



Enabling Intelligent Broadband Networks....

Sandvine Corporation

Interim Results for the Six Months to 31 May 2006

Sandvine Corporation, together with its wholly owned subsidiary, Sandvine Incorporated, one of the leading developers and marketers of network equipment targeted at the evolving needs of today's residential broadband service providers, today announces its maiden interim results for the six months ended 31 May 2006.

FINANCIAL HIGHLIGHTS

- 4th consecutive half of revenue growth
- Revenue of \$14.3 million; a 168% increase from \$5.3 million for the same period last year
- Net loss reduced by 64% to \$0.7 million down from \$1.95 million for the same period a year earlier
- Basic loss per share reduced to \$0.007 per share from \$0.029 for the same period a year earlier
- Cash generated from operations of \$2.5 million as compared to a \$4.1 million cash burn for the same period last year

BUSINESS HIGHLIGHTS

- A successful admission on the AIM market of the London Stock Exchange raising net proceeds of \$37.3 million (£18.4m) on March 21, 2006
- 10 new customers were added in the first half of the year
- 60 broadband service provider customers in 29 countries. Sandvine has sold equipment to service providers representing networks with more than 34 million residential subscribers
- PTS 14000 platform unveiled in June, enabling intelligent broadband network solutions with 10 gigabit connectivity

Dave Caputo, President and CEO for Sandvine commented:

"Sandvine continues to take advantage of the growing demand for its products and services as our maiden half-yearly results as a publicly-traded company clearly demonstrate. As we look to execute our stated growth strategy we continue to enhance our service offering and take steps into expanding our global footprint enabling intelligent broadband networks."

Scott Hamilton, Chief Financial Officer for Sandvine commented:

"We are very pleased with the financial results demonstrated this half. With a successful initial public offering and four consecutive halves of revenue growth, we are well positioned to continue momentum and meet our 2006 targets."

Sandvine Corporation

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There will be an analyst meeting at the offices of Buchanan Communications, 45 Moorfields, EC2Y 9AE at 09:30 GMT today. Please contact either Jeremy Garcia or James Strong if you wish to attend.

The Sandvine management team will discuss the full results on a web cast to be held today, July 6, 2006 at 13:30 GMT. The web cast can be accessed at <http://mediaserve.buchanan.uk.com/Webcasts/livegold/lrframes.htm> and a recorded copy will be available within 24 hours following the call and posted for thirty days at http://www.sandvine.com/about_us/investors.asp .

CAUTION REGARDING FORWARD LOOKING INFORMATION

Certain statements in this report which are not historical facts constitute forward-looking statements or forward-looking information within the meaning of applicable securities laws ("forward-looking statements") and are made pursuant to the "safe harbour" provisions of such laws. 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" 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. These risks and uncertainties include, without limitation, factors such as business and economic conditions and growth trends in the broadband network equipment industry and in various geographic regions; global economic conditions and uncertainties in the geopolitical environment including the impact of regulation related to the internet and the delivery of internet services; the impact of foreign currency fluctuations; overall information technology spending; the growth of broadband internet usage and levels of capital spending on broadband network management systems; the timing of orders and manufacturing lead times; changes in customer order patterns or customer mix; insufficient, excess or obsolete inventory; increased competition in the broadband network equipment industry; dependence on the timely development and market acceptance of new product offerings and standards; rapid technological and market change; manufacturing and sourcing risks including dependence on key suppliers and key technologies; product defects and returns; dependence upon indirect channel sales and resellers; litigation involving patents, intellectual property, antitrust, shareholder and other matters; the ability to recruit and retain key personnel and the ability to manage financial risk. 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 and which can also impact upon forward looking information which may be contained in this report can be found under the heading "Risk Factors" in the AIM Admission Document of the Company dated March 16, 2006 which is available on the Investor Relations section of the Company's website at www.sandvine.com.

PREFACE

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. References in this report to “Sandvine” or “the Company” refer, as the context may require, to Sandvine Corporation and its subsidiaries collectively or to Sandvine Incorporated.

This announcement is dated July 6, 2006 and should be read in conjunction with the unaudited consolidated financial statements of the Company and related notes for the six month period ending May 31, 2006. The unaudited consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles and all amounts are stated in Canadian dollars, unless otherwise indicated.

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 profitability. With the additional information provided by Sandvine’s equipment about ISP traffic, 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 considerable growth in its number of customers and deployments since then. Sandvine’s customer base has increased from 8 customers in 2003 to 60 customers in 2006 and currently has products installed and operating at customer facilities in 29 countries around the world, within networks representing over 34 million broadband subscribers.

