

Sandvine Corporation

Consolidated Financial Statements
November 30, 2006

January 23, 2007

Auditors' Report

To the Shareholders of Sandvine Corporation

We have audited the consolidated balance sheets of **Sandvine Corporation** as at November 30, 2006 and 2005 and the consolidated statements of operations and deficit and cash flows for each of the years in the two year period ended November 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2006 and the results of its operations and its cash flows for each of the years in the two year period ended November 30, 2006 in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Sandvine Corporation

Consolidated Balance Sheets

As at November 30, 2006

	2006 \$	2005 \$
Assets		
Current assets		
Cash and cash equivalents	19,564,087	9,755,008
Marketable securities (note 2)	37,514,877	2,623,030
Accounts receivable	4,421,435	4,827,018
Other receivables	1,940,827	2,219,859
Inventory (note 3)	9,625,134	5,025,773
Prepaid expenses	365,104	336,627
	<hr/>	<hr/>
	73,431,464	24,787,315
Capital assets (note 4)	<hr/>	<hr/>
	6,114,036	2,982,948
	<hr/>	<hr/>
	79,545,500	27,770,263
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	5,590,159	3,000,925
Current portion of deferred revenue	700,448	2,476,056
	<hr/>	<hr/>
	6,290,607	5,476,981
Deferred revenue	<hr/>	<hr/>
	88,002	10,807
	<hr/>	<hr/>
	6,378,609	5,487,788
Shareholders' equity		
Share capital (note 6)	91,247,371	40,316,818
Contributed surplus	402,568	67,037
Deficit	(18,483,048)	(18,101,380)
	<hr/>	<hr/>
	73,166,891	22,282,475
	<hr/>	<hr/>
	79,545,500	27,770,263

Approved by the Board of Directors

_____ Director

_____ Director

Sandvine Corporation

Consolidated Statements of Operations and Deficit For the year ended November 30, 2006

	2006 \$	2005 \$
Revenue		
Product	28,003,285	14,516,479
Service	3,661,487	1,292,928
	<u>31,664,772</u>	<u>15,809,407</u>
Cost of sales		
Product	7,524,685	4,074,912
Service	1,113,301	282,517
	<u>8,637,986</u>	<u>4,357,429</u>
Gross margin	<u>23,026,786</u>	<u>11,451,978</u>
Expenses		
Sales and marketing	8,946,586	6,694,128
Research and development (note 10)	10,099,007	4,860,473
General and administrative	4,182,119	2,438,918
Amortization	1,587,474	667,568
	<u>24,815,186</u>	<u>14,661,087</u>
Loss from operations	(1,788,400)	(3,209,109)
Interest and other income	<u>1,506,662</u>	<u>244,120</u>
Loss before provision for income taxes	(281,738)	(2,964,989)
Provision for income taxes (note 5)	<u>99,930</u>	<u>14,272</u>
Net loss for the year	(381,668)	(2,979,261)
Deficit – Beginning of year	<u>(18,101,380)</u>	<u>(15,122,119)</u>
Deficit – End of year	<u>(18,483,048)</u>	<u>(18,101,380)</u>
Loss per share (note 9)		
Basic and diluted	<u>(0.004)</u>	<u>(0.039)</u>
Basic weighted average number of shares outstanding	<u>107,232,201</u>	<u>76,686,248</u>
Diluted weighted average number of shares outstanding	<u>107,232,201</u>	<u>76,686,248</u>

Sandvine Corporation

Consolidated Statements of Cash Flows For the year ended November 30, 2006

	2006 \$	2005 \$
Cash provided by (used in)		
Operating activities		
Net loss for the year	(381,668)	(2,979,261)
Items not affecting cash		
Amortization	1,587,474	667,568
Foreign exchange loss (note 1)	87,236	98,763
Stock-based compensation (note 7)	344,183	50,076
Loss on disposal of capital assets	28,149	-
	<hr/> 1,665,374	<hr/> (2,162,854)
Changes in non-current deferred revenue	77,195	(138,704)
Changes in non-cash working capital balances	<hr/> (3,216,833)	<hr/> (4,717,222)
	<hr/> (1,474,264)	<hr/> (7,018,780)
Investing activities		
Purchase of capital assets	(4,857,155)	(3,204,525)
Government assistance applied against capital assets (note 4)	110,444	443,483
Net (purchase) sale of marketable securities	<hr/> (34,891,847)	<hr/> 1,014,565
	<hr/> (39,638,558)	<hr/> (1,746,477)
Financing activity		
Proceeds from the issuance of share capital (note 6)	<hr/> 50,921,901	<hr/> 18,045,571
Net increase in cash during year	9,809,079	9,280,314
Cash and cash equivalents – Beginning of year	<hr/> 9,755,008	<hr/> 474,694
Cash and cash equivalents – End of year	<hr/> 19,564,087	<hr/> 9,755,008
Cash and cash equivalents are represented by		
Balances with banks	1,971,479	1,155,096
Cash equivalents	<hr/> 17,592,608	<hr/> 8,599,912
	<hr/> 19,564,087	<hr/> 9,755,008

