



MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated: January 24, 2007

The following discussion and analysis provides management's discussion and analysis ("MD&A") of Sandvine Corporation's consolidated results of operations and financial condition. This discussion should be read in conjunction with the Company's consolidated financial statements and accompanying notes for the fiscal year ended November 30, 2006. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are reported in Canadian dollars (C\$). The information contained herein is dated as of January 24, 2007, and is current to that date, unless otherwise stated.

The Company's fiscal year commences December 1st of each year and ends on November 30th of the following year. The Company's fiscal year which ended on November 30, 2006 is referred to as the "current fiscal year," "fiscal 2006", "2006" or using similar words. The previous fiscal year, which ended on November 30, 2005, is referred to as "previous fiscal year," "fiscal 2005," "2005," or using similar words.

In this document, "we", "us", "our", "Company" and "Sandvine" all refer to Sandvine Corporation collectively with its subsidiaries. Sandvine Corporation is the parent holding company of a wholly owned operating company, Sandvine Incorporated, which, in turn, has a number of wholly owned subsidiary companies. Sandvine Corporation carries on no active business operations other than the holding of investments, which consists primarily of its holding of 100% of the outstanding shares of Sandvine Incorporated. The content of this MD&A has been approved by the Board of Directors of Sandvine, on the recommendation of its Audit Committee.

Additional information relating to the Company is available in SEDAR at www.sedar.com and on the Company's website at www.sandvine.com.

CAUTION REGARDING FORWARD LOOKING INFORMATION

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

Additional risks and uncertainties that relate to an investment in the securities of the Company are discussed in this document under the heading "Business Risks and Prospects" beginning on page 17.

SELECTED FINANCIAL INFORMATION

The following table sets out selected consolidated financial information for the periods indicated. The selected financial information set out below as at, and for the years ended, November 30, 2006, 2005 and 2004, respectively, has been derived from the audited consolidated financial statements and accompanying notes for the years ended November 30, 2006, 2005 and 2004. The financial information for the three months ended November 30, 2006 and 2005 have been prepared by management in accordance with Canadian generally accepted accounting principles in a manner consistent with its annual financial statements and have not been subject to a review engagement by the Company's auditors. Each investor should read the following information in conjunction with those statements and related notes.

	Three months ended November 30, (unaudited)		Fiscal year ended November 30,		
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<i>Amounts in thousands of dollars except share and per share data</i>					
Consolidated Statement of Operations Data:					
Revenue					
Product	\$8,203	\$5,813	\$28,003	\$14,516	\$3,000
Service	1,043	599	3,662	1,293	262
	<u>9,246</u>	<u>6,412</u>	<u>31,665</u>	<u>15,809</u>	<u>3,262</u>
Cost of Sales					
Product	2,399	1,543	7,525	4,075	702
Service	325	109	1,113	282	-
	<u>2,724</u>	<u>1,652</u>	<u>8,638</u>	<u>4,357</u>	<u>702</u>
Gross margin.....	6,522	4,760	23,027	11,452	2,560
Expenses					
Sales and marketing.....	2,759	1,908	8,947	6,694	5,463
Research and development.....	2,682	2,008	10,214	7,686	5,311
Government (assistance) repayments	(339)	(675)	(115)	(2,826)	(4,162)
General and administration	1,264	990	4,182	2,439	2,139
Amortization	563	243	1,587	668	388
Total operating expenses.....	<u>6,929</u>	<u>4,474</u>	<u>24,815</u>	<u>14,661</u>	<u>9,139</u>
Income (loss) from operations	(407)	286	(1,788)	(3,209)	(6,579)
Interest and other income	554	102	1,506	244	195
Income (loss) before provision for income taxes	147	388	(282)	(2,965)	(6,384)
Provision for income taxes.....	31	12	100	14	50
Net income (loss) for the period.....	<u>116</u>	<u>376</u>	<u>(382)</u>	<u>(2,979)</u>	<u>(6,434)</u>
Basic and diluted earnings (loss) per share	0.001	0.004	(0.004)	(0.039)	(0.109)
Weighted average common shares outstanding					
Basic	117,655,735	86,735,031	107,232,201	76,686,248	58,875,749
Diluted	124,065,770	88,172,494	107,232,201	76,686,248	58,875,749

