



MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated: July 8, 2008

The following provides management's discussion and analysis ("MD&A") of Sandvine Corporation's consolidated results of operations and financial condition. This discussion should be read in conjunction with the Company's consolidated interim financial statements and accompanying notes for the second quarter of fiscal 2008, being the period ended May 31, 2008. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are reported in Canadian dollars. The information contained herein is dated as of July 8, 2008, and is current to that date, unless otherwise stated.

The Company's fiscal year commences December 1st of each year and ends on November 30th of the following year. The Company's current fiscal year, which ends on November 30, 2008, is referred to as the "current fiscal year," "fiscal 2008", "2008", or using similar words. The previous fiscal year, which ended on November 30, 2007, is referred to as "previous fiscal year," "fiscal 2007," "2007", "FY-07"" or using similar words.

In this document, "we", "us", "our", "Company" and "Sandvine" all refer to Sandvine Corporation collectively with its subsidiaries. The content of this MD&A has been approved by the Board of Directors, on the recommendation of its Audit Committee.

Additional information relating to the Company is available on SEDAR at www.sedar.com and on the Company's web-site at www.sandvine.com.

CAUTION REGARDING FORWARD LOOKING INFORMATION

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

Many factors could cause the actual results of Sandvine to differ materially from the results, performance, achievements or developments expressed or implied by such forward-looking statements, including, without limitation, each of the following factors, which are further discussed in the Company's Annual Information Form ("AIF"), a copy of which is available on SEDAR at www.sedar.com.

- The Company's revenues may fluctuate from quarter to quarter and year to year depending upon sales cycles, customer demand and the timing of customer order purchase decisions;
- The Company's gross margins may fluctuate from period to period depending upon a variety of factors including product mix in the quarter, competitive pricing pressures and the level of sales generated through indirect channels;
- The Company is dependent upon and has historically derived a large percentage of its revenue from both a small number of key customers and customers who are predominantly cable based broadband service providers.
- The Company faces intense competition in markets where there are typically several different competing technologies and rapid technological changes;
- The Company's growth is dependent on the development of the market for intelligent broadband network management solutions and the decisions of the Company's target customers to deploy and further invest in those technologies which decisions may be impacted upon by changing regulations and requirements in the area of broadband network management policies;
- The majority of the Company's expenses are denominated in Canadian dollars while its sales are generally denominated in U.S. dollars. The Company's earnings are impacted by fluctuations in the exchange rates between these and other currencies in which the Company trades.
- The introduction and sale of new products by the Company may impact the timing of revenue recognition which could raise greater revenue fluctuations from quarter to quarter than has been experienced historically.

SELECTED FINANCIAL INFORMATION

The following table sets out selected consolidated financial information for the periods indicated. The selected financial information set out below as at, and for the three and six month period ended May 31, 2008 and May 31, 2007 respectively, has been derived from the unaudited consolidated interim financial statements and accompanying notes for the three and six month period ended May 31, 2008 as well as the November 30, 2007 audited consolidated financial statements. Each investor should read the following information in conjunction with those statements and related notes. The financial information for the three and six months ended May 31, 2008 and May 31, 2007 has been prepared by management in accordance with Canadian generally accepted accounting principles in a manner consistent with its annual financial statements.

	Three months ended		Six months ended	
	May 31,		May 31,	
	2008	2007	2008	2007
<i>Amounts in thousands of dollars except for share and per share data</i>				
Consolidated Statement of Operations Data:				
Revenue				
Product	\$7,955	\$ 17,797	\$12,714	\$ 31,355
Service	3,132	2,225	6,661	4,042
	<u>11,087</u>	<u>20,022</u>	<u>19,375</u>	<u>35,397</u>
Cost of Sales				
Product	2,048	3,338	3,539	5,912
Service	465	367	1,038	714
	<u>2,513</u>	<u>3,705</u>	<u>4,577</u>	<u>6,626</u>
Gross margin.....	8,574	16,317	14,798	28,771
Expenses				
Sales and marketing.....	4,233	3,413	8,259	6,464
Research and development.....	6,220	3,623	12,314	6,345
Net government (assistance) repayments	(463)	200	(382)	121
General and administration	2,176	1,576	4,500	2,328
Stock based compensation	715	220	1,338	404
Amortization of intangible assets.....	400	--	800	--
Depreciation.....	889	642	1,700	1,162
Total operating expenses.....	<u>14,170</u>	<u>9,674</u>	<u>28,529</u>	<u>16,824</u>
Income (loss) from operations	(5,596)	6,643	(13,731)	11,947
Interest and other income	802	658	1,980	1,297
Income (loss) before provision for income taxes	(4,794)	7,301	(11,751)	13,244
Provision for income taxes				
Current	19	99	39	170
Deferred	(182)	(3,118)	(182)	(3,118)
Net income (loss) for the period.....	<u>(4,631)</u>	<u>10,320</u>	<u>(11,608)</u>	<u>16,192</u>
Basic earnings (loss) per share	(0.034)	0.084	(0.085)	0.132
Diluted earnings (loss) per share	(0.034)	0.079	(0.085)	0.125
Weighted average common shares outstanding				
Basic	136,878,515	123,344,744	136,856,170	123,051,037
Diluted	136,878,515	130,521,184	136,856,170	129,885,661

	As at May 31,	As at November 30,
	2008	2007
<i>Amounts in thousands of dollars</i>		
Consolidated Balance Sheet Data:		
Cash and cash equivalents	\$ 7,517	\$ 7,878
Marketable securities	92,164	105,136
Total assets	149,489	159,465
Total liabilities	11,203	10,895
Shareholders' equity	138,286	148,570

OVERVIEW

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

Sandvine began initial commercial deployments of its products in 2002 and has experienced growth in its number of customers and deployments since then. Sandvine's customer base has increased from eight in 2003 to over 100 in May 2008. Sandvine currently has products installed and operating at customer facilities in over 48 countries around the world, within networks representing over 60 million broadband subscribers.

