitations of liability provisions may not be effective as a result of existing or future laws or unfavourable judicial decisions. The Company has not experienced any product liability claim to date; however, the sale and support of its products may entail the risk of those claims, which are likely to be substantial in light of the use of the Company's products in critical applications. A successful product liability claim could result in significant monetary liability and could seriously harm the Company's business.

### **The Company's dependence on key personnel and its ability to retain and attract employees**

The Company depends on the services of its key technical, sales, marketing and management personnel. The loss of the services of any of these persons could have a material adverse effect on its business, results of operations and financial condition. The Company's success is also highly dependent on its continuing ability to identify, hire, train, motivate and retain highly qualified technical, sales, marketing and management personnel. Competition for such personnel can be intense, and the Company cannot give assurances that it will be able to attract or retain highly qualified technical, sales, marketing and management personnel in the future. The Company's inability to attract and retain the necessary technical, sales, marketing and management personnel may adversely affect its future growth and profitability. It may be necessary for the Company to increase the level of remuneration paid to existing or new employees to a degree that its operating expenses could be materially increased.

## **RISKS RELATED TO THE SHARES OF THE COMPANY**

### **Volatility of Share Price**

The market price of the Company's Common Shares may be volatile and could be subject to wide fluctuations due to a number of factors, including:

- actual or anticipated fluctuations in the Company's results of operations;
- changes in estimates of the Company's future results of operations by the Company or investment analysts;
- announcements of technological innovations or new products or services by the Company or its competitors; or
- other events or factors.

In addition, the financial markets have experienced significant price and value fluctuations that have particularly affected the market prices of equity securities of many technology companies and that sometimes have been unrelated to the operating performance of these companies. Broad market fluctuations, as well as economic conditions generally and in the network management industry, may adversely affect the market price of the Common Shares of the Company.

**The Company does not currently intend to pay any cash dividends on its Common Shares in the foreseeable future and therefore shareholders may not be able to receive a return on their Common Shares unless they sell them at an amount greater than the price at which they purchased them**

The Company has not declared or paid any cash dividends on its Common Shares to date. The Company's current policy is to retain earnings to finance expansion and to develop, license and acquire new products and to otherwise reinvest in its business. Therefore, the Company does not anticipate paying cash dividends in the foreseeable future. Until the Company pays dividends, which it may never do, shareholders will not be able to receive return on their Common Shares unless they sell them at an amount greater than the price at which shares were acquired.

**Future sales of Common Shares by the Company's existing shareholders could cause the Company's share price to fall**

If the Company's shareholders sell substantial amounts of the Company's Common Shares in the public market, the market price of the Common Shares could fall. The perception among investors that these sales will occur could also produce this effect.

**The Company may need to complete future financings**

If the Company is not able to sustain profitability, it may require additional equity or debt financing. There can be no assurances that the Company will be able to obtain additional financial resources on favourable commercial terms or at all. Failure to obtain such financial resources could affect the Company's plan for growth, or result in the Company being unable to satisfy its obligations as they become due, either of which could have a material adverse effect on the business and financial condition of the Company.

#### ***DIVIDEND POLICY***

The Company has not paid any dividends to its shareholders to date and does not currently intend to pay dividends on its Common Shares in the near future. The declaration of dividends is within the discretion of the Board of Directors of the Company (the "Board"). The Board will review the Company's dividend policy from time to time having regard to, among other factors, earnings, growth plans and operating and financial requirements.

#### ***CAPITAL STRUCTURE***

##### **Common Shares**

The Company's authorized share capital consists of an unlimited number of Common Shares of which 135,381,698 Common Shares are issued and outstanding on the date hereof.

The holders of the Common Shares are entitled to one vote at meetings of shareholders of the Company for each Common Share held and to receive dividends if, as, and when declared by the Board. Holders of Common Shares are entitled to share rateably in the remaining property or assets of the Company in the event of the Company's liquidation, dissolution or winding-up.

On April 9, 2008 the Company received approval to repurchase for cancellation of up to 10,152,791 of its common shares on the Toronto Stock Exchange ("TSX") through a Normal Course Issuer Bid arrangement ("NCIB"). The NCIB will expire April 8, 2009 unless otherwise renewed. Transactions are executed from time to time in the open market in accordance with the rules and policies of the TSX. Purchase and payment for the shares is made by the Company in accordance with the rules of the TSX and the price that the Company pays for shares acquired is at the market price of the shares at the time of acquisition.

During fiscal 2008 the Company completed the purchase and cancellation of 1,946,683 common shares at an average price of \$1.13 per share under the NCIB.