The Market

Sandvine’s target market is solely focused on residential broadband access providers, worldwide. 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 application, and latency sensitive applications like VoIP and online video games. At the same time a new breed of “virtual” Internet application providers, not burdened with network investment and operations, are aggressively targeting premium users with a broad range of value-added services. The broadband service provider business has never been more challenging.

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.

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.

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.

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, including Canada, the US, the UK, France and Hong Kong. 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.

CHIEF EXECUTIVE REVIEW

Dave Caputo, President and CEO of Sandvine:

In this, the maiden results following the Company's successful listing on AIM in March, I am extremely pleased to report that Sandvine has closed a 4th consecutive half of revenue growth.

The global broadband market continues to grow in line with industry expectations, positioning Sandvine extremely well within its target market of broadband service providers. Sandvine continues to invest in sales and marketing and in doing so has successfully expanded its global footprint to include 60 customers in 29 countries. The Company is experiencing good traction in competing providers with 55% of its customer base in Cable Internet and 42% in DSL as well as initial traction and growing interest in emerging broadband access technologies such as wireless and fibre to the home.

Broadband Internet providers share a growing acceptance that next generation networks will require a layer of intelligence in order for them to be competitive in the current business environment where improving their subscribers' online experience is paramount.

Outlook

The Company's continued acceptance in the marketplace as a leading solution provider positions it strongly as service providers continue rolling out Next Generation Networks. The Company has a very skilled and highly motivated team which gives it a very strong foundation from which to exploit opportunities as they arise. With continued focus on a number of significant opportunities and the progress that the Company has made in the first six months, I am excited about the outlook and remain confident of future success for the Company.

FINANCIAL REVIEW

The consolidated financial statements for the period ended May 31, 2006 are attached and included at the end of this release.

RESULTS OF OPERATIONS

The following table outlines the Company's results of operation in thousands (000's) of dollars for the period indicated.

	Six months ended May 31,	Six months ended May 31,	%
	<u>2006</u>	<u>2005</u>	Change
Revenue			
Product	12,649	4,932	
Service	1,695	414	
	<u>14,344</u>	<u>5,346</u>	168%
Cost of Sales			
Product	3,387	1,374	
Service	451	102	
	<u>3,838</u>	<u>1,475</u>	160%
Gross Margin	10,506	3,871	171%
Expenses			
Sales and marketing	3,867	3,111	24%
Research and development	5,233	3,430	53%
Government assistance applied against R&D expenses	--	(1,463)	
General and administrative	1,942	614	216%
Amortization	584	213	174%
	<u>11,626</u>	<u>5,905</u>	97%
Loss from operations	1,120	2,034	
Other income	457	83	
Loss before taxes	663	1,951	
Income taxes	17	1	
Net loss	<u>680</u>	<u>1,950</u>	(67%)

Revenue

Revenue for the first six months of fiscal 2006 was \$14.3 million compared to \$5.3 million for the same period last year representing a 168% increase. The increase in revenue is consistent with continued deployment of the Company's product by its largest customer. Historically, 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 two of its customers (US based cable operators) representing 80% of its revenue for the six months ended May 31, 2006. The Company derived 61% of its revenue from these same two customers for the fiscal year ended November 30, 2005.

The Company evaluates its revenue performance based on four geographic regions as outlined below.

	Six months ended May 31,	
	<u>2006</u>	<u>2005</u>
North America	94.1%	74.8%
Latin America	0.7%	1.0%
Europe, Middle East & Africa	3.3%	23.2%
Asia Pacific	1.9%	1.0%
	<u>100.0%</u>	<u>100.0%</u>

Cost of Sales & Gross Margins

Product cost of sales consists of the cost of 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 incurred in providing professional services and customer support services.

Product gross margins increased by 1.1% to 73.2% compared to 72.1% for the same period last year. During the six month period ended May 31, 2005, approximately 9% of the Company's sales came from one of the Company's products which has sold at a lower gross margin percentage than its other products. The Company's revenue in respect of this product for the six month ended May 31, 2006 was nominal.

Service gross margins declined by 2.0% to 73.4% compared to 75.4% for the same period last year. The decrease in service gross margins relates to additional staffing costs associated with increasing the support team which was necessary to support the increased level of sales the Company experienced over the past twelve months.

Operating Expenses

The following table provides additional analysis of the Company's operating expenses in thousands (000's) of dollars for the period indicated.