The Market

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

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

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

Products and Solutions

Sandvine's solutions comprise a hardware platform and proprietary software modules which are typically bundled together to provide a system for broadband and wireless operators to identify and monitor specific types of traffic across their networks. These products also provide the tools to help customers apply specific network policies that will improve the quality of service for their subscribers, support the creation of new revenue-generating services, and more efficiently manage networks.

Sandvine PTS hardware platforms are high-performance, real-time devices that can be deployed in a wide range of inline and passive configurations. Service providers deploying PTS platforms inline towards the edge of the network have maximum visibility of subscriber traffic, ensuring that application traffic is properly identified as it first enters the network and so that the

appropriate policies can be immediately applied. This configuration also allows for complete network-wide reporting.

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

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

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

Example 1: Bandwidth on Demand. Multimedia applications are very bandwidth-intensive and frequently require high data rates to ensure an acceptable experience for subscribers. Sandvine's solution can help service providers offer application-specific bandwidth boosts that transparently deliver higher bandwidth for target applications. For example, a subscriber can seamlessly enjoy additional bandwidth when uploading digital photos to a website, either on demand or as part of the experience offered under the subscriber's service tier.

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

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

Example 4: Protection Centre. Subscribers need to be wary of malicious software attempting to infiltrate their computers and many don't know what to do once their systems have been infected. With Sandvine's solutions, service providers can dynamically identify and isolate subscribers infected by zombies, botnets and other malicious attacks, and help subscribers clean their computers by redirecting subscribers into an easy-to-use self-care zone outfitted with tools and information to disinfect their machines, and a marketplace for related products.

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

Sales and Distribution

Sandvine distributes its products and services through a combination of direct and indirect sales channels. The direct sales channel is organized geographically across: (i) North America; (ii) Europe, the Middle East and Africa; (iii) Asia-Pacific; and (iv) the Caribbean and Latin America, and is based

out of various jurisdictions throughout the world. The direct sales channel includes sales where the ultimate end customer directly purchases the Company's products. The indirect sales channel utilizes global 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. The indirect sales channel includes sales where a third party reseller purchases the Company's product for the purpose of reselling it to the ultimate end customer.

Growth Strategy

Sandvine has a strong presence in its markets. Fourteen of the top 100 broadband service providers (by subscriber count) in the world and eight of the top 20 DSL and Cable service providers in the U.S. are Sandvine customers. Sandvine will continue to increase its investment in research and development in support of further product development to continue to broaden and expand its feature set. In addition, Sandvine will continue with increased sales and marketing investment to expand its direct sales force throughout the world and to grow and mature its relationships with both its regional and global resellers. The Company is focused on increasing its sales and marketing efforts, particularly in the DSL and wireless markets and with large opportunities worldwide. Sandvine's strategy also includes continued dominance of its solutions in the cable market and penetrating emerging access technology markets such as FTTx.

In addition, the Company anticipates that throughout fiscal 2008 it will continue to selectively assess acquisition opportunities to strengthen its market position and augment its growth. The evaluation of potential acquisitions will include whether the target company has a compatible culture, a complementary customer base, has technology that will extend Sandvine's core technology and has prospective growth rates commensurate with those of the Company.

Revenue Outlook

In conjunction with the issuance of this document the Company issued a press release indicating that it is withdrawing its annual revenue guidance of \$80 to \$85 million that was previously reported on March 6, 2008. As a result of delays in certain opportunities and the time remaining in the year, the Company determined that it was unable to continue to rely upon the material assumptions underlying its 2008 annual revenue, most notably, the assumptions that it would earn at least \$40 million in revenue from existing customers and \$40 million in revenue from new customers. Consequently, the Company has withdrawn its annual revenue guidance.

The Company has found that the timing of customer decisions has become increasingly difficult to forecast due to a variety of factors, including the effect of the network neutrality debate on Sandvine's North American installed base, the reduced predictability associated with expansion into new markets, such as Sandvine's entrance into the Tier-one DSL and wireless markets, and the increasing number of opportunities being pursued through the indirect sales channel.

A copy of the July 8, 2008 press releases communicating the withdrawal of its annual guidance is available from the Company's web-site at (www.sandvine.com) and on sedar (www.sedar.com).

Business Model

Historically, the Company has communicated that in broad terms, excluding the impact of stock based compensation and non-cash acquisition related costs (comprising non-cash compensation costs and amortization of intangible assets) the Company is working towards a business model (outlined below) that includes gross margins at or above 70%, and operating margins between 10% and 20%. The Company does not expect to achieve this targeted business model in 2008 given the results for fiscal 2008 to date. It is worth noting that the Company continues to invest in its business and incur expenses at levels above those contemplated by this targeted business model on the basis and belief that it is at the forefront of an emerging market and that this investment level will result in greater long term success.

Mid to Long Term Target Business Model

Revenue

Product revenue	85% - 90%
Service revenue	10% - 15%

Percentage of total revenue

Gross margin	70+%
Research and development	20% - 25%
Selling, general and administrative	30% - 35%
Operating margin	10% - 20%

In arriving at this targeted business model, and in providing any other forward looking statements contained in this MD&A, management has relied on a number of assumptions, including, but not limited to each of the following:

- The Company's projected investments in the areas of research and development and sales and marketing will be sufficient to achieve growth in the Company's revenue at targeted rates;
- The Company will continue to experience new customer adoption rates consistent with those experienced over the past two years;
- The Company's existing customers, including its largest customers will continue to make significant purchases of the Company's products and services;
- The Company will be able to maintain its target pricing models for its products and services and obtain its supply of components at pricing that permits the Company to achieve its target gross margins;
- Any increase in sales through the Company's indirect channel can be managed without significantly impacting the Company's gross margins;
- The Company will be able to continue to attract and retain personnel and third party contractors at compensation levels consistent with the Company's historical practices;
- The Canadian dollar will be at par with the US dollar.