Sandvine Corporation

Notes to Consolidated Financial Statements

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1 Summary of the significant accounting policies

Basis of presentation

Sandvine Corporation (the "Company") was incorporated in February 2006. In March 2006, the Company acquired all of the issued and outstanding shares of Sandvine Incorporated (note 6). As both the Company and Sandvine Incorporated were related through common share ownership, the business combination has been recorded using the continuity of interests method, whereby the financial statements have been prepared on the basis that the Company had always been the sole shareholder of Sandvine Incorporated. These transactions, including conversion of all outstanding preference shares to common shares were completed in anticipation of an offering of the Company's shares on the AIM market of the London Stock Exchange. Consequently, the denominator for basic and diluted loss per share includes all of the converted preference shares.

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies used in the preparation of these consolidated financial statements are summarized below.

Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated.

Nature of operations

The Company is in the business of researching, designing and manufacturing networking equipment for the computer communications equipment industry.

Cash and cash equivalents

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. Cash and cash equivalents are stated at cost plus accrued interest.

Marketable securities

Marketable securities include corporate debentures as well as interest bearing securities. The marketable securities are recorded at cost plus accrued interest and are carried at the lower of cost or market.

Inventory

Raw materials are stated at the lower of cost and replacement cost. Work-in-process and finished goods are stated at the lower of cost and net realizable value, which is defined as the selling price less costs to sell. Cost includes the cost of materials plus direct labour and an allocation of overhead applied to the product. Cost is determined on a first-in, first-out basis.

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Income taxes

The Company follows the liability method of tax allocation to account for income taxes. Under this method, future tax assets and liabilities are determined based upon the difference between the financial reporting and tax basis of assets and liabilities, and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Capital assets

Capital assets are recorded at cost and amortization is provided using the following rates and methods:

Computer hardware	30% declining balance
Computer software	30%-50% declining balance
Furniture and fixtures	20% declining balance
Office equipment	20% declining balance
Leasehold improvements	Straight-line basis over lease term

Research and development

The Company is engaged in research and development activities. Research and development costs, other than capital asset acquisitions, are charged as an operating expense of the Company as incurred, unless they meet generally accepted accounting criteria for deferral. To date, no costs have been deferred.

Revenue recognition

The Company's networking and communications products are integrated with software that is essential to the functionality of the equipment. Additionally, the Company provides unspecified software upgrades and enhancements related to the equipment 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. When a sale involves multiple elements, such as sales of products that include services, the entire fee from the arrangement is allocated to each respective element based on its relative fair value as determined by internal or third-party analysis of market-based prices and recognized when revenue recognition criteria for each element are met. 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 3 months. The unit-of-delivery or units-of-work performed method is used to measure progress on each contract. Revenue and cost estimates are revised periodically based on changes in circumstances. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are

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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.

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.

Loss per share

Basic loss per share is computed by dividing net loss by the weighted average number of common shares and common share equivalents outstanding during the year. Diluted loss per share represents the potential dilution of securities by adding other common stock equivalents in the weighted average number of common shares outstanding during the year, if dilutive, and is calculated using the treasury stock method.

Stock-based compensation plan

The Company has a stock-based compensation plan, which is described in note 7. During 2004, the Company adopted The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments, and is applying it prospectively to new awards granted on or after December 1, 2003.

In accordance with CICA 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. The fair value of awards is determined using the Black-Scholes option pricing model.

Consideration paid on the exercise of stock options, or issuance of stock together with any previously recognized compensation expense, is credited to share capital.

Use of estimates

The preparation of these consolidated financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

Financial instruments

Fair value

The carrying amounts for cash and cash equivalents, marketable securities, accounts receivable, other receivables, and accounts payable and accrued liabilities approximate fair market value because of the short maturity of these instruments.