### **Warrants Issued to Her Majesty the Queen in Right of Canada**

Pursuant to Technology Partnerships Canada Agreement No. 720-483767 (the "TPC Agreement") that the Company entered into with Her Majesty the Queen in Right of Canada (as represented by the Minister of Industry, Canada), the Company has issued to Her Majesty the Queen in Right of Canada a warrant which is exercisable to acquire 619,280 Common Shares at an exercise price of \$0.00001 per Common Share. The warrant expires on March 31, 2023.

### **MARKET FOR SECURITIES**

The Common Shares of the Company are listed on the TSX under the symbol "SVC" and on AIM under the symbol "SAND". The price ranges and average daily trading volume of the Company's Common Shares on the TSX and the AIM for the fiscal year ended November 30, 2008 were as follows:

<b>Month</b>	<b>Common Shares – TSX</b>		<b>Common Shares – AIM</b>	
	<b>Price Range (C\$)</b>	<b>Average Volume</b>	<b>Price Range (£)</b>	<b>Average Volume</b>
December (2007)	3.38 – 5.90	861,964	1.78 – 2.75	18,937
January	3.05 – 4.50	579,979	1.58 – 2.18	4,728
February	2.84 – 3.90	243,039	1.53 – 1.93	2,062
March	1.03 – 2.93	2,284,974	0.55 – 1.53	10,987
April	1.33 – 2.07	532,550	0.71 – 0.98	3,024
May	1.12 – 1.40	652,181	0.61 – 0.71	1,712
June	1.04 – 1.55	833,954	0.58 – 0.75	1,244
July	0.87 – 1.62	820,154	0.45 – 0.78	9,117
August	0.94 – 1.23	264,717	0.45 – 0.61	8,085
September	0.90 – 1.25	343,302	0.50 – 0.60	155
October	0.66 – 1.05	418,275	0.38 – 0.55	7,237
November	0.70 – 0.94	324,257	0.39 – 0.47	8,832

### **DIRECTORS AND OFFICERS**

The following table sets forth the names, municipalities of residence, positions held with and principal occupations of the Directors and executive officers of the Company and, if a director, the year in which the person first became a director. Each Director is expected to hold office until the next annual meeting of the Company's shareholders, or until a successor is elected or appointed.

<u>Name and Municipality of Residence</u>	<u>Position with the Company</u>	<u>Principal Occupation</u>	<u>Director Since</u>
Roger Maggs Tetbury, UK	Non-Executive Chairman of the Board <sup>(1), (2), (3)</sup>	Partner, Celtic House <sup>(4)</sup>	March 2006
John Keating Cambridge, Ontario	Director <sup>(1), (2), (3)</sup>	Chief Executive Officer, COM DEV	March 2006
Mark Guibert Waterloo, Ontario	Director <sup>(2), (3)</sup>	Vice President of Corporate Marketing, Research In Motion	March 2006
Kenneth Taylor Kanata, Ontario	Director <sup>(1), (3)</sup>	Chief Financial Officer, March Networks	December 2006
Steven McCartney Markham, Ontario	Director <sup>(2), (3)</sup>	Chief Executive Officer, Atria Networks	April 2008
Dave Caputo Waterloo, Ontario	President, Chief Executive Officer and Director	President, Chief Executive Officer and Director	February 2006
Scott Hamilton Waterloo, Ontario	Chief Financial Officer, Director	Chief Financial Officer	February 2006
Tom Donnelly Ottawa, Ontario	Executive Vice President, Marketing and Sales	Executive Vice President, Marketing and Sales	N/A
Don Bowman Waterloo, Ontario	Chief Technology Officer	Chief Technology Officer	N/A
Chris Colman Basingstoke, UK	Managing Director, EMEA Sales and Marketing	Managing Director, EMEA Sales and Marketing	N/A
Angelo Compagnoni Toronto, Ontario	Senior Vice President, Sales - Americas	Senior Vice President, Sales - Americas	N/A
Wojciech Nincevic Waterloo, Ontario	Vice President, Operations	Vice President, Operations	N/A
Brad Siim Waterloo, Ontario	Chief Operating Officer and Vice President, Engineering	Chief Operating Officer and Vice President, Engineering	N/A
Michael Verhoeve Waterloo, Ontario	Vice President, General Counsel and Corporate Secretary	Vice President, General Counsel and Corporate Secretary	N/A

**Notes:**

(1) Member of Audit Committee.

(2) Member of Compensation Committee.

(3) Member of the Corporate Governance and Nominating Committee.

(4) Mr. Maggs is a partner in various limited partnerships that form the Celtic House group of funds. Mr. Maggs has advised the Company that he exercises no control, directly or indirectly, over any Common Shares in the Company that may be held by such funds.

As at the date hereof, the Directors and executive officers of the Company, as a group, own or control, directly or indirectly, an aggregate of 13,896,898 Common Shares or approximately 10.3% of the outstanding Common Shares of the Company as of the date of this AIF.

