

# **Sandvine Corporation**

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

# Sandvine Corporation

## Consolidated Interim Balance Sheets

As at August 31, 2007

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

	August 31 2007 \$	November 30 2006 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	10,793	19,564
Marketable securities	103,911	37,515
Accounts receivable	12,666	4,421
Other receivables	1,116	1,941
Inventory	13,078	9,625
Prepaid expenses	589	365
Future tax asset (note 8)	1,075	-
	<hr/> 143,228	<hr/> 73,431
<b>Non current assets</b>		
Capital assets	9,593	6,115
Intangible assets (note 12)	7,701	-
Goodwill (note 12)	3,182	-
	<hr/> 20,476	<hr/> 6,115
	<hr/> <b>163,704</b>	<hr/> <b>79,546</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	5,243	5,591
Current portion of deferred revenue	9,358	700
Future tax liability (note 12)	332	-
	<hr/> 14,933	<hr/> 6,291
<b>Non current liabilities</b>		
Deferred revenue	80	88
Future tax liability (note 12)	1,255	-
Other (note 7)	325	-
	<hr/> 1,660	<hr/> 88
	<hr/> <b>16,593</b>	<hr/> <b>6,379</b>
<b>Shareholders' equity</b>		
<b>Share capital</b> (note 3)	145,676	91,247
<b>Contributed surplus</b>	1,079	403
<b>Accumulated other comprehensive income</b> (note 2)	25	-
<b>Retained earnings (deficit)</b>	331	(18,483)
	<hr/> 147,111	<hr/> 73,167
	<hr/> <b>163,704</b>	<hr/> <b>79,546</b>

# Sandvine Corporation

Consolidated Interim Statement of Operations and Retained Earnings (Deficit)

For the three and nine month periods ended August 31, 2007

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

	Three months ended		Nine months ended	
	August 31 2007 \$	August 31 2006 \$	August 31 2007 \$	August 31 2006 \$
<b>Revenue</b>				
Product	19,016	7,152	50,371	19,801
Service	2,160	924	6,202	2,618
	<u>21,176</u>	<u>8,076</u>	<u>56,573</u>	<u>22,419</u>
<b>Cost of sales</b>				
Product	5,143	1,738	11,055	5,126
Service	377	339	1,091	788
	<u>5,520</u>	<u>2,077</u>	<u>12,146</u>	<u>5,914</u>
<b>Gross margin</b>	<u>15,656</u>	<u>5,999</u>	<u>44,427</u>	<u>16,505</u>
<b>Expenses</b>				
Sales and marketing	4,298	2,320	10,762	6,187
Research and development (note 7)	4,788	2,524	11,254	7,756
General and administrative	1,872	886	4,200	2,727
Stock based compensation (note 4)	365	90	769	192
Amortization of intangible assets	267	-	267	-
Depreciation	674	440	1,836	1,024
	<u>12,264</u>	<u>6,260</u>	<u>29,088</u>	<u>17,886</u>
<b>Income (loss) from operations</b>	<u>3,392</u>	<u>(261)</u>	<u>15,339</u>	<u>(1,381)</u>
<b>Interest and other income</b>	<u>1,244</u>	<u>496</u>	<u>2,541</u>	<u>952</u>
<b>Income (loss) before provision for income taxes</b>	<u>4,636</u>	<u>235</u>	<u>17,880</u>	<u>(429)</u>
<b>Provision for (recovery of) income taxes</b>				
Current	(35)	52	135	69
Future (note 8)	1,971	-	(1,147)	-
	<u>1,936</u>	<u>52</u>	<u>(1,012)</u>	<u>69</u>
<b>Net income (loss) for the period</b>	<u>2,700</u>	<u>183</u>	<u>18,892</u>	<u>(498)</u>
<b>(Deficit) – Beginning of period</b>	<u>(2,369)</u>	<u>(18,782)</u>	<u>(18,483)</u>	<u>(18,101)</u>
Transition on adoption of financial instruments standards (note 2)	-	-	(78)	-
<b>Retained earnings (deficit) – End of period</b>	<u>331</u>	<u>(18,599)</u>	<u>331</u>	<u>(18,599)</u>
<b>Earnings (loss) per share (note 6)</b>				
Basic	0.021	0.002	0.151	(0.005)
Diluted	0.020	0.002	0.143	(0.005)
Basic weighted average number of shares outstanding	<u>130,392,708</u>	<u>114,561,616</u>	<u>125,514,727</u>	<u>103,699,214</u>
Diluted weighted average number of shares outstanding	<u>137,837,689</u>	<u>121,110,016</u>	<u>132,519,583</u>	<u>103,699,214</u>