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Credit risk

The Company's diverse customer base includes certain large end-user customers that may dominate the Company's revenue in a given period, which can result in a concentration of credit risk at the end of a reporting period. The Company has credit evaluation, approval and monitoring processes to mitigate potential credit risks. Anticipated bad debt loss has been provided for in the allowance for doubtful accounts. As at November 30, 2006, two companies, with greater than ten percent concentration in accounts receivable, accounted for 77.4% of the Company's total accounts receivable (2005 – one; 89%).

Foreign currency risk

There is a risk to the Company's earnings that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. The Company's financial results are reported in Canadian dollars. The Company's exposure to foreign currency risk is primarily related to fluctuations in the value of the Canadian dollar relative to that of the United States dollar as the Company's transactions with customers and directly associated costs generally occur in United States dollars. For the year ended November 30, 2006, general and administrative expenses included a foreign exchange loss of \$87,236 (2005 - \$98,763).

As at November 30, 2006, the Company has one foreign currency forward contract that has the effect of fixing the conversion of \$2 million of the Company's net US dollar asset position to Canadian dollars at a rate of 1.1351. The Company is carrying this contract that matures on or before February 16, 2007 at its fair value of \$10,634. Changes in the value of these contracts are recorded as an element of general and administrative expense and has been included in the foreign exchange loss of \$87,236, which is consistent with the Company's treatment of foreign currency gains and losses.

Government assistance

Government assistance towards research and development expenditures is received in the form of investment tax credits on account of eligible expenditures. Investment tax credits are recorded when there is reasonable assurance that the Company will realize them. Assistance related to the acquisition of capital assets used for research and development is credited against the related capital asset, while other assistance is credited against related expenses as incurred.

As more fully described in note 10 – Government assistance, the arrangement with Technology Partnerships Canada ("TPC") requires the Company to pay a royalty based on its gross revenue. Royalty expense is charged to income when the related sale is recorded.

Foreign currency translation

The Company maintains its accounts in Canadian dollars. The accounts of its foreign subsidiaries are maintained in the local currency where the subsidiary is incorporated and are translated to Canadian dollars using the temporal method. Accordingly, monetary assets and liabilities are translated using the exchange rates in effect at the consolidated balance sheet date and non-monetary assets and liabilities at historical exchange rates. Revenue and expense items have been translated using the average exchange rate prevailing during the year. The gains and losses resulting from the exchange rates from year to year have been reported in income.

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2 Marketable securities

Marketable securities include the following:

	2006	2005
	\$	\$
Canadian dollar bonds, debentures and interest bearing securities	37,510,289	2,599,562
U.S. dollar interest bearing securities	4,588	23,468
	<u>37,514,877</u>	<u>2,623,030</u>

Carrying values of bonds, debentures and interest bearing securities approximate their market values.

3 Inventory

Inventory includes the following:

	2006	2005
	\$	\$
Raw materials	5,379,106	1,826,610
Work-in-process	2,304,389	1,264,309
Finished goods	70,823	599,304
Demonstration systems	1,870,816	1,335,550
	<u>9,625,134</u>	<u>5,025,773</u>

4 Capital assets

	Cost	Accumulated amortization	2006
	\$	\$	\$
Computer hardware	7,254,516	2,252,146	5,002,370
Computer software	1,550,644	995,289	555,355
Furniture and fixtures	388,286	149,841	238,445
Office equipment	42,614	28,199	14,415
Leasehold improvements	359,282	55,831	303,451
	<u>9,595,342</u>	<u>3,481,306</u>	<u>6,114,036</u>

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Notes to Consolidated Financial Statements

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	Cost \$	Accumulated Amortization \$	2005 \$
Computer hardware	3,330,459	949,142	2,381,317
Computer software	1,017,879	786,209	231,670
Furniture and fixtures	247,442	107,835	139,607
Office equipment	41,237	24,768	16,469
Leasehold improvements	239,765	25,880	213,885
	<u>4,876,782</u>	<u>1,893,834</u>	<u>2,982,948</u>

During the year government assistance and investment tax credits totalling \$110,444 have been applied to reduce the cost of capital assets acquired (2005 – \$443,483).

5 Income taxes

The provision for income taxes consists of the following:

	2006 \$	2005 \$
Current		
Canadian	-	-
Foreign	99,930	14,272
	<u>99,930</u>	<u>14,272</u>

The current provision relates to taxes owing by the Company's foreign subsidiaries.