## **Biographies**

The following are brief profiles of the directors, executive officers and senior management of the Company, as well as a description of each individual's principal occupation within the past five years.

### *Roger Maggs, Non-Executive Chairman of the Board*

Mr. Maggs joined the Board as chairman on March 7, 2006. Mr. Maggs is a founder and partner of Celtic House, a recognized leader in the venture capital industry. Prior to founding Celtic House, Mr. Maggs enjoyed a 27-year career with Alcan Aluminum Limited, a global metals company. He held several senior positions including Vice President, Mergers, Acquisitions and Divestments, President, Alcan Metal Marketing and Vice President, Personnel. Mr. Maggs currently sits on the boards of Cavendish Kinetics, LTX Corporation, RedMere Technology Limited, noHold Inc., Third Brigade Inc. and Movidia. Mr. Maggs has a physics degree from The University of Wales and Masters degree from Warwick Business School.

### *John Keating, Director*

Mr. Keating joined the Board on March 7, 2006. Mr. Keating was born and educated in England where he studied mechanical and production engineering at Leicester Polytechnic (now De Montfort University) under the sponsorship of Marconi Radar Systems. During the following 20 years, Mr. Keating filled a wide range of operational and management positions in high technology companies in Britain, Holland and Canada. Mr. Keating joined COM DEV in 1992, progressing from the management of major programs, business units and operations to President of COM DEV Wireless (later called COM DEV Broadband) in 1998, President of COM DEV Space in 1999 and Chief Operating Officer in 2001. As COO, Mr. Keating played a pivotal role in the firm's success in 1999 and 2000 when COM DEV achieved record sales and backlogs. Following the collapse of wireless markets in 2001 and 2002, Mr. Keating was appointed CEO and has successfully refocused the firm on its core space activity, delivering sustained revenue growth and solid profitability. Mr. Keating is also a member of the Board of Directors of COM DEV.

### *Mark Guibert, Director*

Mr. Guibert joined the Board on March 7, 2006. Mr. Guibert is the vice president of corporate marketing at Research In Motion Limited ("RIM"), where he is responsible for the strategy and implementation of corporate communication and marketing activities. Prior to joining RIM in 1997, Mr. Guibert held various senior positions in sales and international marketing with Hewlett-Packard, AT&T (NCR) and ALL Computers Inc. Mr. Guibert holds a Bachelor of Business Administration and received his Masters degree in Business from York University in Toronto.

### *Kenneth Taylor, Director*

Mr. Taylor joined the Board on December 5, 2006. Mr. Taylor is currently the Chief Financial Officer of March Networks Corporation and has more than 20 years of financial, administrative, and operational experience with various technology companies. Prior to his position with March Networks, Mr. Taylor served as chief financial officer and chief operating officer with Proshred Security International Inc., Mr. Taylor also spent nearly 10 years with Newbridge Networks Corp., and held the position of vice president finance when Newbridge was sold to Alcatel SA for US\$7 billion in 2001. Mr. Taylor is a Chartered Accountant and holds a Bachelor of Business Administration degree from St. Francis Xavier University in Nova Scotia, Canada.

*Steven McCartney, Director*

Mr. McCartney joined the Board on April 8, 2008. Mr. McCartney is Chief Executive Officer of Atria Networks LP, which owns and operates one of the largest fibre-optic networks in Ontario. Mr. McCartney began his career with Bell Canada, culminating a 15 year career there as General Manager Ontario, Public Communications. Following this, he led two privately owned telecommunications services companies in the Toronto area. From 1998 to 2002, McCartney was President and CEO of the first carrier in North America to provide high-speed data, telephony and cable TV services over a fibre-to-the-home network. Since joining Atria Networks as President and CEO in 2003, Mr. McCartney has successfully led the company through a rapid expansion including multiple acquisitions

*Dave Caputo, Director, President and Chief Executive Officer*

Mr. Caputo joined the Board on February 17, 2006. Mr. Caputo is President and Chief Executive Officer of the Company, and is one of the founders of the Company. Prior to co-founding Sandvine, Mr. Caputo was the Vice President of Marketing for PixStream. Launched in 1996, Pixstream was acquired by Cisco Systems in 2000 at which time Mr. Caputo joined Cisco Systems as Managing Director for Cisco Systems' video networking business unit. Prior to joining PixStream, Mr. Caputo was the Product Marketing Manager for Hewlett Packard's Storage Systems Division in Colorado. Mr. Caputo holds an MBA from the University of Toronto, a computer science degree from York University and is a graduate of University of Pennsylvania's Wharton executive development program.