	As at November 30, 2006	As at November 30, 2005	As at November 30, 2004
	<i>Amounts in thousands of dollars</i>		
Consolidated Balance Sheet Data:			
Cash and cash equivalents	\$19,564	\$ 9,755	\$ 475
Marketable securities	37,515	2,623	3,736
Total assets	79,546	27,770	9,469
Total liabilities	6,379	5,488	2,303
Shareholders' equity	73,167	22,282	7,166

OVERVIEW

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

Sandvine began initial commercial deployments of its products in 2002 and has experienced growth in its number of customers and deployments since then. Sandvine's customer base has increased from 8 customers in 2003 to 73 customers in 2006. Sandvine currently has products installed and operating at customer facilities in 33 countries around the world, within networks representing over 37 million broadband subscribers.

The Market

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

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

Products and Solutions

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

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

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

Sandvine entered 2006 with a strategy of introducing a new hardware platform as well as growing its sales and marketing team throughout the world. On June 5, 2006, the Company announced the introduction of a new platform, with 10 Gb ethernet interconnects designed to address the needs of the world's largest residential broadband service providers. Initial trial deployments of this new platform commenced in the last half of 2006 and are expected to continue throughout 2007. Throughout 2006 and into 2007, Sandvine is focused on growing its customer base both through direct sales channels as well as its worldwide and regional channel partners.

Sales and Distribution

Sandvine distributes its products and services through a combination of direct and indirect sales channels. The direct sales channel, experienced in network infrastructure and telecommunications, is organized across the following geographic regions: (i) North America; (ii) Europe, the Middle East and Africa; (iii) Asia-Pacific; and (iv) the Caribbean and Latin America. The direct sales team is based out of various jurisdictions throughout the world. The indirect sales channel utilizes worldwide third party network equipment vendors and regional value-added resellers to market Sandvine's products, and includes both channel-initiated sales (sales initiated and serviced by third party resellers) and channel-fulfilled sales (sales initiated by the Company and serviced by third party resellers). This sales and distribution strategy permits Sandvine to obtain global coverage while at the same time retaining direct contact with the customer base.

Growth Strategy

Looking forward into 2007, Sandvine intends to continue its focus on aggressively pursuing the residential broadband service provider market space. In addition, Sandvine will increase its investment to take advantage of the emerging wireless and fibre to the home (FTTH) access markets. As part of its growth strategy, Sandvine will direct its efforts on establishing or increasing its footprint with the largest broadband service providers throughout the world. In order to achieve this, Sandvine expects to continue to add resources to its global sales and marketing team and expects to apply additional resources to its research and development program in order to introduce new revenue generating software features to its hardware platforms and to maintain its technology lead.

In addition, the Company will 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 complimentary customer base, has technology that will extend Sandvine's base technology and has growth rates commensurate with those of the Company.

OVERALL PERFORMANCE

Revenue and expenses

The Company's product revenue consists of revenues derived from the sale of its hardware products and the license of its software products.

The Company's service revenue consists of revenues from support and maintenance services as well as various professional services provided to its customers. To date, revenue generated from professional services component has been nominal.

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

	Three months ended		Fiscal year ended	
	November 30,		November 30,	
	(unaudited)			
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
North America.....	69.2%	94.6%	87.0%	81.2%
Caribbean and Latin America.....	0.8%	1.7%	0.6%	1.0%
Europe, Middle East and Africa	27.0%	3.7%	10.6%	11.6%
Asia Pacific	3.0%	0.0%	1.8%	6.2%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

The majority of the Company's expenses are denominated in Canadian dollars while its sales are generally denominated in U.S. dollars. The Company's earnings are impacted by fluctuations in the exchange rates between these and other currencies in which the Company trades. In an attempt to minimize the earnings impact of foreign currency gains and losses associated with foreign exchange rate fluctuations, as of May 2006, the Company began the practice of entering into forward foreign exchange contracts.