The difference between the amount of the provision for income taxes and the amount computed by multiplying income before income taxes by the statutory Canadian rate, is reconciled as follows:

	2006 \$	2005 \$
Combined federal and provincial tax rate	36.12%	36.12%
Expected tax recovery	(102,000)	(1,071,000)
Share issuance costs	(1,826,000)	-
Foreign tax rate differences	29,000	206,272
Other differences	(157,070)	(220,000)
Increase in valuation allowance	2,156,000	1,099,000
	<u>99,930</u>	<u>14,272</u>

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The tax effects of significant temporary differences are as follows:

	2006 \$	2005 \$
Assets		
Share issuance costs	1,600,000	88,000
Research and development incentives	5,281,000	2,611,000
Capital assets	-	25,000
Tax losses	2,780,000	4,346,000
	<hr/>	<hr/>
	9,661,000	7,070,000
Less: Valuation allowance	9,071,000	6,915,000
	<hr/>	<hr/>
	590,000	155,000
Liabilities		
Capital assets	590,000	-
Refundable investment tax credits	-	155,000
	<hr/>	<hr/>
Net carrying value	<hr/> -	<hr/> -

Management believes that, based on a number of factors, the available objective evidence creates sufficient uncertainty regarding the realizability of the future tax assets such that a full valuation allowance has been recorded. These factors include the Company's losses, increases in expense levels, the fact that the market in which the Company operates is intensively competitive and characterized by rapidly changing technology, the lack of carry back capacity to realize future tax assets, and the uncertainty regarding market acceptance of the Company's products. The Company will continue to assess the realizability of the future tax assets in future periods.

The Company has investment tax credits, tax loss carryforwards and undeducted scientific research and experimental development deductions ("SR&ED") which expire as follows:

	Investment tax credits \$	Tax loss carry forwards \$	Undeducted SR&ED \$
2010	-	454,000	-
2011	-	1,840,000	-
2012	250,000	-	-
2013	415,000	-	-
2014	213,000	-	-
2015	140,000	4,320,000	-
2016	513,000	555,000	-
2017	1,060,000	324,000	-
2025	-	127,000	-
Unlimited	-	-	13,051,000
	<hr/>	<hr/>	<hr/>
	2,591,000	7,620,000	13,051,000
	<hr/>	<hr/>	<hr/>

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Notes to Consolidated Financial Statements
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6 Share capital

Share capital consists of the following:

	Common Shares		Class A preferred shares		Class B preferred shares		Common share warrant		Total
	#	\$	#	\$	#	\$	#	\$	
Balance, November 30, 2004	24,060,060	25,698	34,856,988	21,855,403	-	-	1	390,146	22,271,247
Issued under the employee stock option plan	6,348	3,999	-	-	-	-	-	-	3,999
Issued for cash	-	-	-	-	28,811,853	18,041,572	-	-	18,041,572
Balance, November 30, 2005	24,066,408	29,697	34,856,988	21,855,403	28,811,853	18,041,572	1	390,146	40,316,818
Issued under the employee stock option plan	370,800	199,105	-	-	-	-	-	-	199,105
Transfer from contributed surplus	-	8,652	-	-	-	-	-	-	8,652
Issued for cash	34,562,367	50,359,149	-	-	-	363,647	-	-	50,722,796
Issued on exchange to Class A preferred shareholders	34,856,988	21,855,403	(34,856,988)	(21,855,403)	-	-	-	-	-
Issued on exchange to Class B preferred shareholders	28,811,853	18,405,219	-	-	(28,811,853)	(18,405,219)	-	-	-
Balance, November 30, 2006	122,668,416	90,857,225	-	-	-	-	1	390,146	91,247,371

The Company has authorized an unlimited number of common shares.

The Company has one outstanding and authorized common share purchase warrant which entitles the holder to acquire 619,280 common shares for \$0.00001 at any time prior to March 31, 2023. This transaction was a non-cash transaction. The Company determined that the fair value of the warrant was \$390,146 at the time of issue.

During 2005, the Company issued 27,369,469 Class B preferred shares for net proceeds of \$17,505,661. On November 5, 2005 the Company issued an additional 1,442,384 Class B preferred shares for proceeds of \$899,558. In connection with the November 5, 2005 share issuance, the Company provided interest free loans of \$393,250 to certain employees to finance the purchase of such shares. Generally these loans were repayable over a 12 month period and were secured by the shares which have been issued. Since the terms of the loan did not meet the criteria for separate disclosure as outlined in CICA Emerging Issues Committee Abstract 132, the Company has offset the receivable against the shares issued. As at November 30, 2006, the employee loans have been fully repaid (2005 -\$363,647 was receivable).