*Scott Hamilton, Director, Chief Financial Officer*

Mr. Hamilton joined the Board on February 17, 2006. Mr. Hamilton is Chief Financial Officer of the Company and is responsible for managing all of the Company's financial functions. Mr. Hamilton has been with the Company since its inception and his background includes corporate financial management in various roles, including as a manager within the tax group of Ernst and Young LLP. Mr. Hamilton is a chartered accountant and holds a Bachelor of Business Administration from Wilfrid Laurier University.

#### *Officers and Senior Management*

In addition to Mr. Caputo and Mr. Hamilton, the following comprise the executive officers and senior management of Sandvine:

*Tom Donnelly, Executive Vice President, Marketing and Sales*

Mr. Donnelly is one of the Company's co-founders and is Executive Vice President responsible for worldwide sales, marketing and business development. Mr. Donnelly is an accomplished telecommunications entrepreneur and was an integral part of the executive team behind PixStream. At PixStream, Mr. Donnelly was responsible for sales and business development, winning prestigious customers, such as Bell Canada, Eircom (formerly Telecom Ireland), Telenor, and SingTel, as well as building a very successful partnership and channel program that included Newbridge Networks (Alcatel), Nortel Networks, Next Level Communications (Motorola), and Cisco Systems. Mr. Donnelly holds a Bachelor of Arts from McGill University and is a graduate of the Wharton executive development program at the University of Pennsylvania.

*Don Bowman, Chief Technology Officer*

Mr. Bowman is Chief Technology Officer of the Company, having previously been its Vice President of Consulting Systems Engineering. Mr. Bowman is one of the Company's co-founders. Previously, Mr. Bowman was director of firmware and manager of software engineering for PixStream, and was responsible for system architecture. Mr. Bowman also held the position of Manager, Software Engineering

for Cisco Systems in its video networking business unit. Mr. Bowman attended the University of Waterloo's Bachelor of Applied Science program for systems design engineering.

*Chris Colman, Managing Director, EMEA Sales and Marketing*

Mr. Colman is based in the UK and is responsible for leading sales execution in Europe, the Middle East and Africa ("EMEA"). Prior to joining the Company in December 2002, Mr. Colman was responsible for developing European carrier and enterprise Internet Protocol TV markets for Cisco Systems. Previously, Mr. Colman was managing director of PixStream Europe, where he founded and grew the EMEA market for video networking products. Prior to joining PixStream, Mr. Colman was Director of Strategic Market Development with Newbridge/West End Networks, where he developed the market for the company's telephony and data products in the cable industry. Mr. Colman graduated with a degree in electrical and telecommunications engineering from Coventry University (UK).

*Angelo Compagnoni, Senior Vice President, Sales - Americas*

Mr. Compagnoni is responsible for leading sales execution in North America and the Caribbean and Latin America. Mr. Compagnoni previously led the Company's North American sales efforts from July 2002 until December 2007 when he took on the role of Senior Vice President of Sales for The Americas.. Prior to joining the Company, Mr. Compagnoni was founder and Vice President of Sales and Marketing for Entrata Communications, a leading edge voice and data networking company. Having also worked at Proteon Inc. and Openroute Networks, two leading router technology vendors, Mr. Compagnoni has over 14 years sales and marketing experience in the data communications industry. Mr. Compagnoni holds a Bachelor of Mathematics degree from the University of Waterloo.

*Wojciech Nincevic, Vice President, Operations*

Mr. Nincevic is Vice President of Operations. Mr. Nincevic is responsible for the strategic direction of Sandvine's manufacturing and operations teams and has been with Sandvine since its inception in 2001. Mr. Nincevic was previously the Vice President of Manufacturing at PixStream. After PixStream was acquired by Cisco Systems Mr. Nincevic became Manager, Manufacturing within Cisco Systems' video networking business unit. Mr. Nincevic studied electrical engineering at Ryerson University in Toronto and automation engineering in Poland.

*Brad Siim, COO and Vice President, Engineering*

Mr. Siim is Chief Operating Officer and Vice President of Engineering. Mr. Siim manages all stages of product development from conceptualization to final product manufacturing release. Prior to joining us, Mr. Siim was vice president of engineering and a co-founder of PixStream. At PixStream, Mr. Siim developed and led an engineering team of over 100, while establishing production and manufacturing processes. Following the acquisition of PixStream by Cisco Systems, Mr. Siim became director of engineering for Cisco Systems' video networking business unit. Mr. Siim holds a Bachelor of Applied Science in computer engineering from the University of Waterloo.