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

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

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

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

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

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

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

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

Income Tax Expense. As at November 30, 2006 the Company had approximately \$7.6 million of losses for Canadian income tax purposes, approximately \$13.1 million of unused research and development expenditures for Canadian income tax purposes, and \$2.6 million of unrecognized investment tax credits which may be applied against future Canadian income taxes otherwise payable. The Company also had approximately US\$0.1 million of losses for U.S. income tax purposes.

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

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In April 2005, the Accounting Standards Board issued CICA Handbook Section 3855, Financial Instruments — Recognition and Measurement, along with two companion standards, Section 1530, Comprehensive Income, and Section 3865, Hedges. These sections will be effective for the Company's fiscal year starting December 1, 2006.

CICA Handbook Section 3855, Financial Instruments — Recognition and Measurement, requires that all financial assets be classified as trading, available for sale, held to maturity, or loans and receivables. In addition, the standards require that all financial assets, including all derivatives, be

measured at fair value on the consolidated balance sheet with the exception of loans, receivables, and investments classified as held-to-maturity, which will be measured at amortized cost. The impact of reclassifying the Company's short term investments and marketable securities as available-for-sale securities and remeasuring them at fair value on December 1, 2006 will be recognized in opening accumulated other comprehensive income. The impact on the Company's consolidated balance sheet at December 1, 2006 is expected to be immaterial. Changes in the fair value of available-for-sale securities will be reported within other comprehensive income (OCI), until the financial asset is disposed of, or becomes impaired. Similarly, the standards require that all financial liabilities be measured at fair value on the consolidated balance sheet when they are held for trading or are derivatives. Other financial liabilities should be measured at amortized cost.

CICA Handbook Section 1530, Comprehensive Income, introduces new rules for the reporting and display of comprehensive income. Comprehensive income is the change in shareholders' equity of an enterprise during a reporting period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. These items include holding gains and losses on certain investments, gain and losses on certain derivative instruments and foreign currency gains and losses related to self-sustaining foreign operations (cumulative translation adjustment). Accumulated OCI will be included on the consolidated balance sheet as a separate component of shareholders' equity, and will include, on a net of tax basis, net unrealized gains and losses on available-for-sale securities, net gains and losses on derivative instruments designated within an effective cash flow hedge, and unrealized foreign currency translation gains and losses and offsetting hedges on self-sustaining foreign operations.

CICA Handbook Section 3865, Hedges, is applicable when a company chooses to designate a hedging relationship for accounting purposes. It builds on the existing Accounting Guideline AcG-13 "Hedging Relationships", and Section 1650 "Foreign Currency Translation", by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Company does not currently apply hedge accounting.

CURRENT PERIOD OPERATING RESULTS

Revenue

For the fourth quarter, the Company's total revenues were \$9.2 million compared to \$6.4 million for the same period last year representing a 44.2% increase. Total revenue for fiscal 2006 was \$31.7 million compared to \$15.8 million for the same period last year, representing a 100.3% increase.

For the fourth quarter, the Company's product revenues were \$8.2 million compared to \$5.8 million for the same period last year representing a 41.1% increase. Product revenue for fiscal 2006 was \$28.0 million compared to \$14.5 million for the same period last year, representing a 92.9% increase. The increase in product revenue both for the current quarter and for fiscal 2006 relates to new customer wins and the continued deployment of the Company's products by its largest customer throughout the year.