Again, readers are cautioned that a variety of factors could cause the Company's future results, and its ability to achieve this targeted business model, to materially differ from that projected in any forward looking information in this MD&A including, but not limited to those risk factors outlined in the Company's most recently filed AIF (a copy of which can be obtained on www.sedar.com) as well as those risk factors outlined earlier in this document under the heading "Caution Regarding Forward Looking Information".

OVERALL PERFORMANCE

Revenue and Expenses

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

The Company's service revenue consists of revenues from support and maintenance services as well as various professional services including training and installation that is provided to its customers. Revenue generated from the professional services component has been less than 5.0% of the Company's overall revenue.

The Company evaluates its revenue performance based on four geographic regions. Each of those regions including the proportion of total revenue attributable to it is outlined in the following table. In situations where a reseller or partner has purchased equipment for resale to an end customer, the geography of the end customer is used in allocating revenue to the various geographic regions.

	Three months ended May 31,		Six months ended May 31,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
North America	73.3%	97.3%	79.0 %	92.7%
Caribbean and Latin America.....	0.3%	0.2%	0.6%	0.3%
Europe, Middle East and Africa	24.5%	1.8%	17.0%	5.6%
Asia Pacific.....	1.9%	0.7%	3.4%	1.4%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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

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

Product cost of sales consists of the cost of direct materials, third party software license fees, plus direct labour and an allocation of overhead applied to the product.

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

Sales and marketing expenses consist primarily of salaries, variable compensation costs and other personnel costs, travel, advertising, trade analyst research, non-cash compensation costs related to acquisitions, trial material costs as well as trade show and conference costs.

Research and development expenses consist primarily of salaries and other personnel costs, non-cash compensation costs related to acquisitions, third party contractor costs, third party contract labour costs, certification costs and material costs (including prototype costs) associated with new product introduction. The research and development expenses are presented on the Company's consolidated financial statements net of the benefit of recognized investment tax credits administered through Canada's Income Tax Act and government assistance received. Effective fiscal 2006, the Company commenced the repayment of funding received through the Technology Partnerships Canada program. Under the terms of the agreement, the Company was required to pay royalties at a rate of 1% of gross revenues until the earlier of December 1, 2007 or cumulative revenues exceeding \$85 million.

During the third quarter of 2007 cumulative gross revenue surpassed the \$85 million threshold, at which time the royalty rate increased to its current rate of 2.5%. Royalties will continue to be payable at a rate of 2.5% until November 30, 2013 or until cumulative royalties accrued or paid reach \$16 million. Any repayments accrued or paid have been included in the consolidated financial statements as part of the Company's research and development expenses. In addition, a subsidiary of the Company has participated in programs sponsored by a foreign government body for the support of certain research and development activities. The subsidiary is obligated to pay royalties, amounting to 3% - 5% on sales and other related revenues generated from the subsidiary's products up to the amount granted plus interest. The subsidiary's obligation to pay these royalties is contingent on actual sales of its products which incorporate the technology related to the grant, and in the absence of such sales, no payment is required. No repayments have been made to date.

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

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

The current income tax provision predominantly relates to current taxes owing (recoverable) by the Company's foreign subsidiaries.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Revenue Recognition. 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. Generally, where final acceptance of the product, system, or solution is specified by the customer, revenue is deferred until all acceptance criteria have been met. The following describes the specific revenue recognition policies for each major type of revenue.

Networking equipment (including related software)

The Company's networking and communications products are typically integrated with software that is essential to the functionality of its equipment.

Revenue for network equipment that does not require significant production, modification or customization is generally recognized when the product is shipped to the customer and when there are no unfulfilled obligations that affect the customer's final acceptance of the equipment.

The percentage-of-completion method of accounting is used for sales generated from certain contracts, primarily those related to significant production or customized network solutions and network build-outs with durations greater than three months. The units-of-delivery or units-of-work performed method is used to measure progress on each contract. Revenue and cost estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognized in the period that such losses become known. The Company uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangement to establish these estimates.

Software

Certain software is licensed to customers under a perpetual, term based or on a per-use basis. Revenue from perpetually licensed software is recognized at the inception of the license term. As term based software licenses are generally one year or less, the license revenues are recognized ratably over the license term. Revenues for software licenses which are paid for on a per-use basis are recognized at the time a reliable estimate can be made of actual revenues generated from usage.

Post contract support ("PCS")

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

Multiple-element arrangements

When a sale involves multiple elements, such as sales of products that include PCS, 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. If the Company is unable to establish fair value for an undelivered element, and the only undelivered element is PCS, the entire arrangement fee is deferred and recognized ratably over the PCS period. In all other situations, if the Company is unable to establish fair value for an undelivered element, the entire arrangement fee is deferred until sufficient evidence exists or all elements have been delivered.

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

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. The allocation of the purchase price to acquisitions involves considerable judgement in determining the fair value assigned to tangible and intangible assets acquired and the liabilities assumed on acquisition. Among other things, the determination of these fair values involves the use of discounted cash flow analyses, estimated future revenues and margins. In estimating future revenues and margins, the Company considers information published by third parties describing the size of the market and its growth rate, the planned margins for the acquired business and current costs to produce the solution offered by the acquired enterprise.

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 the 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 a 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.

Long-Lived 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 non-patented technology assets are amortized on a straight line basis over five years. 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 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. The Company's impairment analysis will contain estimates due to the inherently speculative nature of forecasting long term estimated cash flows

and determining the ultimate useful lives of assets. Actual results will differ, which could materially impact our impairment assessment.

In the case of goodwill, the Company will test for impairment at least annually at March 31 of each year and at any other time if any event occurs, or circumstances change, that would more likely than not reduce the Company's enterprise value below the carrying amount. Application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Based on the Company's review, only one reporting unit has been identified for the purpose of performing the annual impairment test. The Company's enterprise value is principally determined by use of its externally traded share price. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit.