*Michael Verhoeve, Vice President, General Counsel and Corporate Secretary*

Mr. Verhoeve provides legal counsel and guidance to the Company's global operations as well as acting as Corporate Secretary. Prior to joining the Company in December 2005, Mr. Verhoeve was Vice President, General Counsel and Corporate Secretary of ATS Automation Tooling Systems Inc., a Canadian-based manufacturer of automated tooling systems and related products with over 4,000 employees at operations located around the world. Prior to ATS, Mr. Verhoeve spent six years as in-house counsel with The Descartes Systems Group Inc., a software development company. Mr. Verhoeve holds a Bachelor of Business Administration from Wilfrid Laurier University and a Bachelor of Laws from the University of Western Ontario.

## **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

Except as disclosed below, none of the directors or executive officers of the Company:

- (a) is, or has been within 10 years of the date of this AIF, a director or executive officer of any company that while acting in that capacity:
  - (i) was the subject of a cease trade order or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days;
  - (ii) was subject to an event that resulted, after the director or officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any securities exemption for a period of more than 30 consecutive days; or
  - (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold assets; or
  
- (b) has, within 10 years of the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

Mr. Maggs was a director of each of the following venture-backed companies at the time such companies ceased operations and went into receivership: M10 Ltd (formerly Pen Op Ltd.), Flexion Systems Ltd. and Global Silicon Ltd..

## ***BOARD COMMITTEES***

### **AUDIT COMMITTEE**

A copy of the Audit Committee's Charter is attached to this AIF as "Appendix A".

The Audit Committee is composed of Kenneth Taylor (Chair), John Keating and Roger Maggs. The Board of Directors has determined that each member of the Audit Committee is independent and financially literate within the meaning of Multilateral Instrument 52-110.

Each member of the Audit Committee has extensive business experience which provides him with the skills and background necessary to discharge his responsibilities as a member of the Audit Committee. Mr. Taylor is a chartered accountant and is currently the Chief Financial Officer of another TSX and AIM listed company, March Networks Corporation. Mr. Keating is the Chief Executive Officer of another TSX listed company, COM DEV International Ltd., and previously held various positions within COM DEV, including President and Chief Operating Officer of various divisions. Mr. Keating has also completed the Chartered Directors program offered through The Director's College. Mr. Maggs is a Partner in Celtic House Ventures, a successful venture capital investment firm, and was formerly a Vice President of Alcan Aluminum Limited. Mr. Maggs serves on the board of directors of several companies, including LTX Corporation, a publicly traded company listed on the NASDAQ, for which he is a member, and former Chair, of its Audit Committee.

The Company maintains a policy, approved by the Audit Committee, for engagement of the Company's auditors for any non-audit related services. The objective of the policy is to ensure the auditors' objectivity is not compromised. It sets out the rules to be followed when engaging the Company's

auditors for any non-audit related engagement. The policy also includes a listing of services the auditors are prohibited from performing for the Company.

The breakdown of aggregate fees billed for services provided by the Company's auditors, PriceWaterhouseCoopers LLP, during the two (2) preceding fiscal years is as follows:

	<u>FY 2008</u>	<u>FY 2007</u>
Audit Fees	\$ 150,106	\$ 139,500
Audit Related Fees <sup>(1)</sup>	\$ 36,000	\$ 54,000
Tax Fees <sup>(2)</sup>	\$ 7,583	\$ 28,823
All Other Fees <sup>(3)</sup>	nil	\$ 27,000

(1) - "Audit Related Fees" relate to the interim review of the Company's quarterly financial statements.

(2) - "Tax Fees" relate to fees billed by PriceWaterhouseCoopers LLP related primarily to advisory services for Canadian and international tax compliance as well as general global tax planning services.

(3) - "Other Fees" in fiscal 2007 related to services provided in connection with the preparation of a short-form prospectus by the Company.

## **COMPENSATION COMMITTEE**

The compensation committee reviews and makes recommendations to the Board concerning the appointment of officers and the hiring, compensation, benefits and termination of executive officers. The compensation committee reviews annually the Chief Executive Officer's goals and objectives for the upcoming year and provides an appraisal of the Chief Executive Officer's performance. The compensation committee also administers and makes recommendations regarding the operation of the Company's stock option plan.

## **CORPORATE GOVERNANCE AND NOMINATING COMMITTEE**

The corporate governance and nominating committee develops the Company's approach to corporate governance issues, advises the Board in filling vacancies on the Board and periodically reviews the composition and effectiveness of the Board and the contribution of individual directors. The governance committee also supervises written corporate disclosure and insider trading policies. Among other things, these policies:

- articulate legal obligations, and those of the Company's affiliates and their respective directors, officers and employees with respect to confidential information;
- identify spokespersons who are authorized to communicate with third parties such as analysts, the media and investors on behalf of the Company;
- provide guidelines on the disclosure of forward-looking information;
- require advance review by senior representatives of any disclosure of financial information to seek to ensure that the information is not material, and to seek to ensure that selective disclosure of material information does not occur, and that if it does occur, a news release is issued promptly; and
- establish "black-out" periods immediately prior to and following the disclosure of quarterly and annual financial results during which the Company, its affiliates and their respective directors, officers and certain other persons may not purchase or sell Common Shares in the market.