Service revenue for the fourth quarter of 2006 was \$1.0 million or 11.3% of revenue, compared to \$0.6 million or 9.3% of revenue for the same period last year. The Company's service revenue for fiscal 2006 was \$3.7 million or 11.6% of revenue, compared to \$1.3 million or 8.2% of revenue for the same period last year. The increase in service revenue for the current quarter and fiscal 2006 as compared to the same period in 2005, is consistent with the support and maintenance services charged on the increased product revenue that the Company has experienced throughout the year.

The Company's customers are predominantly cable and DSL service providers. The majority of the Company's revenue continued to be derived from the cable market with one of its customers (a US based cable operator) representing 70.0% of its revenue for fiscal 2006 compared to 36.1% for fiscal 2005. For the fourth quarter of fiscal 2006, the Company derived 62.0% of its revenue from this same customer compared to 71.6% in 2005.

Gross Margin

For the fourth quarter of 2006 product gross margins decreased by 2.7% to 70.8% compared to 73.5% for the same period last year. During the fourth quarter of fiscal 2006 approximately 23.3% of the Company's revenue was generated from products which have sold at a lower gross margin level. Approximately 5.5% of the Company's revenue was generated from these products for the three months ended November 30, 2005.

For 2006, product gross margins increased by 1.2% to 73.1% compared to 71.9% for the same period last year.

The increase in product gross margins for fiscal 2006 as compared to the same period last year relates to cost savings realized on the Company's products throughout the year. The cost reduction relates to a reduction in the cost of certain raw material components. The impact of the costs savings on the Company's fiscal 2006 gross margin percentage was partially offset as a result of approximately 10.6% (5.6% - fiscal 2005) of its revenue being generated from the sale of one of its products which has historically sold at a lower gross margin level.

For the fourth quarter of 2006 service gross margins declined by 13.0% to 68.8% compared to 81.8% for the same period last year. For fiscal 2006 service gross margins decreased by 8.6% to 69.6% as compared to 78.2% for the same period last year. The decrease in service gross margins both for the quarter and fiscal 2006 as compared to the same period last year, relates to additional staffing costs associated with increasing the support team throughout fiscal 2006. The increased staffing levels were necessary to support the increased level of sales the Company has experienced in fiscal 2006.

Operating Expenses

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

	Three months ended November 30, (unaudited)		Fiscal year ended November 30,	
	<i>In thousands of dollars</i>			
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenue	\$9,246	\$6,412	\$31,665	\$15,809
Sales and marketing.....	2,759	1,908	8,947	6,694
<i>% of revenue</i>	29.8%	29.8%	28.3%	42.3%
Research and development.....	2,682	2,008	10,214	7,686
<i>% of revenue</i>	29.0%	31.3%	32.3%	48.6%
Government (assistance) repayments	(339)	(675)	(115)	(2,826)
<i>% of revenue</i>	(3.7%)	(10.5%)	(0.4%)	(17.9%)
General and administration	1,264	990	4,182	2,439
<i>% of revenue</i>	13.7%	15.4%	13.2%	15.4%
Amortization	563	243	1,587	668
<i>% of revenue</i>	6.1%	3.8%	5.0%	4.2%
Total operating expenses	<u>6,929</u>	<u>4,474</u>	<u>24,815</u>	<u>14,661</u>

Sales and Marketing Expenses

For the fourth quarter of 2006, sales and marketing expenditures increased by \$0.9 million to \$2.8 million, which represents a 44.6% increase from the \$1.9 million incurred for the same period last year. For fiscal 2006, sales and marketing expenditures increased by \$2.2 million to \$8.9 million, which represents a 33.6% increase from the \$6.7 million incurred for the same period last year. Major factors contributing to the increase in the sales and marketing expenses for the fourth quarter of 2006 as compared to the same period in 2005 include increased compensation costs and travel costs associated with additional staff being added to the sales and marketing team as well as increased variable compensation costs associated with the increase in sales for the period, and increased media relation costs.