Stock Based Compensation. The Company has adopted a stock option plan as further described in note 12 of its November 30, 2007 audited consolidated financial statements.

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

Income Tax Expense. The current (recovery)/provision for income taxes predominantly relates to the Company's foreign subsidiaries.

The ultimate realization of future tax assets is dependent upon future taxable income during the years in which these assets are deductible. Management considers the likelihood of future profitability, the character of the tax assets and applicable tax planning strategies of the Company to make this assessment. To the extent that management believes that the realization of future tax assets does not meet the more likely than not realization criterion, a valuation allowance is provided against its future tax assets. As at May 31, 2008 the Company has determined that future tax assets associated with temporary differences and reserves with a value totalling \$1.1 million are more likely than not to be realized given the Company's expectations of future profitability.

The Company has not recognized the benefit of certain tax assets, including \$5.0 million associated with its unused research and development expenditures and \$5.6 million of non-capital losses which may be applied against future Canadian taxable income. In addition, the Company has not recognized the net benefit of \$4.7 million of unrecognized scientific research and development investment tax credits which may be applied against future federal income taxes payable. In addition, the Company has not recognized the benefit of approximately \$4.0 million U.S. of non-capital losses which may be applied against future U.S. taxable income at a rate of approximately \$0.4 million U.S. per annum commencing in fiscal 2013.

ACCOUNTING CHANGES AND IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Effective December 1, 2007, the Company adopted new Canadian Institute of Chartered Accountants Handbook sections relating to accounting changes, inventory accounting and financial instrument and capital disclosures. The adoption of the new standard for accounting changes did not impact the financial position or net earnings reported in the Company's interim consolidated financial statements. The new inventory standard clarifies the definition of "cost" to include all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on the normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw material inventories do not require write downs if the finished goods in which they will be incorporated are expected to be sold at or above cost. As a result of this accounting standard change, inventory and opening retained earnings were increased by \$0.5 million on December 1, 2007. The new financial instrument and capital standards establish additional presentation and disclosure requirements including the significance of financial instruments to the Company's position and performance, discussion regarding the nature and extent of risks surrounding the Company's financial instruments, disclosures regarding the Company's objectives, policies and process for managing capital and what the Company regards as capital. The adoption of the financial instrument and capital disclosure standards did not impact net earnings or financial position. See Note 2 to the interim consolidated financial statements for further details regarding the adoption of these new standards.

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3064, Goodwill and Intangible Assets which will replace Handbook Section 3062, Goodwill and Other Intangible Assets and Section 3450, Research and Development Costs. This revision aligns Canadian GAAP with International Financial Reporting Standards and establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This section applies to fiscal years beginning on or after October 1, 2008 and will be adopted by the Company effective December 1, 2008. The Company is currently in the process of determining the impact of this standard on the Company's consolidated financial statements.

CURRENT PERIOD OPERATING RESULTS

Revenue

For the second quarter of fiscal 2008, the Company's total revenues was \$11.1 million (Q1-08: \$8.3 million) compared to \$20.0 million for the same period last year, representing a 44.6% decrease. Revenue for the first six months of fiscal 2008 was \$19.4 million compared to \$35.4 million for the same period last year, representing a 45.3% decrease.

For the second quarter, the Company's product revenue was \$8.0 million (Q1-08: \$4.8 million) compared to \$17.8 million for the same period last year representing a 55.3% decrease. Product revenue for the first six months of fiscal 2008 was \$12.7 million compared to \$31.4 million for the same period last year, representing a 59.5% decrease.

The decrease in product revenue both for the current quarter and the first six months of fiscal 2008 as compared to the same periods in 2007, is largely the result of a decrease in follow on business from the Company's North American customer base. Throughout fiscal 2008, uncertainty arising from the ongoing Network Neutrality debate in North America has delayed several opportunities with the Company's existing customers (including "Customer A" as described below) and potential new customers in that market. It is the Company's belief that the opportunities still exist and that it will continue to generate a significant portion of its revenue from a small number of customers, including North American customers, throughout fiscal 2008 and beyond.

Service revenue for the second quarter of 2008 was \$3.1 million or 28.2% of revenue (Q1-08: \$3.5 million or 42.6% of revenue), compared to \$2.2 million or 11.1% of revenue for the same period last year. The Company's service revenue for the first six months of fiscal 2008 was \$6.7 million or 34.4% of revenue, compared to \$4.0 million or 11.4% of revenue for the same period last year. This increase in service revenue (in absolute dollar terms and percentage of revenue) for both the second quarter and first six months of fiscal 2008 is consistent with the higher level of product sales generated over the past twelve months which has increased service revenues for the current period(s). As a percentage of revenue, the service revenue for fiscal 2008 is higher than what has been historically experienced as a result of the low level of product revenue in the first six months of fiscal 2008. Over the longer term the Company expects its service revenue will trend closer to historical levels of 10 – 15% (FY-07: 11.6%; FY-06: 11.6%).

The breakdown of revenue generated by customer access technology for the first quarter of fiscal 2008 is as follows:

Customer access technology	Three months ended May 31,		Six months ended May 31,	
	2008	2007	2008	2007
Cable	33.0%	98.3%	51.9%	95.5%
DSL	46.2%	1.7%	32.3%	4.1%
Wireless/Mobile/FTTx	18.9%	--	12.7%	--
Other*	1.9%	--	3.1%	0.4%
Total	100.0%	100.0%	100.0%	100.0%

* The other category is comprised of sales to partners (including channel partners) who have purchased the product for their own internal use i.e. for interoperability testing.

In situations where a reseller or partner of the Company has purchased products for resale to an end customer, the Company has allocated such revenue based on the access technology of the end customer.