# Sandvine Corporation

Consolidated Interim Statement of Comprehensive Income

**For the three and nine month period ended August 31, 2007**

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

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	<b>Three months ended</b>	<b>Nine months ended</b>
	<b>August 31 2007</b>	<b>August 31 2007</b>
	<b>\$</b>	<b>\$</b>
<b>Net income for the period</b>	2,700	18,892
<b>Other comprehensive income, net of tax</b>		
Unrealized gains on available for sale financial assets arising during the period (net of \$nil tax)	49	20
<b>Comprehensive income</b>	<b>2,749</b>	<b>18,912</b>

# Sandvine Corporation

## Consolidated Interim Statements of Cash Flows

For the three and nine month period ended August 31, 2007

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

	Three months ended		Nine months ended	
	August 31 2007 \$	August 31 2006 \$	August 31 2007 \$	August 31 2006 \$
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income (loss) for the period	2,700	183	18,892	(498)
Items not affecting cash				
Amortization of intangible assets	267	-	267	-
Depreciation	674	440	1,836	1,024
Foreign exchange loss	259	24	267	158
Stock-based compensation (note 4)	365	90	769	192
Non-cash compensation expense (note 12)	58	-	58	-
Provision for (recovery of) future income taxes (note 8)	1,971	-	(1,147)	-
Loss on disposal of capital assets	1	-	52	28
	6,295	737	20,994	904
Changes in non-current balances	192	59	(8)	48
Changes in non-cash working capital balances	(392)	(2,634)	(3,911)	(326)
	6,095	(1,838)	17,075	626
<b>Investing activities</b>				
Purchase of capital assets	(1,850)	(1,404)	(5,270)	(3,266)
Business acquisitions, net of cash acquired	(5,030)	-	(5,030)	-
Net sale (purchase) of marketable securities	(42,047)	14,854	(66,371)	(31,741)
	(48,927)	13,450	(76,671)	(35,007)
<b>Financing activity</b>				
Proceeds from the issuance of share capital (note 3)	50,005	83	50,825	37,437
<b>Net increase (decrease) in cash during period</b>	<b>7,173</b>	<b>11,695</b>	<b>(8,771)</b>	<b>3,056</b>
<b>Cash and cash equivalents – Beginning of period</b>	<b>3,620</b>	<b>1,116</b>	<b>19,564</b>	<b>9,755</b>
<b>Cash and cash equivalents – End of period</b>	<b>10,793</b>	<b>12,811</b>	<b>10,793</b>	<b>12,811</b>
<b>Cash and cash equivalents are represented by</b>				
Balances with banks	713	811	713	811
Cash equivalents	10,080	12,000	10,080	12,000

# Sandvine Corporation

## Notes to the Interim Consolidated Financial Statements

August 31, 2007

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

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### 1 Basis of presentation

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

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

The preparation of these unaudited consolidated interim financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated interim financial statements and the accompanying notes. Actual results could differ from these estimates and the operating results for the interim periods presented are not necessarily indicative of the results expected for the full year. In the opinion of management, these unaudited consolidated interim financial statements reflect adjustments necessary to state fairly the results for the periods presented.

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

#### Business Combinations

The Company allocates the purchase price of a business acquisition to tangible assets, intangible assets and liabilities based on their estimated fair values at the date of acquisition with the excess of purchase price amount over these fair values being allocated to goodwill.