In addition to the items outlined above, other major factors contributing to the increase in the sales and marketing expenses for fiscal 2006 as compared to fiscal 2005 include increased recruiting costs associated with growing the Company's sales and marketing team and an overall increase in general marketing costs.

The sales and marketing team consists of 45 employees which is made up of 30 employees dedicated to selling activities and 15 employees dedicated to the marketing and product management group.

Research and Development Expenses

Exclusive of government assistance, government assistance repayments and investment tax credits (Q4-06 – net assistance of \$0.3 million; Q4-05 – net assistance of \$0.7 million), research and development expenses for the fourth quarter of 2006 increased by \$0.7 million to \$2.7 million, which represents a 33.6% increase from the \$2.0 million incurred for the same period last year. The increase mainly relates to increased certification costs for the Company's products as well as additional staffing

costs associated with having additional team members in the fourth quarter of 2006 as compared to 2005.

Exclusive of government assistance, government assistance repayments and investment tax credits (YTD-2006 – assistance of \$0.1 million; YTD-2005 – assistance of \$2.8 million), for fiscal 2006 research and development expenditures increased by \$2.5 million to \$10.2 million, which represents a 32.9% increase from the \$7.7 million incurred for the same period last year. The majority of the increase relates to increased staffing costs associated with adding 14 people to the research and development team over the last twelve months. In addition, the increase relates to increased recruiting costs, increased certification costs as well as increased tooling costs which was partially offset by a reduction in prototype expenses.

For the three months ended November 30, 2006 the Company recorded \$0.3 million related to government assistance and/or refundable investment tax credits as compared to \$0.7 million for the same period last year. The government assistance and refundable investment tax credits have been recorded as a reduction to the research and development expenses for the relevant period. The Company currently does not anticipate receiving any government assistance or refundable investment tax credits in respect of future periods.

General and Administrative

For the fourth quarter of 2006 general and administrative expenditures increased by \$0.3 million to \$1.3 million as compared to \$1.0 million for the same period last year. Major factors contributing to the increase in the general and administrative expenses for the fourth quarter of 2006 as compared to the same period last year include increased staffing costs (\$0.2 million), increased stock based compensation costs (\$0.2 million), increased professional fees (\$0.1 million), capital tax expense (\$0.1 million). These items were partially offset by a foreign exchange gain of \$0.1 million in 2006 as compared to a \$0.3 million foreign exchange loss in 2005 (\$0.4 million impact).

For fiscal 2006 general and administrative expenditures increased by \$1.8 million to \$4.2 million, which represents a 71.5% increase from the \$2.4 million incurred for the same period last year. The increase primarily relates to increased staffing costs (\$0.8 million), increased occupancy costs (\$0.3 million) increased stock based compensation costs (\$0.3 million) as well as increased professional fees (\$0.1m).

Stock based compensation expense for the fourth quarter and fiscal 2006 was \$0.2 million and \$0.3 million, respectively, as compared to \$13,000 and \$50,000 for the fourth quarter and fiscal 2005 respectively.

Interest and Other Income

For the fourth quarter of 2006 the Company earned \$0.6 million of investment income compared to \$0.1 million for the same period last year. For fiscal 2006 the Company earned \$1.5 million of investment income compared to \$0.2 million for the same period last year. The increase in investment income is a result of the increased cash, cash equivalents and marketable securities balance that the Company had on hand throughout the year. The increased cash, cash equivalents and marketable securities balances is a result of the Company's equity financings (and related AIM and TSX listings) that took place during fiscal 2006.

Income Tax Expense

The Company's current income tax provision for fiscal 2006 is \$0.1 million as compared to \$14,000 for the same period last year. The current provision for income taxes consists of an estimate of taxes owing by the Company's foreign subsidiaries.