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On March 7, 2006, the Company entered into a share exchange agreement with Sandvine Incorporated's shareholders and Sandvine Incorporated. Under the share exchange agreement, the Company, Sandvine Incorporated and each shareholder entered into a share-for-share exchange transaction pursuant to which the shareholders exchanged all of their shares in Sandvine Incorporated for shares in the capital of Sandvine Corporation, causing Sandvine Incorporated to be a wholly owned subsidiary of Sandvine Corporation.

Each shareholder received the number and class of Sandvine Corporation's shares that correspond to the number and class of Sandvine Incorporated shares held on that date. In connection with this exchange agreement, the options and warrant holder exchanged their options or warrant in Sandvine Incorporated to options or warrant in the Company on the same terms and conditions as the original options and warrant.

As Sandvine Incorporated and Sandvine Corporation were related through 100% common share ownership, the business combination has been recorded using the continuity of interests method, whereby the financial statements have been prepared on the basis that Sandvine Corporation had always been the sole shareholder of Sandvine Incorporated.

On March 14, 2006, the Company amended its Articles to reorganize its share capital. All shareholders exchanged all of their shares for common shares. All Class A and B preference shares exchanged were subsequently cancelled. The common shares were redeemable at the option of the registered holder at a redemption price as stipulated by the Company's articles of incorporation.

On March 21, 2006, the Company issued 26,667,367 common shares for net proceeds of \$37,065,865 (share issuance costs of \$3,347,196) as part of listing its entire share capital to the AIM market of the London Stock Exchange.

On October 26, 2006, the Company issued 7,895,000 common shares for net proceeds of \$13,293,284 (share issuance costs of \$1,707,216) in connection with an initial public offering of the Company's shares on the Toronto Stock Exchange ("TSX"). Following closing of this offering, the Company filed Articles of Amendment to remove the redemption feature on the common shares as described above.

During the year, the Company issued 370,800 common shares for net proceeds of \$199,105 as a result of option holders exercising their options.

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7 Stock options

Stock option plan

The Company has adopted a stock option plan for employees and directors. Options granted prior to March 21, 2006 typically vest over a four year and six month term. Options granted subsequent to this date typically vest over a 5 year term. All options have a contractual life of 10 years and allow for the purchase of one common share per option. The exercise price of the options is the fair market value of the Company's common shares at the date of grant. As at November 30, 2006, there were 8,953,921 (2005 – 7,587,951) options outstanding and 3,312,921 (2005 – 1,345,641) available for future grants under the stock option plan. A summary of the stock option activity is presented below:

	Options	
	Number	Weighted average price \$
Options outstanding, November 30, 2004	5,989,551	0.544
Options activity for the year		
Granted during the year	2,069,200	0.630
Forfeited	(464,452)	0.630
Exercised	(6,348)	0.630
Options outstanding, November 30, 2005	7,587,951	0.562
Options activity for the year		
Granted during the year	2,143,600	1.884
Forfeited	(406,830)	0.686
Exercised	(370,800)	0.537
Options outstanding, November 30, 2006	8,953,921	0.875

Stock based compensation

As disclosed in note 1, the Company adopted CICA 3870 during fiscal 2004 and has recognized \$344,183 (2005 – 50,076) as compensation expense for stock-based grants, with a corresponding credit to contributed surplus. Previously recognised expense of \$8,652 relating to options exercised during the year has been transferred from contributed surplus to share capital. The expense related to options issued before the adoption of CICA 3870 was not significant.

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The weighted average fair value of options granted during the year was calculated using the Black-Scholes option pricing model with the following assumptions:

	2006	2005
Number of options issued	2,143,600	2,069,200
Weighted average Black-Scholes value of each option	1.31	0.21
Assumption		
Risk free interest rate	4.13%	4.02%
Expected life in years	10	10
Expected dividend yield	0%	0%
Volatility	45.3%	0%

The following table summarizes information regarding stock options outstanding at November 30, 2006:

Range of Exercise price \$	Options Outstanding			Options Exercisable	
	Number outstanding at November 30 2006	Weighted average contractual life (years)	Weighted average exercise price \$	Number outstanding at November 30 2006	Weighted average exercise price \$
0.40 – 0.63	7,294,321	6.48	0.57	4,939,349	0.53
1.52 – 2.43	1,659,600	9.71	2.24	-	-
0.40 – 2.43	8,953,921	7.08	0.88	4,939,349	0.53