Contingent consideration associated with any business acquisition is reviewed to determine if it should be accounted for as an adjustment of the purchase price or as compensation for services rendered subsequent to the acquisition. When the contingent consideration is related to an adjustment of purchase price and the amount of any contingent consideration can be reasonably estimated at the date of acquisition and the outcome of the contingency can be determined beyond reasonable doubt, the contingent consideration is recognized at that date as part of the cost of the purchase. When the contingent consideration is related to compensation for services, the additional consideration is recognized as compensation expense based on management's best estimate of the outcome of the performance condition related to the payment of the contingent consideration.

# Sandvine Corporation

## Notes to the Interim Consolidated Financial Statements

August 31, 2007

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

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### **Intangible Assets**

Intangible assets are stated at cost less accumulated amortization and are comprised of acquired non-patented software technology purchased through the Company's business acquisitions. Acquired technology is initially recorded at fair value based on the estimated net present value of future cash flow streams associated with these technologies.

Acquired non-patented technology assets are amortized on a straight line basis over their estimated useful life of five years.

### **Impairment of long-lived assets**

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the total of the expected undiscounted future cash flows is less than the carrying amount of the asset, a loss is recognized for the excess of the carrying amount over the fair value of the asset.

### **Goodwill**

Goodwill represents the excess of the purchase price of business acquisitions over the fair value of identifiable net assets acquired in such acquisitions. Goodwill is not amortized but is tested for impairment annually, or more frequently if events or changes in circumstances indicate the asset might be impaired. The Company tests for impairment of goodwill on an annual basis as of May 31.

## **2 Changes in accounting policies**

### **Financial instruments**

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

#### **(a) Financial assets and financial liabilities**

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

# Sandvine Corporation

## Notes to the Interim Consolidated Financial Statements

August 31, 2007

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

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### *Held for trading*

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

### *Available-for-sale*

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

### *Held-to-maturity*

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

### *Receivables*

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

### **(b) Embedded derivatives**

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

# Sandvine Corporation

## Notes to the Interim Consolidated Financial Statements

August 31, 2007

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

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

The change in accounting policy related to embedded derivatives resulted in an increase of \$78 to the opening deficit at the date of adoption. As of August 31, 2007, the fair value of the embedded derivative asset is \$6. The Company recognized a loss of \$100 and a gain of \$85 for the three and nine month periods ended August 31, 2007 respectively on its embedded derivatives.

### (c) Determination of fair value

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

### (d) Comprehensive income

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

### (e) Hedge accounting

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

# Sandvine Corporation

## Notes to the Interim Consolidated Financial Statements

August 31, 2007

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

### 3 Share capital

Share capital consists of the following:

	Common shares		Common share warrant		Total
	#	\$	#	\$	\$
<b>Balance, November 30, 2006</b>	122,668,416	90,857	1	390	91,247
Issued under the employee stock option plan	313,115	187	-	-	187
Transfer from contributed surplus	-	7	-	-	7
<b>Balance, February 28, 2007</b>	122,981,531	91,051	1	390	91,441
Issued under the employee stock option plan	1,126,524	633	-	-	633
Transfer from contributed surplus	-	67	-	-	67
<b>Balance, May 31, 2007</b>	124,108,055	91,751	1	390	92,141
Issued under the employee stock option plan	729,160	426	-	-	426
Transfer from contributed surplus	-	49	-	-	49
Issued for cash	10,247,650	49,579	-	-	49,579
Issued as consideration on business acquisition (note 12)	643,395	3,423	-	-	3,423
Issued as compensation on business acquisition (note 12)	223,283	58	-	-	58
<b>Balance, August 31, 2007</b>	135,951,543	145,286	1	390	145,676

# Sandvine Corporation

## Notes to the Interim Consolidated Financial Statements

August 31, 2007

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

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The Company has authorized an unlimited number of common shares.

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

During the three months ending August 31, 2007, the Company issued 729,160 common shares for net proceeds of \$426 as a result of option holders exercising their options (2,168,799 common shares for net proceeds of \$1,246 for the nine month period ending August 31, 2007).

On June 30, 2007, the Company acquired all of the outstanding shares of Simplicita Software, Inc. (“Simplicita”), a provider of subscriber mediation software for IP networks, for consideration of 643,395 common shares of the Company valued at approximately \$3,423. In addition to the purchase consideration, 223,283 shares were issued and allocated to a key employee escrow that will be released over time contingent on the continued employment of certain individuals over the next three years (note 12).