Throughout fiscal 2007 and 2008 the Company has invested and will continue to invest in the development of its indirect sales channel to utilize global third party network equipment vendors and regional value-added resellers to help market its products. The breakdown of revenue by the direct and indirect channel is as follows:

Sales channel type	Three months ended May 31,		Six months ended May 31,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	Direct	81.3%	98.9%	85.3%
Indirect	18.7%	1.1%	14.7%	2.4%
Total	100.0%	100.0%	100.0%	100.0%

A large percentage of the Company's revenue continues to be derived from a small number of customers. The following chart outlines the revenue generated from customers representing more than 10% of the Company's revenue for the three and six month period ended May 31, 2008.

	Three months ended May 31,		Six months ended May 31,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	Customer A	11.3%	47.3%	17.1%
Customer B	20.8%	--	11.9%	--
Customer C	15.8%	--	9.1%	--
Customer D	14.4%	--	8.3%	--
Customer E	1.9%	0.5%	15.5%	1.9%
Total	64.2%	47.8%	61.8%	56.0%

In situations where a particular customer is a reseller who has purchased equipment for re-sale to an end user customer, the Company has aggregated all of the sales to that reseller in determining whether they represent more than 10% of the Company's revenue for a particular quarter. Customer D is a global reseller who re-sold the Company's solutions to multiple end customers in the second quarter of 2008.

Historically, a significant portion of the Company's revenue has been generated from the customer identified above as "Customer A" (FY-07 – 49.2%). In absolute dollar terms, the Company generated \$1.3 million of revenue from Customer A in the second quarter of fiscal 2008 (Q1-08 \$2.0 million).

Gross Margin

For the second quarter of 2008 product gross margins decreased by 6.9% to 74.3% compared to 81.2% (Q1-08: 68.7 %) for the same period last year. For the first six months of fiscal 2008 product gross margins decreased by 8.9% to 72.2% as compared to 81.1% for the first six months of fiscal 2007. The decline in product gross margins predominantly relates to a change in product mix experienced during the three and six month period ended May 31, 2008 as compared to the same period in 2007. During the second quarter and first six months of fiscal 2007 the revenue generated from the sale of follow on software sales (which has higher gross margin levels than the Company's other products) to its existing customer was significantly higher (both in absolute dollar terms and percentage of revenue) as compared to the current quarter and first six months of fiscal 2008. The current quarter product mix is more indicative (than what was experienced in the second quarter of 2007) of what management expects moving forward.

For the second quarter of 2008 service gross margin of 85.2% did not significantly change from the 83.5% experienced in the second quarter of fiscal 2007.

Similarly, for the first six months of fiscal 2008, service gross margin of 84.4% did not significantly change from the 82.3% experienced in the first six months of fiscal 2007.

Operating Expenses

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

	Three months ended May 31,		Six months ended May 31,	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
	<i>In thousands of dollars</i>			
Revenue	\$11,087	\$20,022	\$19,375	\$35,397
Sales and marketing.....	4,233	3,413	8,259	6,464
<i>% of revenue</i>	38.2 %	17.0 %	42.6 %	18.3 %
Research and development.....	6,220	3,623	12,314	6,345
<i>% of revenue</i>	56.1 %	18.1 %	63.6 %	17.9 %
Net government (assistance) repayment...	(463)	200	(382)	121
<i>% of revenue</i>	(4.2 %)	1.0 %	(2.0 %)	0.3 %
General and administration	2,176	1,576	4,500	2,328
<i>% of revenue</i>	19.6 %	7.9 %	23.2 %	6.6 %
Stock based compensation	715	220	1,338	404
<i>% of revenue</i>	6.4 %	1.1 %	6.9 %	1.1 %
Amortization of intangible assets	400	--	800	--
<i>% of revenue</i>	3.6 %	--	4.1 %	--
Depreciation.....	889	642	1,700	1,162
<i>% of revenue</i>	8.0 %	3.2 %	8.8 %	3.3 %
Total operating expenses	\$14,170	\$9,674	\$28,529	\$16,824
	127.8 %	48.3 %	147.2 %	47.5 %

Sales and Marketing Expenses

For the second quarter of 2008, sales and marketing expenditures increased by \$0.8 million to \$4.2 million, which represents a 24.0% increase from the \$3.4 million incurred for the same period last year. For the first six months of fiscal 2008, sales and marketing expenditures increased by \$1.8 million to \$8.3 million, which represents a 27.8% increase from the \$6.5 million incurred for the same period last year.

Major factors contributing to the increase in the sales and marketing expenses for the three and six month period ended May 31, 2008 as compared to the same period in 2007 include increased compensation and recruiting costs associated with additional staff being added to the sales and marketing team over the past twelve months. This included the additional team members associated with the Company's two acquisitions which took place in the third quarter of fiscal 2007. In addition, the Company experienced increased costs associated with its sales demonstrations. These items were partially offset as a result of decreased variable compensation costs as a result of the decrease in revenue for the period.

At May 31, 2008 the sales and marketing team consists of 73 employees which is made up of 48 sales representatives and 25 employees dedicated to the marketing and product management group. Consistent with the Company's growth strategy the Company expects to continue to increase its investment in its sales and marketing activities.

Research and Development Expenses

Exclusive of government assistance repayments (Q2-08 – net assistance of \$0.5 million; Q2-07 – repayments of \$0.2 million), research and development expenses for the second quarter of 2008 increased by \$2.6 million to \$6.2 million, which represents a 71.7% increase from the \$3.6 million incurred for the same period last year. The increase mainly relates to additional staffing and labour costs associated with having additional team members in the second quarter of fiscal 2008 as compared to the same period last year. This included the additional team members associated with the Company's two acquisitions which took place in the third quarter of fiscal 2007. In addition, the Company experienced increased third party labour costs and prototype expenses in the current quarter as compared to the same period last year.