## **LEGAL PROCEEDINGS**

The Company is not currently aware of any litigation outstanding, threatened or pending as of the date of this AIF which would be material to the Company's financial condition or results of operations.

## **INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

No director, executive officer or shareholder who beneficially owns, directly or indirectly, or exercises control or direction over more than ten percent (10%) of the outstanding Common Shares of the Company or known associate or affiliate of any such person, has or had any material interest, direct or indirect, in any transaction within the last three years or in any proposed transaction, that has materially affected or will materially affect the Company.

## **TRANSFER AGENT AND REGISTRAR**

The Company's transfer agent and registrar is Computershare Investor Services Inc., and may be contacted at 100 University Avenue, 9<sup>th</sup> Floor, Toronto, Ontario M5J 2Y1 General Shareholder Inquiries by phone: 1-800-564-6253 (toll free North America – International 514-982-7555), by fax 1-866-249-7775 (toll free North America – International 416-263-9524) or by email at [service@computershare.com](mailto:service@computershare.com)

## **MATERIAL CONTRACTS**

The Company has not entered into any material contracts within the past year, or entered into before the most recently completed financial year but still in effect, other than in the ordinary course of business.

## **INTERESTS OF EXPERTS**

The Company's auditors are PricewaterhouseCoopers LLP, Chartered Accountants, who have prepared an independent auditors' report dated January 15, 2009 in respect of the Corporation's consolidated financial statements as at November 30, 2008 and November 30, 2007 and for each of the years ended November 30, 2008 and 2007. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario.

## **ADDITIONAL INFORMATION**

Additional information regarding the Company generally is available at the Company's website at [www.sandvine.com](http://www.sandvine.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under the Company's equity compensation plans will be contained in the Company's Management Information Circular to be distributed in advance of the next annual general meeting of shareholders.

Additional financial information, including the Company's consolidated comparative audited financial statements for the fiscal year ended November 30, 2008, is provided in the Company's year-end consolidated financial statements, the notes thereto, auditor's report thereon and accompanying fiscal 2008 MD&A. A copy of all such documents can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and may be obtained from:

Sandvine Corporation  
408 Albert Street, Waterloo, Ontario, Canada N2L 3V3  
Attention: Investor Relations  
Phone: (519) 880-2600  
E-mail: [investor\\_relations@sandvine.com](mailto:investor_relations@sandvine.com)

## APPENDIX A

### SANDVINE CORPORATION (the "Company")

#### CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

##### **Section 1      Role and Purpose**

The Audit Committee is a committee of the Board of Directors. The function of the Audit Committee is to assist the Board of Directors in fulfilling their responsibilities to the shareholders, securities regulatory authorities and stock exchanges, the investment community and others by:

- (a) reviewing the annual and interim (quarterly) financial statements, related management discussion and analysis ("MD&A") and, potentially, other financial information disclosed by the Company to any governmental body or the public, prior to its approval by the Board of Directors;
- (b) overseeing the review of interim (quarterly and/or semi-annual) financial statements and/or MD&A by the Company's external auditor;
- (c) recommending the appointment and compensation of the Company's external auditor;
- (d) directly overseeing the work of the external auditor on the audit of annual financial statements; and
- (e) monitoring the Company's financial reporting process and internal controls and compliance with legal and regulatory requirements related thereto.

The Audit Committee should primarily fulfill these responsibilities by carrying out the activities enumerated in Section 4 of this Charter. However, it is not the duty of the Audit Committee to prepare financial statements, to plan or conduct audits, to determine that the financial statements are complete and accurate and are in accordance with generally accepted accounting principles ("GAAP"), to conduct investigations, or to assure compliance with laws and regulations or the Company's internal policies, procedures and controls, as these are the responsibility of management and in certain cases the external auditor.