LIQUIDITY AND CAPITAL

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

As at November 30, 2006 the Company had \$57.1 million of cash and cash equivalents and marketable securities as compared to \$12.4 million for the year ended November 30, 2005. The increase in cash, cash equivalents and marketable securities primarily relates to the \$37.1 million of net proceeds raised from the sale of common shares through the Company's admission to trading on AIM which took place on March 21, 2006 as well as the \$13.3 million of net proceeds raised from the sale of common shares through the Company's listing on the Toronto Stock Exchange on October 26, 2006.

	November 30, 2006	November 30, 2005
Key Balance Sheet Amounts and Ratios:		
	<i>(In thousands of dollars, except balance sheet ratios and metrics)</i>	
Cash, cash equivalents and marketable securities	57,079	12,378
Working capital	67,141	19,310
Working capital ratio.....	11.7:1	4.5:1
Days sales outstanding in account receivable.....	53 days	54 days
Inventory turnover.....	1.2 times	1.3 times

	Three months ended November 30,		Fiscal year ended November 30,	
	<i>(In thousands of dollars)</i>			
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Cash Inflows and (Outflows) by Activity:	<i>(unaudited)</i>			
Operating activities.....	(2,100)	(1,550)	(1,474)	(7,019)
Investing activities.....	(4,632)	9,876	(39,639)	(1,746)
Financing activities.....	13,485	705	50,922	18,045
Net cash inflows (outflows)	6,753	9,031	9,809	9,280

Cash and Cash Equivalents and Marketable Securities

Cash and cash equivalents include cash on hand, balances with banks and short term investments that have maturity dates of less than 90 days at acquisition. Marketable securities include debt securities maturing within twelve months of the balance sheet date. Cash, cash equivalents and marketable securities are recorded at cost plus accrued interest and are carried at the lower of cost or market.

Investments in cash equivalents and marketable securities are governed by the Company's investment policy guidelines as approved by the board of directors. The policy stipulates that investments will at all times be based on the requirement for safety, liquidity and yield in that order of importance.

As at November 30, 2006 the Company had \$57.1 million of cash and cash equivalents and marketable securities as compared to \$12.4 million for the year ended November 30, 2005. On March 21, 2006 the Company completed its admission to trading on AIM through which the Company raised gross proceeds of approximately \$40.4 million. Deducting the expenses of this offering resulted in net proceeds of approximately \$37.1 million. In addition, on October 25, 2006 the Company completed its listing on the Toronto Stock Exchange through which the Company raised gross process of \$15.0 million. Deducting the expenses of this offering resulted in net proceeds of approximately \$13.3 million.

Working Capital

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance increased to \$67.0 million at November 30, 2006 as compared to \$19.3 million at the end of fiscal 2005. The Company's working capital ratio (which is its current assets divided by its current liabilities) increased to 11.7:1 as compared to 4.5:1 at November 30, 2005. The increase in the Company's working capital metrics mainly relates to the \$50.4 million of cash generated from the Company's issuance of common shares in conjunction with its admission to AIM and subsequent listing on the Toronto Stock Exchange which took place during the year.

The Company's "days sales outstanding in accounts receivable" ("DSO") has remained relatively constant. As at November 30, 2006, DSO is 53 days as compared to 54 days at November 30, 2005. The Company evaluates DSO during periods of high growth (as experienced during fiscal 2006 and fiscal 2005) based on the recent three months annualized revenue and the average of the beginning and ending accounts receivable balance for such three month period.

The November 30, 2006 inventory turnover of 1.2 times per year did not significantly change from the 1.3 times per year at November 30, 2006. The Company has calculated its inventory turnover based on the actual costs of sales for the year and the average of the inventory balance at the beginning of the year and the ending inventory balance for the period.

Cash Provided by (used in) Operating Activities

Cash used in operations was \$2.1 million for the fourth quarter of fiscal 2006 compared to \$1.6 million for the same period last year. The increase in the use of cash from operations primarily relates to non-cash working capital balances which resulted in a use of cash of \$2.9 million compared to a \$2.5 million use of cash for the same period last year.