Exclusive of government assistance, government assistance repayments and investment tax credits (YTD-2008 – net assistance of \$0.4 million; YTD-2007 – repayments of \$0.1 million), for the first six months of fiscal 2008, research and development expenditures increased by \$6.0 million to \$12.3 million, which represents a 94.1% increase from the \$6.3 million incurred for the same period last year. The increase mainly relates to additional staffing and labour costs associated with having additional team members in the first six months of fiscal 2008 as compared to the same period last year. This included the additional team members associated with the Company's two acquisitions which took place in the third quarter of fiscal 2007. In addition, the Company experienced increased third party labour costs, travel, recruiting and prototype expenses in the first six months of fiscal 2008 as compared to the same period last year.

For the three and six months ended May 31, 2008, the Company recorded \$0.7 million and \$0.9 million respectively of government assistance received through a Canadian and foreign government program in respect of certain research and development activities. Of the \$0.9 million received during the six month period ended May 31, 2008, \$0.4 was received from a foreign government body which is contingently repayable as further described in note 9 of the Company's interim financial statements. Netted against these amounts are government assistance repayments of \$0.3 million and \$0.5 million respectively for the three and six months ended May 31, 2008.

General and Administrative

For the second quarter of 2008, general and administrative expenditures increased by \$0.6 million to \$2.2 million, which represents a 38.1% increase from the \$1.6 million incurred for the same period last year. For the first six months of fiscal 2008, general and administrative expenditures increased by \$2.2 million to \$4.5 million, which represents a 93.3% increase from the \$2.3 million incurred for the same period last year.

Major factors contributing to the increase include increased staffing costs as well as increased occupancy and professional fee costs. In addition, the Company experienced a foreign exchange loss of \$0.1 million for the three months ended May 31, 2008 (Q2-07 \$0.3 million) and \$0.5 million for the six months ended May 31, 2008 (YTD-07 \$nil).

Stock based compensation expense for the three and six month period ended May 31, 2008 was \$0.7 million and \$1.3 million respectively as compared to \$0.2 million and \$0.4 million for the same period last year.

Acquisition-related expenses

During fiscal 2007 the Company completed two acquisitions. As a result of these acquisitions, the Company will incur certain non-cash acquisition related costs in the form of amortization of the acquired intangible assets and compensation expense. The following table provides additional analysis of these items (in thousands of dollars):

	Three months ended		Six months ended	
	May 31,		May 31,	
	<u>2008</u>	<u>2007</u>	2008	2007
			<i>In thousands of dollars</i>	
Amortization of intangible assets	\$400	--	\$800	--
Non-cash acquisition costs characterized as compensation expense (included in operating expenses)	80	--	160	--
Total	\$480	--	\$960	--

Amortization of intangible assets

Amortization of intangible assets is the amortization of the value attributable to intangible assets related to existing technologies associated with acquisitions completed by the Company as of May 31, 2008. Intangible assets with a finite life are amortized to income over their estimated useful life. The amount of amortization expense in a fiscal period is dependent on acquisition activities throughout the year, as well as the results of asset impairment tests. Amortization of intangible assets for the three and six month period ended May 31, 2008 was \$0.4 million and \$0.8 million respectively, compared to \$nil and \$nil for the same periods in 2007. The current period amortization relates to the Company's acquisitions that took place in Q3-07. The Company tests the value of its finite life intangible assets for recoverability when events or changes in circumstances indicate that there may be evidence of impairment. Intangible assets with a finite life are written down to fair value when the related undiscounted cash flows are not expected to allow for recovery of the carrying value. Fair value of intangibles is determined by discounting the expected related cash flows. No finite life intangible asset impairment has been identified or recorded for any of the fiscal periods reported.

Interest and Other Income

For the second quarter of 2008 the Company earned \$0.8 million of investment and other income as compared to \$0.7 million for the same period last year. The increase in investment and other income is a result of the increased cash, cash equivalents and marketable securities balance throughout the first six months of fiscal 2008 as compared to the same period last year. The increased cash, cash equivalents and marketable securities balances predominantly related to the Company's equity financings that took place in July 2007.

Income Tax Expense (recovery)

The Company's income tax recovery for the three and six months ended May 31, 2008 is \$0.2 million and \$0.1 million respectively. The current provision for income taxes (Q2-08 \$19,000; YTD-08 \$39,000) predominantly relates to the Company's foreign subsidiaries.

Net Income (loss)

Net loss for the three and six month period ended May 31, 2008 was \$4.6 million and \$11.6 million respectively as compared to net income of \$10.3 million and \$16.2 million respectively for the same period last year.

LIQUIDITY AND CAPITAL

The Company has financed its operations and met its capital expenditure requirements primarily through the sale of equity securities.

	May 31, 2008	November 30, 2007
Key Balance Sheet Amounts and Ratios:	<i>(In thousands of dollars, except balance sheet ratios and metrics)</i>	
Cash, cash equivalents and marketable securities	99,681	113,014
Working capital	118,659	129,481
Working capital ratio.....	12.2:1	13.8:1
Days sales outstanding in accounts receivable*	90 days	60 days
Inventory turnover*	0.5 times	1.2 times
* Calculated on an annualized basis		

The Company uses working capital, working capital ratio, days sales outstanding in accounts receivable and inventory turnover as a measure to enhance comparisons between periods. These terms do not have a standardized meaning under GAAP and are not necessarily comparable to similar measures presented by other companies. The calculation of each of these items is more fully described below.

***Days sales outstanding** (“DSO”) calculation - The Company has calculated DSO’s based on the recent three months annualized revenue and the average of the beginning and ending accounts receivable balance for such three-month period.

***Inventory turnover** - The Company has calculated its inventory turnover using the recent three months product cost of sales and the average of the beginning and ending inventory balance for such three-month period.

In periods of low sales the annualized revenues and cost of sales used in these measures will illustrate decreased inventory turns and higher DSO’s.