	Six months ended May 31, 2006	Six months ended May 31, 2005	Year ended November 30, 2005
Revenue	14,344	5,346	15,809
Sales and marketing expenses	3,867	3,111	6,694
<i>% of revenue</i>	27.0%	58.2%	42.3%
Research and development expenses	5,233	3,430	7,686
<i>% of revenue</i>	36.5%	64.2%	48.6%
Government assistance applied against R&D expenses	--	(1,463)	(2,825)
<i>% of revenue</i>		27.4%	17.9%
General and administrative expenses	1,942	614	2,439
<i>% of revenue</i>	13.5%	11.5%	15.4%
Amortization expense	584	213	667
<i>% of revenue</i>	4.1%	4.0%	4.2%
Total Operating expenses	11,626	5,905	14,661

Sales and Marketing Expenses

Sales and marketing ("S&M") expenses consist primarily of personnel, travel, and trade show/conference costs.

S&M expenditures increased by \$0.8 million to \$3.8 million for the six months ended May 31, 2006, which represents a 24.3% increase from the \$3.1 million incurred for the same period last year. The S&M group consists of 31 employees which is made up of 16 employees dedicated to selling activities and 15 employees dedicated to the marketing and product management group. Major factors contributing to the increase in the S&M expenses include increased compensation costs associated with the increase in sales for the period, increased travel costs, increased business development costs as well as increased general marketing costs.

Research and Development Expenses

Research and development ("R&D") expenses consist primarily of personnel costs, certification costs and material costs (including prototype costs) associated with new product introduction. The R&D expenses are presented net of financial assistance received through the Technology Partnerships Canada program as well as refundable investment tax credits associated with R&D expenditures (\$0 for the six months ended May 31, 2006 as compared to \$1.4 million for the same period last year).

R&D expenditures increased by \$1.8 million to \$5.2 million for the six months ended May 31, 2006, which represents a 52.9% increase from the \$3.4 million (exclusive of \$1.4 million of financial assistance as described above) incurred for the same period last year. The majority of the increase relates to increased staffing costs associated with adding 28 people to the R&D department over the last twelve months.

General and Administrative

General and administrative (G&A) expenses consist primarily of personnel costs, occupancy costs, professional costs associated with tax accounting and legal advice, information system costs as well as foreign currency gains and losses.

The G&A expenditures increased by \$1.3 million to \$1.9 million for the six months ended May 31, 2006 which represents a 216% increase from the \$0.6 million incurred for the same period last year. Approximately \$0.5m of the increase relates to a \$0.1 million foreign exchange loss being recognized during the first six months of the year compared to a \$0.4 million foreign exchange gain (which offset G&A expenses for the six month period ended May 31, 2005) for the same period last year. Other major contributing factors to the increase in G&A expenses include increased staff costs of \$0.4 million, increased occupancy costs of \$0.2 million as well as increased stock based compensation costs of \$0.1 million as compared to \$25,000 for the same period last year.

Other Income

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

For the period ended May 31, 2006 the Company earned \$0.5 million of investment income compared to \$0.1 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 first six months of the year as compared to the same period last year. The increased cash, cash equivalents and marketable securities balances is consistent with the equity financings (including its admission to AIM) that took place over the past eighteen months.

Income Tax Expense

The current provision for income taxes increased by \$16,000 to \$17,000 for the six months ended May 31, 2006. The current provision for income taxes consists of an estimate of taxes owing by the Company's foreign subsidiaries.

As at May 31, 2006 the Company had approximately \$12.8 million of losses for Canadian income tax purposes, approximately \$12.1 million of unused research and development expenditures for Canadian income tax purposes, and \$1.6 million of unrecognized investment tax credits which may be applied against future Canadian income taxes otherwise payable. The Company's also had approximately USD \$0.8 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 the Company has not yet demonstrated that future realization of the tax benefit is more likely than not given that the Company has a history of losses.

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 of May 31, 2006 the Company had \$50.3 million of cash and cash equivalents and marketable securities as compared to \$16.5 million for the same period last year or \$12.3 million for the year ended November 30, 2005. On March 21, 2006 the Company completed its admission on the AIM market of the London Stock Exchange where it raised gross proceeds of approximately \$40.4 million (£20 million). The nominated advisor for the transaction was Canaccord Adams Limited ("Canaccord"). Deducting accrued and paid expenses of the offering, including a 5% commission paid to Canaccord, resulted in net proceeds to the Company of approximately \$37.3 million (£18.4 million).