Cash used in operations during fiscal 2006 was \$1.5 million compared to a \$7.0 million use of cash for fiscal 2005. The increase in cash provided by operations during fiscal 2006 as compared to the same period last year primarily relates to the improved operating performance.

Purchase of Capital Assets

Excluding the impact of government assistance which has been applied against capital assets (Q4-06 - \$0.1 million; Q4-05 - nil), additions to capital assets were \$1.6 million in the fourth quarter of 2006 as compared to \$1.2 million for the same period last year.

Excluding the impact of government assistance which has been applied against capital assets (FY-06 - \$0.1 million; FY-05 - \$0.4 million) capital asset additions were \$4.9 million for fiscal 2006 as compared to \$3.2 million for the same period last year.

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

Issuance of Equity Shares

The Company issued 26,667,367 common shares from treasury in conjunction with its admission to AIM on March 21, 2006. The issuance of those shares resulted in approximately \$37.1 million of net proceeds to the Company.

The Company issued a further 7,895,000 common shares from treasury in conjunction with its Initial Public Offering on the Toronto Stock Exchange which was completed on October 26, 2006. The issuance of those shares resulted in approximately \$13.3 million of net proceeds to the Company.

During fiscal 2006, the Company issued 370,800 common shares upon exercise of options. The issuance of those shares resulted in approximately \$0.2 million of net proceeds to the Company.

As of the date of this document the number of common shares in issue is 122,668,416.

Liquidity and Capital Resource Requirements

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

Financial Instruments

Foreign exchange currency exposure is governed by the Company's foreign exchange policy as approved by its Board of Directors. The objective of the policy is to minimize the earnings impact of foreign currency gains and losses associated with foreign exchange rate fluctuations.

As at November 30, 2006 the Company has open forward foreign exchange contracts outstanding in the amount of US \$2.0 million. The effect of the forward foreign exchange contract is that it fixes the conversion rate for US \$2.0 million of the Company's net US dollar asset position at 1.1351. The Company is carrying this contract at its fair value. The Company has not applied hedge accounting to its forward foreign exchange contracts as they do not relate to specific future contractual obligations or commitments but instead are intended to counter the earnings impact of foreign currency fluctuations.

The fair value of cash, short term investments, accounts receivable and accounts payable approximates their carrying value due to the immediate or short-term maturity of these financial instruments. On November 30, 2006, the Company had a significant concentration of credit risk with its largest customer representing 56.6% of the Company's accounts receivable. One other customer represented 20.8% of the Company's accounts receivable balance as at November 30, 2006.

Contractual obligations

The following table summarizes the Company's contractual commitments as at November 30, 2006 and the effect those commitments are expected to have on liquidity and cash resources.

Contractual Commitments	Less than 1 year	1 – 3 years	3 – 5 years	After 5 years	Total
	<i>Amounts in thousands of dollars</i>				
Operating leases	\$437	\$1,313	\$656	nil	\$2,406
Purchase obligations	\$8,700	nil	nil	nil	\$8,700

The Company has entered into a lease for its facilities in Waterloo, Ontario to May 31, 2012. The lease requires annual rental payments of \$437,400.

The Company enters into purchase orders in the normal course of operations which generally have lead times of 4 to 26 weeks. The purchase obligation amount disclosed in the chart above relates to purchase orders which have been placed with certain vendors that relate to orders that are non-cancellable or non-returnable.

From fiscal 2003 through fiscal 2005 the Company received \$9.5 million of funding from Technology Partnerships Canada. As partial consideration for the funds, the Company has agreed to pay a royalty stream based on its sales. From December 1, 2005 to November 30, 2007 the Company is required to pay Technology Partnerships Canada a royalty equal to 1% of its sales. On the earlier of (i) cumulative sales reaching \$85 million or (ii) December 1, 2007, the royalty rate will increase to 2.5% of sales. Royalties will continue to be payable until November 30, 2013 or until cumulative royalties accrued or paid reach \$16 million. During the year the Company expensed \$0.3 million in respect of this obligation (fiscal 2005 – nil).