	Three months ended May 31,		Six months ended May 31,	
	<i>(In thousands of dollars)</i>			
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Cash Inflows and (Outflows) by Activity:				
Operating activities.....	(5,060)	(5,964)	(10,150)	10,981
Investing activities.....	3,774	(634)	10,367	(27,745)
Financing activities.....	(739)	633	(578)	820
Net cash inflows (outflows)	(2,025)	(5,965)	(361)	(15,944)

Cash and Cash Equivalents and Marketable Securities

Cash and cash equivalents include cash on hand, balances with banks and short term investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value. Marketable securities include debt securities maturing within twelve months of the balance sheet date. Marketable securities are measured at fair value, with the changes in fair value being recognized in other comprehensive income during the period.

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 requirements for safety, liquidity and yield in that order of importance.

At May 31, 2008, the Company had \$99.7 million of cash and cash equivalents and marketable securities compared to \$113.0 million for the year ended November 30, 2007. The decrease in cash and cash equivalent is consistent with the operating performance/losses sustained by the Company during the first six months of fiscal 2008.

Working Capital

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance decreased to \$118.7 million at May 31, 2008 compared to \$129.5 million at the end of fiscal 2007. The Company's working capital ratio (which is its current assets divided by its current liabilities) decreased to 12.2:1 compared to 13.8:1 at November 30, 2007. The decrease in the Company's working capital ratio from the 2007 level mainly relates to the decrease in the Company's cash and marketable securities as discussed above.

The Company's DSO's increased to 90 days from the 60 days reported at the end of fiscal 2007. Included in accounts receivable is approximately \$2.2 million (\$1.6 million at November 30, 2007) related to the Company's deferred revenue balance. Reducing accounts receivable by these amounts reduces the Company's DSO's to 65.5 days (45 days at November 30, 2007). In addition, the Company's DSO's also increased as a significant portion of the Company's revenue was recognized towards the end of the quarter. Longer term the Company expects that its DSO levels will be in the range of 50 to 60 days. However, this will fluctuate depending on the timing of revenue recognition and the amount of accounts receivable related to the Company's deferred revenue balance at the end of a period.

Approximately \$3.4 million of the Company's \$11.0 million of accounts receivable was characterized as being past due at May 31, 2008. The definition of items that are past due is determined by reference to terms agreed with individual customers. Of the overdue balances at May 31, 2008, \$2.9 million has been collected subsequent to the end of the period.

The May 31, 2008 inventory turnover of 0.5 times per year (0.4 times as at February 29, 2008) is lower than the 1.2 reported at the end of the Company's 2007 fiscal year. The decrease in the Company's inventory turnover from the year end level relates to a decrease in the annualized cost of sales as a result of lower product sales in the quarter without a corresponding reduction in average inventory levels for the relevant periods. The Company's ending inventory balance increased to \$15.9 million (FY-07 - \$13.9 million). The increase is a result of the Company purchasing inventory in anticipation of certain sales which have not yet materialized as discussed under the "Revenue" title earlier in this document. Included in the Company's inventory balance is \$3.3 million related to demonstration units and \$0.8 million related to deferred cost of product sales.

Cash Provided by (used in) Operating Activities

Although the operating performance for the current quarter [Q2-08 net loss \$4.6 million; Q2-07 net income \$10.3 million] declined, the amount of cash used in operations decreased by \$0.9 million to \$5.1 million as compared to the second quarter of 2007. The impact of cash used in operating activities as a result of the Company's current quarter operating performance (as compared to the same period last year), was partially offset by a lower use of cash from changes in non-cash working capital balances [Q2-08 (\$2.6 million); Q2-07 (\$14.2 million)]. Approximately \$13.7 million of the use of cash from non-cash working capital balances in the second quarter of fiscal 2007 related to the change in the Company's accounts receivable and deferred revenue balance as compared to \$1.6 million for the three months ended May 31, 2008.

Cash used in operations during the first six months of fiscal 2008 was \$10.2 million as compared to \$11.0 of cash being generated from operations for the first six months of fiscal 2007. The change is largely consistent with the operating performance the Company has experienced in the first six months of fiscal 2008 as compared to the same period last year.

The Company enters into complex arrangements that involve acceptance tests, multiple deliverables and/or post contractual support which remain undelivered at the end of the period. This may result in the deferral of revenue because, in most cases, the Company has not established fair value for the undelivered elements. Where the Company has sold post contract support, the resulting revenue is recognized rateably over the service period, which is typically one to three years. The Company does not recognize any revenue or deferred revenue related to post contract support or post contract support renewals until evidence of such an arrangement exists or cash in respect of such renewal is received. The breakdown of deferred revenue is as follows:

	Three months ended,	
	May 31, 2008	November 30, 2007
	<i>In thousands of dollars</i>	
Deferred revenue:		
Service	\$3,902	\$2,604
Product	1,698	1,481
Total	\$5,600	\$4,085
Reported as:		
Current	\$5,534	\$4,028
Non-current	66	57
Total	\$5,600	\$4,085

The Company's assessment of the characterization of deferred revenue between current and non-current is based on management's best estimate of when it expects to meet the criteria required to permit revenue recognition.

Purchase of Capital Assets

Additions to capital assets were \$1.1 million in the second quarter of fiscal 2008 as compared to \$1.6 million for the same period last year. Additions for the first six months of fiscal 2008 and 2007 were \$2.5 million and \$3.4 million respectively.

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

During the first quarter of fiscal 2008, the Company capitalized \$0.5 million (YTD-08 \$0.7 million) of internally manufactured assets. These additions predominantly relate to hardware equipment used within the Company's research and development lab.

Issuance of Equity Shares

During the second quarter of fiscal 2008, the Company issued 21,680 common shares upon exercise of stock options for net cash proceeds of \$13,000. This brings the total common shares exercised upon the exercise of stock options for the first six months of fiscal 2008 to 282,359 for net cash proceeds of \$0.2 million.