On July 12, 2007 the Company issued 10,247,650 shares for net proceeds of \$49.6 million (net of share issuance costs of \$2,171).

# Sandvine Corporation

Notes to the Interim Consolidated Financial Statements

August 31, 2007

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

## 4 Stock options

### Stock option plan

The Company has adopted a stock option plan for employees and directors. Options granted prior to March 21, 2006 typically vest over a four year and six month term. Options granted subsequent to this date typically vest over a 5 year term. All options have a contractual life of 10 years and allow for the purchase of one common share per option. The exercise price of the options is the volume weighted average share price of the Company's common shares for the five days prior to the date of grant. As at August 31, 2007, there were 5,183,967 options available for future grants under the stock option plan. A summary of the stock option activity is presented below:

	<b>Options</b>	
	<b>Number</b>	<b>Weighted average price \$</b>
<b>Options outstanding, November 30, 2005</b>	<b>7,587,951</b>	<b>0.562</b>
Option activity for the period		
Granted during the period	2,143,600	1.884
Forfeited and expired	(406,830)	0.686
Exercised	(370,800)	0.537
<b>Options outstanding, November 30, 2006</b>	<b>8,953,921</b>	<b>0.875</b>
Option activity for the period		
Granted during the period	526,000	2.530
Forfeited and expired	(24,000)	2.288
Exercised	(313,115)	0.596
<b>Options outstanding, February 28, 2007</b>	<b>9,142,806</b>	<b>0.976</b>
Option activity for the period		
Granted during the period	170,500	4.140
Forfeited and expired	(77,900)	1.680
Exercised	(1,126,524)	0.562
<b>Options outstanding, May 31, 2007</b>	<b>8,108,882</b>	<b>1.093</b>
Option activity for the period		
Granted during the period	1,153,500	6.590
Assumed on acquisition (note 12)	393,333	4.945
Forfeited and expired	(145,368)	1.569
Exercised	(729,160)	0.584
<b>Options outstanding, August 31, 2007</b>	<b>8,781,187</b>	<b>2.022</b>

# Sandvine Corporation

## Notes to the Interim Consolidated Financial Statements

August 31, 2007

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

### Stock based compensation

The Company has recognized \$365 and \$769 for the three and nine month periods ended August 31, 2007 respectively as compensation expense for stock-based grants (August 31, 2006 – \$90 and \$192), with a corresponding credit to contributed surplus. Previously recognized expense of \$49 and \$123 for the three and nine month periods ending August 31, 2007 respectively relating to options exercised during the period has been transferred from contributed surplus to share capital (August 31, 2006 - \$nil and \$nil).

	For the three months ended		For the nine months ended	
	August 31 2007	August 31 2006	August 31 2007	August 31 2006
Number of options granted/assumed	1,546,833	847,200	2,243,333	1,527,200
Weighted average Black-Scholes value of each option	\$4.28	\$1.82	\$3.60	\$1.27
Assumptions				
Risk free interest rate	4.49%	4.10%	4.39%	4.13%
Expected life in years	10	10	10	10
Expected dividend yield	0%	0%	0%	0%
Volatility	59.59%	63.90%	58.88%	41.62%

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

Range of exercise price \$	Options Outstanding			Options Exercisable	
	Number outstanding at August 31, 2007	Weighted average contractual life (years)	Weighted average exercise price \$	Number outstanding at August 31, 2007	Weighted average exercise price \$
0.40 - 0.63	5,012,422	5.97	0.56	3,422,752	0.53
1.52 - 2.53	2,066,432	9.07	2.30	217,873	2.32
4.11 - 5.50	556,333	9.70	4.71	14,084	5.50
6.59	1,146,000	9.87	6.59	-	-
0.40 - 6.59	8,781,187	7.44	2.02	3,654,709	0.66

# Sandvine Corporation

## Notes to the Interim Consolidated Financial Statements

August 31, 2007

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

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### 5 Lease commitments

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

	\$
2007	150
2008	500
2009	447
2010	437
2011	437
Thereafter	219
	<hr/>
	2,190
	<hr/>