##### **Section 2      Composition of Audit Committee**

- (a) The Audit Committee shall have a minimum of three members;
- (b) Every Audit Committee member must be a director of the Company. The Audit Committee shall be comprised of such directors as are determined by the Board of Directors, each of whom shall be independent within the meaning of multilateral instrument 52-110 Audit Committees of the Canadian Securities Administrators (or exempt therefrom), and free of any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Audit Committee;
- (c) All members of the Audit Committee must have (or should gain within a reasonable period of time after appointment) a working familiarity with basic finance and accounting practices and otherwise be financially literate within the meaning of applicable securities laws. Audit Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Company or an outside consultant;

- (d) The members of the Audit Committee shall be elected by the Board of Directors on an annual basis or until their successors shall be duly appointed. Unless a Chair is elected by the full Board, the members of the Audit Committee may designate a Chair by majority vote of the full Audit Committee membership; and
- (e) Any member of the Audit Committee may be removed or replaced at any time by the Board of Directors and shall cease to be a member of the Audit Committee on ceasing to be a Director. The Board of Directors may fill vacancies on the Audit Committee by election from among the Board of Directors. If and whenever a vacancy shall exist on the Audit Committee, the remaining members may exercise all its powers so long as a quorum remains.

### **Section 3 Meeting Procedures**

#### **(a) Time**

- The Audit Committee shall meet at least four (4) times annually, or more frequently as circumstances require. The Audit Committee should meet within forty-five (45) days following the end of the first three financial quarters to review and discuss the unaudited financial results for the preceding quarter and the related MD&A, and shall meet within ninety (90) days following the end of the financial year end to review and discuss the audited financial results for the preceding year and the related MD&A as well as any accompanying press release, or in both cases, by such earlier times as may be required in order to comply with applicable law or any stock exchange regulation.
- The Audit Committee may ask members of management or others to attend meetings and provide pertinent information as necessary. For purposes of performing their duties, members of the Audit Committee shall have full access to all corporate information and any other information deemed appropriate by them, and shall be permitted to discuss such information and any other matters relating to the financial position of the Company with senior employees, officers and the external auditor of the Company, and others as they consider appropriate.
- In order to foster open communication, the Audit Committee or its Chair should meet at least annually with management and the external auditor in separate sessions to discuss any matters that the Audit Committee or each of these groups believes should be discussed privately. In addition, the Audit Committee or its Chair should meet with management quarterly in connection with the Company's interim financial statements.

#### **(b) Quorum**

- Quorum for the transaction of business at any meeting of the Audit Committee shall be a majority of the number of members of the Audit Committee or such greater number as the Audit Committee shall by resolution determine.

**(c) Notice**

- Meetings of the Audit Committee shall be held from time to time and at such place as any member of the Audit Committee shall determine upon reasonable notice to each of its members which shall be not less than twenty-four (24) hours. The notice period may be waived by all members of the Audit Committee. Each of the Chairman of the Board of Directors, the external auditor, the Chief Executive Officer or the Chief Financial Officer shall be entitled to request that any member of the Audit Committee call a meeting.

**Section 4 Responsibilities**

In fulfilling its role and purpose, the Audit Committee shall:

**(a) General**

- Review and recommend to the Board of Directors changes to this Charter, as considered appropriate from time to time.
- Summarize in the Company's annual report or annual information form the Audit Committee's composition and activities.
- Submit the minutes of all meetings of the Audit Committee to the Board of Directors.
- Perform any other activities that the Audit Committee deems necessary or appropriate.

**(b) Financial Information**

- Review the Company's annual and interim financial statements, including any certification, report, opinion or review rendered by the external auditor, and review related MD&A.
- Review the Company's press releases with financial information.
- Review other financial information provided to any governmental body or the public as they see fit.
- Ensure that adequate procedures are in place for the review of the Company's public disclosure of financial information extracted or derived from the Company's financial statements and periodically assess the adequacy of those procedures.

**(c) External Auditor - Hiring and Compensation**

- Recommend to the Board of Directors the selection of the external auditor, considering independence and effectiveness.
- Review the fees and other compensation to be paid to the external auditor.
- Maintain a policy and procedure for the pre-approval all non-audit services to be provided to the Company by the external auditor which: (i) requires, among other things, that the Audit Committee is informed of each non-audit service; and (ii) ensure that such procedures do not delegate the responsibilities of the Audit Committee to management.

- Review and approve requests for any material management consulting or other engagement to be performed by the external auditor and be advised of any other material study undertaken by the external auditor at the request of management that is beyond the scope of the audit engagement letter and related fees.

**(d) External Auditor - Procedures**

- Oversee the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Company.
- Arrange for the external auditor to report directly to the Audit Committee.
- Monitor the relationship between management and the external auditor including reviewing any management letters or other reports of the external auditor and discussing any material differences of opinion between management and the external auditor.
- Review and discuss, on an annual basis, with the external auditor all significant relationships they have with the Company to determine their independence.
- Review the performance of the external auditor and any proposed discharge of the external auditor when circumstances warrant.
- Periodically consult with the external auditor out of the presence of management about significant risks or exposures, internal controls and other steps that management has taken to control such risks, and the fullness and accuracy of the financial statements, including the adequacy of internal controls to expose any payments, transactions or procedures that might be deemed illegal or otherwise improper.
- Arrange for the external auditor to be available to the Audit Committee and the full Board of Directors as needed.