As of the date of this document:

- the number of common shares in issue is 136,662,179
- there is one common share purchase warrant issued which entitles the holder to acquire 619,280 common shares
- there are 8,003,488 common share options issued under the Company's stock option plan (as further described in note 12 of its November 30, 2007 consolidated financial statements)
- the Company has 555,555 common shares which are contingently issuable under an earn-out arrangement as further described later in this document under the heading "***Acquisitions – Earn-Out Arrangement***"

Repurchase of Equity

The Company's Board of Directors has approved the repurchase of up to 10,152,791 of its common shares on the Toronto Stock Exchange ("TSX") through a Normal Course Issuer Bid arrangement ("NCIB"). The NCIB has received all necessary regulatory approvals and is effective for a one year period commencing April 9, 2008. Transactions are executed from time to time in the open market in accordance with the rules and policies of the TSX. Purchase and payment for the shares is

made by the Company in accordance with the rules of the TSX and the price that the Company pays for shares acquired is at the market price of the shares at the time of acquisition.

During the second quarter and first six months of fiscal 2008 the Company completed the purchase and cancellation of 535,500 common shares at an average price of 1.40 per share (\$0.8 million in total) under the NCIB.

Liquidity and Capital Resource Requirements

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

Financial Instruments

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

At May 31, 2008, the Company has two open forward foreign exchange contract outstanding in the amount of US \$3.0 million. The effect of this forward foreign exchange contract is that it fixes the conversion rate for US \$3.0 million of the Company's net US dollar asset position at a rate of 0.9828. The Company is carrying the value of this contract at its fair value. The Company has not applied hedge accounting to its forward foreign exchange contracts as they do not relate to specific future contractual obligations or commitments.

The Company's short-term investment portfolio of \$92.2 million at May 31, 2008 included bankers' acceptances (62% of portfolio), bank notes (20% of portfolio) and t-bills (17% of the portfolio) with yields ranging from 2.44% to 3.48%. The Company anticipates that the yields that it will be able to secure upon maturity of its short-term investment portfolio will decrease as a result of reduced yields that have taken place in the market place.

The fair value of accounts receivable, other receivables, accounts payable and accrued liabilities approximates their carrying value due to the immediate or short-term maturity of these financial instruments. At May 31, 2008, the Company had a significant concentration of credit risk with five customers representing 75.5% (22.5%, 19.5%, 12.2%, 11.0% and 10.3%) respectively of the Company's accounts receivable.

Acquisitions – Earn-Out Arrangement

In June of 2007 the Company completed the acquisition of Simplicita Software, Inc. ("Simplicita"). In addition to the consideration that was paid at that time, in respect of the Simplicita transaction, the Company has agreed to additional share consideration of up to 555,555 common shares ("Earn-Out Shares") which will be issued to certain Simplicita shareholders on the achievement of certain performance targets and who have continued their employment with the Company as of November 30, 2008. The Earn-Out Shares have been valued at \$2.8 million for accounting purposes and subject to the continued employment of individual Key Employees and the achievement of certain performance targets will be recorded in the Company's financial statements as compensation expense. 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 first six months of fiscal 2008 (FY-07 nil).

DISCLOSURE CONTROLS AND PROCEDURES

The Company's CEO and CFO are responsible for establishing and maintaining disclosure controls and procedures for the Company. As such, the Company maintains a set of disclosure controls and procedures designed to ensure that information required to be disclosed in filings is recorded, processed, summarized and reported within the time periods specified in the Canadian Securities Administrators rules and forms.

INTERNAL CONTROLS AND PROCEDURES

The CEO and CFO are responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The CEO and CFO have evaluated whether there were changes to the Company's internal controls over financial reporting during the interim period ended May 31, 2008 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified through their evaluation.

Selected consolidated quarterly financial information

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

Fiscal 2008 <i>(in thousands of dollars)</i>	Three months Ended		Year to Date
	<u>February 29, 2008</u>	<u>May 31, 2008</u>	<u>May 31, 2008</u>
Sales	8,288	11,087	19,375
Operating expenses	14,359	14,170	28,529
Net income (loss) – total	(6,977)	(4,631)	(11,608)
Basic earnings (loss) per share	(0.051)	(0.034)	(0.085)
Diluted earnings (loss) per share	(0.051)	(0.034)	(0.085)
Total assets	157,022	149,489	149,489

Fiscal 2007 <i>(in thousands of dollars)</i>	Three months ended				Fiscal year Ended
	<u>February 28, 2007</u>	<u>May 31, 2007</u>	<u>August 31, 2007</u>	<u>November 30, 2007</u>	<u>November 30, 2007</u>
Sales	15,375	20,022	21,176	17,106	73,679
Operating expenses	7,150	9,674	12,264	14,045	43,133
Net income – total	5,872	10,320	2,700	70	18,962
Basic earnings (loss) per share	0.048	0.084	0.021	0.000	0.148
Diluted earnings (loss) per share	0.045	0.079	0.020	0.000	0.139
Total assets	100,766	102,811	163,704	159,465	159,465

Fiscal 2006 <i>(in thousands of dollars)</i>	Three months ended			Fiscal year Ended
	<u>May 31, 2006</u>	<u>August 31, 2006</u>	<u>November 30, 2006</u>	<u>November 30, 2006</u>
Sales	7,394	8,076	9,246	31,665
Operating expenses	6,225	6,260	6,929	24,815
Net income (loss) – total	(506)	183	116	(382)
Basic earnings (loss) per share	(0.005)	0.002	0.001	(0.004)
Diluted earnings (loss) per share	(0.005)	0.002	0.001	(0.004)
Total assets	63,578	65,912	79,546	79,546

Historically, the Company's operating results have fluctuated on a quarterly basis and it is expected that quarterly financial results will continue to fluctuate in the future. Fluctuations in results relate to the growth in the Company's revenue, the timing of revenue being recognized and sales to OEM and reseller customers, which may place large single orders in any one quarter, and to the timing of staffing and infrastructure additions to support growth.