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any “off-balance sheet” arrangements as of November 30, 2006 as that term is described in National Instrument 51-102F.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings made pursuant to the Multilateral Instrument 52-109 is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators rules and forms. The Company’s Chief Executive Officer and Chief Financial Officer have evaluated the Company’s disclosure controls and procedures as of November 30, 2006 and have determined that such disclosure controls and procedures are effective.

INTERNAL CONTROLS AND PROCEDURES

There were no changes in the Company’s internal control over financial reporting that occurred during the fourth quarter that have materially affected, or are reasonably likely to materially affect the Company’s internal control over financial reporting.

Selected consolidated quarterly financial information

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

Fiscal 2006*	Three months ended		Fiscal year ended
	<i>Amounts in thousands of dollars except share and per share data</i>		
	<u>August 31,</u>	<u>November 30,</u>	<u>November 30,</u>
	<u>2006</u>	<u>2006</u>	<u>2006</u>
Sales	8,076	9,246	31,665
Operating expenses	6,260	6,929	24,815
Net income (loss) – total	183	116	(382)
Earnings (loss) per share	0.002	0.001	(0.004)
Total assets	65,912	79,546	79,546

*The Company has not prepared quarterly financial results prior to its listing on the TSX in the third quarter of fiscal 2006.

BUSINESS RISKS AND PROSPECTS

The Company is subject to a number of risks and uncertainties that could significantly affect its financial condition and performance. Historically the Company's financial results have fluctuated on a quarterly and annual basis and it is expected that financial results will continue to fluctuate in the future. 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. This MD&A is qualified entirely by these risk factors.

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 in customer buying decisions, 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 faces intense competition

The Company has experienced, and expect 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 it offers 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.

The Company's 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. Although we believe that substitute manufacturers 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, 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 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's has only a short operating history

The Company's business operations are still at a relatively early stage of development. The Company has not generated positive annual net operating earnings to date and there is no assurance that it will do so in the future.

The Company is dependent on a small number of key customers for a large percentage of our revenues

For the fiscal year ended November 30, 2006, the Company's revenue continued to be predominantly derived from the cable market, with one of its customers (U.S. - based cable operator) representing approximately 70% of its revenue as compared to 61% of its revenue from two customers (both U.S. based cable operators) for the fiscal year ended November 30, 2005. 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. Any change in our relationship with these key customers or any other customers that may represent a significant portion of our revenue in the future could have a material adverse effect on our business, financial condition and results of operations. The Company's dependence on a small number of key customers also exposes it to credit risk in respect of those customers. The failure of the Company's customers 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 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's is dependent on relationships with sales channel partners

As the Company's 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 residential broadband service provider market. The Company's success is largely dependent upon the continued growth of residential 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 residential 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. We rely 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 our 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 our 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.

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.

Regulatory risks relating to the use of the Internet

Regulation of the Internet and the content transmitted through that medium is a topic that receives considerable political discussion from time to time, from both a "pro-regulation" and an "anti-regulation" perspective. It is unclear as to what impact decisions made on either side of this issue by various political and governing bodies could have on the Company and its prospects or on the ability of the Company's customers to deploy and utilize the systems and products marketed by the Company.

Economic and geopolitical uncertainty may negatively affect the Company

The market for the Company's products depends on economic and geopolitical conditions affecting the broader market. Economic conditions globally are beyond the Company's control. In addition, acts of terrorism and the outbreak of hostilities and armed conflicts between countries can create geopolitical uncertainties that may affect the global economy. Downturns in the economy or geopolitical uncertainties may cause end-users to delay or cancel projects, reduce their capital spending or reduce or cancel orders for the Company's products, which could have a material adverse effect on its business, results of operations and financial condition.