**(e) Financial Reporting Processes**

- Communicate directly with the external auditor.
- Review the integrity of the financial reporting processes, both internal and external, in consultation with the external auditor as they see fit.
- Consider the external auditor's judgments about the quality, transparency and appropriateness, not just the acceptability, of the Company's accounting principles and policies as well as financial disclosure practices, as applied in its financial reporting, including the degree of aggressiveness or conservatism of its accounting principles and policies and underlying estimates, and whether those principles and policies are common practices or are minority practices.
- Review all material balance sheet issues, material contingent obligations (including those associated with material acquisitions or dispositions) and material related party transactions.
- Consider proposed major changes to the Company's accounting principles and practices.

**(f) Reporting Process**

- If considered appropriate, establish separate systems of reporting to the Audit Committee by each of management and the external auditor.
- Review the scope and plans of the external auditor's audit and reviews. The Audit Committee may authorize the external auditor to perform supplemental reviews or audits as the Audit Committee may deem desirable.
- Periodically consider the need for an internal audit function, if not present.
- Following completion of the annual audit and quarterly reviews, review separately with each of management and the external auditor any significant changes to planned procedures, any difficulties encountered during the course of the audit and, if applicable, reviews, including any restrictions on the scope of work or access to required information and the cooperation that the external auditor received during the course of the audit and, if applicable, reviews.
- Review any significant disagreements among management and the external auditor in connection with the preparation of the financial statements.
- Where there are significant unsettled issues that do not affect the audited financial statements, the Audit Committee shall seek to ensure that there is an agreed course of action leading to the resolution of such matters.
- Review with the external auditor and management significant findings during the year and the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented. This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Audit Committee.
- Review activities, organizational structure and qualifications of the Chief Financial Officer and the staff in the financial reporting area and see to it that matters related to succession planning are raised for consideration by the Board of Directors.
- Review management's monitoring of the system in place to ensure that the financial statements, related MD&A and other financial information disseminated to governmental organizations and the public satisfy legal requirements.

**(g) Hiring Policies**

- The Audit Committee must review and approve the Company's hiring of partners, employees and former partners and employees of the present or any former external auditor of the Company.

**(h) Financial Risk Management**

- Review management's program of financial risk assessment and steps taken to address significant risks or exposures related thereto.

**(i) Authority of the Audit Committee**

- If considered appropriate, conduct or authorize investigations into any matters within the Audit Committee's scope of responsibilities. The Audit Committee is empowered to

retain independent counsel, accountants and other professionals to assist it in the conduct of any such investigation and to set and pay the compensation of such advisors without consulting or obtaining the approval of a Company officer.

**(j) General**

- Notwithstanding the foregoing and subject to applicable law, the Audit Committee shall not be responsible to prepare financial statements, to plan or conduct internal or external audits, or to determine that the Company's financial statements are complete and accurate and are in accordance with GAAP, as these are the responsibility of management and in certain cases the external auditor. Nothing contained in this Charter is intended to require the Audit Committee to ensure the Company's compliance with applicable laws or regulations.
- The Audit Committee is a committee of the Board of Directors and is not and shall not be deemed to be an agent of the Company's shareholders for any purpose whatsoever. The Board of Directors may, from time to time, permit departures from the terms hereof, either prospectively or retrospectively, and no provision contained herein is intended to give rise to civil liability to securityholders of the Company or other liability whatsoever.

**Section 5 Audit Committee Complaint Procedures**

**(a) Submitting a Complaint**

- Anyone may submit a complaint regarding conduct by the Company or its employees or agents (including its external auditors) reasonably believed to involve questionable accounting, internal accounting controls or auditing matters. The Chairperson of the Audit Committee will oversee treatment of such complaints.

**(b) Procedure**

- The Chairperson of the Audit Committee will be responsible for the receipt and administration of employee complaints.
- In order to preserve anonymity when submitting a complaint regarding questionable accounting or auditing matters, the employee may submit a complaint to the following confidential e-mail address 'complaint@auditcommittee.sandvine.com'.

**(c) Investigation**

- The Chairperson of the Audit Committee shall review and investigate the complaint. Corrective action will be taken when and as warranted.

**(d) Confidentiality**

- The identity of the complainant and the details of the investigation will be kept confidential throughout the investigatory process.

**(e) Records and Report**

- The Chairperson of the Audit Committee will maintain a log of complaints, tracking their receipt, investigation, findings and resolution and shall prepare a summary report for the Audit Committee.

**Section 6 Establishment of Audit Committee**

The Audit Committee, and the adoption of this Charter, is established by resolution of the Board of Directors dated February 17, 2006.