### 6 Earnings (loss) per share

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>August 31 2007</u>	<u>August 31 2006</u>	<u>August 31 2007</u>	<u>August 31 2006</u>
Numerator for basic and diluted earnings (loss) per share available to common shareholders	\$2,700	\$183	\$18,892	\$(498)
Denominator for basic earnings (loss) per share, weighted average number of shares outstanding	130,392,708	114,561,616	125,514,727	103,699,214
Denominator for diluted earnings (loss) per share, weighted average number of shares and assumed conversions	137,837,689	121,110,016	132,519,583	103,699,214
Earnings (loss) per share:				
Basic	\$0.021	\$0.002	\$0.151	\$(0.005)
Diluted	\$0.020	\$0.002	\$0.143	\$(0.005)

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

# Sandvine Corporation

## Notes to the Interim Consolidated Financial Statements

August 31, 2007

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

### 7 Government assistance

The Company has an agreement with Technology Partnership Canada (“TPC”) who provided partial funding towards one of the Company’s research and development projects. The Company received \$9,500 over a twenty-two month period which ended during fiscal 2005. The agreement requires the contribution to be repaid in the form of royalties to a maximum of \$16 million on gross revenues of the Company. From December 1, 2005 to November 30, 2007, the Company is required to pay royalties at a rate of 1% of gross revenues until the earlier of December 1, 2007 or the date the Company’s cumulative gross revenues exceeds \$85 million, at which time the royalty rate will be increased to 2.5%. During the three months ended August 31, 2007 the royalty rate increased to 2.5% of gross revenues as the Company’s cumulative gross revenues surpassed the \$85 million threshold. The obligation to pay royalties expires on November 30, 2013. During the three and nine month periods ending August 31, 2007, the Company recognized \$260 and \$614 respectively (August 31, 2006 - \$81 and \$224) as royalty expense which has been recorded as an increase to research and development expenses. Cumulatively, the Company has accrued or paid total royalties of \$931 under the agreement.

A subsidiary of the Company participated in programs sponsored by the Israeli Government for the support of research and development activities. The subsidiary is obligated to pay royalties to the Office of the Chief Scientist (“OCS”), amounting to 3% - 5% on sales and other related revenues generated from the subsidiary’s products. The program requires repayments up to 100% - 150% of the grants received subsequent to January 1, 1999. The subsidiary’s obligation to pay these royalties is contingent on actual sales of its products which incorporate the technology related to the OCS grant, and in the absence of such sales, no payment is required. As of August 31, 2007 the subsidiary has received cumulative grants of \$450 US (\$476 CDN) (August 31, 2006 - \$nil). The estimated fair value of the contingent obligation was recognized in conjunction with the acquisition of CableMatrix Technologies Inc. (note 12) and is included within “Other” non-current liabilities on the balance sheet.

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

	<b>For the three months ended</b>		<b>For the nine months ended</b>	
	<b>August 31 2007</b>	<b>August 31 2006</b>	<b>August 31 2007</b>	<b>August 31 2006</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Research and development	4,528	2,443	10,873	7,532
Government repayments	260	81	614	224
Investment tax credits	-	-	(233)	-
	<b>4,788</b>	<b>2,524</b>	<b>11,254</b>	<b>7,756</b>

# Sandvine Corporation

## Notes to the Interim Consolidated Financial Statements

August 31, 2007

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

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### 8 Income taxes

As at August 31, 2007 future tax assets associated with temporary differences and reserves with a value totalling \$1,075 are more likely than not to be realized given the Company's expectations of future profitability. A valuation allowance has been applied against the Company's remaining future tax assets associated with temporary differences and reserves. In addition, the Company has not recorded the benefit associated with its non-refundable investment tax credits.