The table set forth outlines a summary of the cash flows for the period indicated:

	Six months ended May 31, 2006	Six months ended May 31, 2005
	<u>2006</u> (000's)	<u>2005</u> (000's)
Cash provided (used) by operating activities	2,464	(4,103)
Purchase of capital assets	(1,862)	(1,030)
Issuance of equity securities	37,353	17,488
Net change in cash and cash equivalents and marketable securities	37,955	12,355
Cash and cash equivalents and marketable securities, beginning of period	12,378	4,211
Cash and cash equivalents and marketable securities, end of period	<u>50,333</u>	<u>16,566</u>

Cash Provided by Operating Activities

Cash provided by operating activities for the six months ended May 31, 2006 was \$2.5 million as compared to a use of cash of \$4.1 million for the same period last year. The increase in cash provided by operating activities relates to a net loss of \$0.7 million for the period ended May 31, 2006 as compared to \$1.95 million for the same period a year earlier. Also, cash provided by non-cash working capital balances was \$2.3 million for the six months ended May 31, 2006 (as compared to a use of cash of \$1.9 million for the same period last year). The increase in cash provided by non-cash working capital balances resulted mainly as a result of (i) a \$0.5 million decrease in inventory levels during the six months ended May 31, 2006 as compared to a \$0.8 million increase in inventory for the same period a year earlier and (ii) a \$2.0 million decrease in accounts receivable levels during the six months ended May 31, 2006 as compared to a \$3.4 million increase in accounts receivable levels for the same period a year earlier.

Purchase of Capital Assets

Purchase of capital assets increased by \$0.8 million to \$1.8 million for the six months ended May 31, 2006 as compared to \$1.0 million for the same period last year. The current period additions consisted of 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

Issuance of equity shares of \$37.3 million represents the net cash proceeds received from the issuance of 26,667,367 common shares as part of the Company's admission to AIM. As of July 6, 2006 the number of common shares in issue was 114,561,616.

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 three months. 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 of May 31, 2006 the Company's total cash and investment portfolio consisted of the following.

	\$
	(000's)
Cash on deposit with banks	1,115
Marketable securities*	49,218
Total	50,333

* The marketable securities are invested in two separate Investment Pools with an affiliate of a Canadian Chartered bank. The credit quality of the underlying investments is a minimum Dominion Bond Rating Service rating of R1-L at the time of purchase.

Liquidity and Capital Resource Requirements

Given the items 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.

Financial Instruments

Foreign exchange hedging activities are 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 the May 31, 2006, the Company has one open forward foreign exchange contract outstanding in the amount of \$1.0 million US. The effect of the forward foreign exchange contract is that it fixes the conversion rate for \$1.0 million of the Company's net US dollar asset position at 1.1116. The Company is carrying this contract at its fair market value of approximately \$1.1 million. 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.

Working Capital

The following table contains key balance sheet amounts and ratios.

	May 31, 2006	Nov 30, 2005
	(000's)	(000's)
Cash and cash equivalents and marketable securities	50,333	12,378
Working Capital	54,824	19,311
Working capital ratio	13.1:1	4.5:1
Days sales outstanding in account receivable ("DSO")	41 days	54 days
Inventory turnover	1.6	1.3

Working capital - represents the Company's current assets less its current liabilities. The increase in the Company's working capital balance to \$54.8 million can primarily be attributed to the receipt of net proceeds of \$37.3 million related to the Company's placing of 26,667,367 common shares on AIM (as earlier described).

Accounts receivable - The Company's accounts receivable balance decreased by \$2.0 million to \$2.8 million as compared to the \$4.8 million opening balance at the beginning of the fiscal year. The Company's DSO as at May 31, 2006, based on fiscal year to date revenues, improved to 41 days as compared to 54 days for the year ended November 30, 2005. The Company evaluates DSO during periods of high growth (as experienced during the period ended May 31, 2006 and fiscal 2005) based on the recent three months annualized revenue and average of the beginning and ending accounts receivable balance for such three month period. The decrease is consistent with the stronger cash collection in May 2006 as well as maintaining more steady shipments throughout the period ended May 31, 2006 as compared to fiscal 2005.

Inventory - Inventory turnover of 1.6 times per year for the period ended May 31, 2006 is 0.3 times more than 1.3 times for fiscal 2005. The increase in inventory turnover relates to the Company

increasing its inventory levels at the end of fiscal 2005 to support the increased sales activity as well as fiscal 2006 shipments.

Accounts payable - The Company's accounts payable and accrued liabilities decreased by \$0.7 million to \$2.3 million as compared to the \$3.0 million opening balance at the beginning of the fiscal year. The decrease relates to timing associated with inventory purchases that were incurred at the end of fiscal 2005 to support late 2005 and early fiscal 2006 shipments.