8 Lease commitments

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

	\$
2007	437,400
2008	437,400
2009	437,400
2010	437,400
2011	437,400
Thereafter	218,700
	<u>2,405,700</u>

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9 Loss per share

	2006 \$	2005 \$
Numerator for basic and diluted loss per share available to common shareholders	(381,668)	(2,979,261)
Denominator for basic loss per share, weighted average number of shares outstanding	107,232,201	76,686,248
Denominator for diluted loss per share, weighted average number of shares and assumed conversions	107,232,201	76,686,248
Loss per share: Basic and diluted	(0.004)	(0.039)

As a result of the losses applicable to common shares, the common share purchase warrant and the options granted under the Company's stock option plan have been excluded in the diluted loss per share calculation for 2006 and 2005 as their inclusion would have been anti-dilutive.

10 Government assistance

During 2003, an agreement was entered into with Technology Partnership Canada ("TPC"), which provides partial funding towards the Company's research and development. The agreement relates to a twenty-two month research and development project under which TPC contributed \$9,500,000. The agreement requires the contribution to be repaid in the form of royalties to a maximum of \$16,000,000 on gross revenues of the Company. During 2005, an amendment to the agreement was signed such that the period in which the Company is required to pay such royalties was changed to the period from December 1, 2005 to November 30, 2013. From December 1, 2005 to November 30, 2007, royalties will be paid at a rate of 1%. On the earlier of December 1, 2007 or the date the Company's cumulative gross revenues exceeds \$85,000,000, the royalty rate will increase to 2.5%. The obligation to pay royalties will continue until November 30, 2013. During 2006, the Company recognized \$316,648 as royalty expense which has been recorded as an increase to research and development expenses for the year.

As part of the agreement, the Company issued a common stock purchase warrant to TPC with terms and conditions as described in note 6.

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

	2006 \$	2005 \$
Research and development	10,214,196	7,686,050
Government repayments/(assistance)	316,648	(1,925,577)
Investment tax credits	(431,837)	(900,000)
	<u>10,099,007</u>	<u>4,860,473</u>

11 Segment disclosures

The Company has one reportable segment. The Company's operations are substantially all related to the research, design, manufacturing and sales of network equipment for the computer communications equipment industry. Selected financial information is as follows:

	2006 \$	2005 \$
Sales		
Canada	384,909	596,111
United States	27,150,540	12,242,231
Caribbean and Latin America	190,354	156,991
Europe, Middle East and Africa	3,369,656	1,833,891
Asia Pacific	569,313	980,183
	<u>31,664,772</u>	<u>15,809,407</u>
	2006 %	2005 %
Sales		
Canada	1.2	3.8
United States	85.8	77.4
Caribbean and Latin America	0.6	1.0
Europe, Middle East and Africa	10.6	11.6
Asia Pacific	1.8	6.2
	<u>100.0</u>	<u>100.0</u>

For the year ended 2006, one customer represented 70% of total revenue (2005 – two customers represented 61%).

Sandvine Corporation

Notes to Consolidated Financial Statements

November 30, 2006

	2006 \$	2005 \$
Capital and intangible assets		
Canada	6,114,036	2,982,948
Total assets		
Canada	79,418,398	27,410,300
United States	15,299	130,355
Europe, Middle East and Africa	111,803	229,608
	<u>79,545,500</u>	<u>27,770,263</u>

12 Supplemental cash flow information

The Company paid \$38,139 for income tax in cash and did not pay any interest in cash for the year ended November 30, 2006 (2005 – \$33,875).

13 Credit facility

On May 25, 2006, the Company entered into demand credit facility with a major Canadian chartered bank. Under the terms of the facility, the Company has available to it a \$500,000 operating line to provide letters of credit and a US\$15,000,000 forward contract line to permit the Company to enter into foreign currency forward contracts. Borrowings made from the facility attract interest at the bank's prime rate of interest. Marketable securities in the amount of \$2,500,000 are pledged as security for the credit facility. As of November 30, 2006, the Company has issued a US\$83,565 (CDN\$95,500) letter of credit under the operating line and has entered into US\$2,000,000 of forward foreign exchange contracts.

14 Comparative figures

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2006 consolidated financial statements.