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

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

### 9 Segment disclosures

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

	<u>For the three months ended</u>		<u>For the nine months ended</u>	
	<u>August 31</u>	<u>August 31</u>	<u>August 31</u>	<u>August 31</u>
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	\$	\$	\$	\$
Sales				
Canada	26	126	202	286
United States	18,838	7,511	51,483	20,853
Caribbean and Latin America	81	12	181	112
Europe, Middle East and Africa	1,851	407	3,814	872
Asia Pacific	380	20	893	296
	<u>21,176</u>	<u>8,076</u>	<u>56,573</u>	<u>22,419</u>
	%	%	%	%
Sales				
Canada	0.1	1.6	0.4	1.3
United States	89.0	93.0	91.0	93.0
Caribbean and Latin America	0.4	0.1	0.3	0.5
Europe, Middle East and Africa	8.7	5.0	6.7	3.9
Asia Pacific	1.8	0.3	1.6	1.3
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

# Sandvine Corporation

## Notes to the Interim Consolidated Financial Statements

August 31, 2007

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

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For the three and nine month periods ended August 31, 2007 major customers represented 77.5% and 67.9% respectively (August 31, 2006 – 74.2% and 73.3%) of total revenue. For the three and nine month periods ended August 31, 2007 one customer represented 54.4% and 54.2% respectively (August 31, 2006 – 74.2% and 73.3%) of total revenue. A second customer represented 23.1% and 9.1% of total revenue for the three and nine month periods ended August 31, 2007 respectively (August 31, 2006 – 5.3% and 3.7%). A third major customer represented 2.1% and 13.7% of total revenue for the three and nine month periods ending August 31, 2007 respectively (August 31, 2006 - \$nil and \$nil).

As at August 31, 2007, three companies, with greater than ten percent concentration in accounts receivable, accounted for 23.4%, 37.6% and 17.1% of the Company's total accounts receivable (2006 – two; 77.2% and 16.2%).

	<b>August 31</b>	<b>November 30</b>
	<b>2007</b>	<b>2006</b>
	\$	\$
Capital assets, intangibles and goodwill		
Canada	9,179	6,115
United States	5,792	-
Europe, Middle East and Africa	5,505	-
	<hr/>	<hr/>
	20,476	6,115
	<hr/>	<hr/>
Total assets		
Canada	151,949	79,419
United States	5,881	15
Europe, Middle East and Africa	5,874	112
	<hr/>	<hr/>
	163,704	79,546
	<hr/>	<hr/>

# Sandvine Corporation

## Notes to the Interim Consolidated Financial Statements

August 31, 2007

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

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### 10 Supplemental cash flow information

For the three and nine month periods ending August 31, 2007 the Company paid \$21 and \$81 respectively for income tax in cash (August 31, 2006 - \$24 and \$33). The Company did not pay any interest in cash during the three and nine month period ended August 31, 2007 (August 31, 2006 - \$nil and \$nil).

### 11 Credit facility

The Company has a demand credit facility with a major Canadian chartered bank. Under the terms of the facility, the Company has available to it a \$500 operating line to provide letters of credit and a US\$15 million forward contract line to permit the Company to enter into foreign currency forward contracts. Borrowings made from the facility attract interest at the bank's prime rate of interest. Marketable securities in the amount of \$2,500 are pledged as security for the credit facility.

As of August 31, 2007 the Company has issued two letters of credit under its operating line for US\$64 (CDN\$67) expiring December 29, 2007, and US\$84 (CDN\$88) expiring July 31, 2008.

As of August 31, 2007 the Company has two foreign currency forward contracts that have the effect of fixing the conversion of \$5,000 of the Company's net US dollar asset position to Canadian dollars at a weighted average rate of 1.0606. These contracts mature on or before October 31, 2007 and have fair value of \$22 at period end. The Company recognized a gain of \$8 relating to the change in fair value of foreign currency forward contracts which settled during the period.

# Sandvine Corporation

Notes to the Interim Consolidated Financial Statements

August 31, 2007

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

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## 12 Business Acquisitions

### *CableMatrix Technologies Inc.*

On June 14, 2007, the Company acquired all of the outstanding shares of CableMatrix Technologies Inc. ("CMX"), a provider of policy management software for IP networks, for \$4,867 in cash, of which \$1,057 is being held in escrow to secure certain representations, warranties and covenants specified in the acquisition agreement. Upon acquisition, all of the outstanding common share options of CMX were converted into options to acquire 370,000 common shares of the Company pursuant to the terms of the assumed CMX stock option plan.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

	<b>June 14 2007 \$</b>
<b>Assets purchased</b>	
Current assets	21
Capital assets	212
Non-patented technology assets	3,822
Goodwill	1,574
	<hr/> 5,629
<b>Liabilities assumed</b>	
Current liabilities	487
Other (non-current)	325
	<hr/> 812
<b>Net non-cash assets acquired</b>	4,817
Cash acquired	50
	<hr/> 50
<b>Net assets acquired</b>	<hr/> <b>4,867</b> <hr/>
<b>Consideration</b>	
Cash	<hr/> <b>4,867</b> <hr/>

The acquired non-patented technology assets relate primarily to developed core software technology and are being amortized over their estimated useful life of five years. The goodwill recorded as a result of the acquisitions is non tax deductible.

# Sandvine Corporation

## Notes to the Interim Consolidated Financial Statements

August 31, 2007

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

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### *Simplicita Software, Inc.*

On June 30, 2007, the Company acquired all of the outstanding shares of Simplicita Software, Inc. ("Simplicita"), a provider of subscriber mediation software for IP networks, for consideration of 643,395 common shares of the Company valued at approximately \$3,423. The value of the common shares issued was determined based on the volume weighted average market price of the Company's common shares over the three day period before and after the terms of the acquisition were agreed to and announced.

In addition to the purchase consideration, 223,283 shares were issued and allocated to a key employee escrow that will be released over time, contingent on the continued employment of certain individuals over the next three years. The Company will recognize up to a maximum of \$1,130 as non-cash compensation expense over the period in which the services are rendered. For the three and nine months ended August 31, 2007, \$58 has been recognized as compensation expense relating to this key employee escrow.

Additional contingent consideration of up to 555,555 common shares of the Company valued at \$2,811 will be made to specified Simplicita employees on the achievement of certain performance targets and who continue their employment with the Company as of November 30, 2008. The Company has determined based on its best estimate of the outcome of the performance targets and ongoing employment requirements that no compensation cost related to this contingent consideration should be recorded for the three and nine month periods ended August 31, 2007. The Company will continue to assess on a regular basis the expected outcome of the performance targets and record compensation costs based on the best available estimate of the number of shares expected to be issued.

As part of the acquisition, 385,250 common share options of Simplicita were converted into options to acquire 23,333 common shares of the Company pursuant to the Company's existing stock option plan.

# Sandvine Corporation

## Notes to the Interim Consolidated Financial Statements

August 31, 2007

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

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The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

	<b>June 30 2007 \$</b>
<b>Assets purchased</b>	
Current assets	21
Capital assets	25
Non-patented technology assets	4,146
Goodwill	1,608
	<hr/>
	5,800
<b>Liabilities assumed</b>	
Current liabilities	475
Future tax liability - current	332
Future tax liability - non-current	1,327
	<hr/>
	2,134
<b>Net non-cash assets acquired</b>	3,666
Cash acquired	177
	<hr/>
<b>Net assets acquired</b>	<b>3,843</b>
	<hr/>
<b>Consideration</b>	
Cash	390
Vested stock options assumed	30
Shares	3,423
	<hr/>
	<b>3,843</b>
	<hr/>

The acquired non-patented technology assets relate primarily to developed core software technology and are being amortized over their estimated useful life of five years. Future tax liabilities associated with the temporary differences of the acquired non-deductible intangible assets has been recorded. The goodwill recorded as a result of the acquisitions is non tax deductible.

In addition, as a result of the CMX and Simplicita acquisitions the Company has approximately US\$5,827 of non-capital losses which may be applied against future U.S. taxable income at a rate of approximately US\$354 per annum. A future tax asset has not been recorded in the purchase price allocations relating to these operating loss carry forwards since it is unlikely that the Company will be able to utilize any of these net operating loss carry forwards.

In the acquisitions noted above, the results of the acquirees' operations have been included in the consolidated financial statements commencing from each respective closing date to August 31, 2007.