



MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated: January 14, 2010

This Management's Discussion and Analysis ("MD&A") for the three months and year ended November 30, 2009 provides detailed information on the operating activities, performance and financial position of Sandvine Corporation ("Sandvine" or the "Company"). This discussion should be read in conjunction with the Company's consolidated financial statements and accompanying notes for the year ended November 30, 2009. 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 January 14, 2010, 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 most recent fiscal year, which ended on November 30, 2009, is referred to as the "current fiscal year," "fiscal 2009", "2009", "FY-09" or using similar words. The previous fiscal year, which ended on November 30, 2008, is referred to as "previous fiscal year," "fiscal 2008," "2008", "FY-08" 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, targets, 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 "may", "anticipated", "expected", "projected", "targeting", "estimate", "intend" and similar terms are intended to assist in the 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 the Company 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 the Company 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 the Company 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, and those 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 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 expects to continue to derive a large percentage of its revenue from both a small number of key customers and key reseller partners, none of whom are bound to any fixed purchase commitment or exclusivity obligations;
- 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 requirements in the area of broadband network management policies and/or changes in the regulatory framework to which the Company's customers may be subject. In particular, the Federal Communications Commission in the United States (the "FCC") has recently announced a Notice of Proposed Rulemaking pursuant to which the FCC intends to consider whether additional regulation in respect of network management practices of internet service providers is required. This process may cause uncertainty in the network investment decisions of the Company's target customers, and any new rules or regulations that result from this process may impact the demand for the Company's products within the United States, which has historically been the Company's largest market and elsewhere, as service providers and regulators in other countries may look to practices adopted in the United States;
- Overall economic conditions and the availability of credit may negatively impact the Company's customers and suppliers.
- The majority of the Company's operating expenses are denominated in Canadian dollars, U.S. dollars and New Israeli Shekels while its revenues and cost of 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 and services 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 CONSOLIDATED FINANCIAL INFORMATION

The following table sets out selected consolidated financial information for the periods indicated. The selected financial information set out below has been derived from the audited consolidated financial statements and accompanying notes for the years ended November 30, 2009, 2008 and 2007. Each investor should read the following information in conjunction with those statements and related notes. The financial information for the three month periods ended November 30, 2009 and November 30, 2008 has been prepared by management in accordance with Canadian generally accepted accounting principles in a manner consistent with its annual financial statements.

	Three month period ended		Twelve month period ended		
	November 30, 2009	November 30, 2008	November 30, 2009	November 30, 2008	November 30, 2007
	\$	\$	\$	\$	\$
	<i>Amounts in thousands, except share and per share data</i>				
Consolidated Statement of Operations Data:					
Revenue					
Product	14,913	15,482	51,958	38,459	65,127
Service	4,119	3,102	16,890	12,625	8,552
	19,032	18,584	68,848	51,084	73,679
Cost of Sales					
Product	4,164	2,520	14,375	8,741	15,261
Service	1,019	745	3,362	2,412	1,455
	5,183	3,265	17,737	11,153	16,716
Gross margin	13,849	15,319	51,111	39,931	56,963
Expenses					
Sales and marketing	5,271	5,472	20,584	18,052	15,026
Research and development	6,646	7,565	28,162	25,921	16,072
Net government (assistance) repayments	351	465	(481)	251	809
General and administration	2,250	1,316	8,828	7,702	6,454
Stock based compensation	2,519	1,320	4,982	4,356	1,466
Amortization of intangible assets	560	596	2,130	2,188	1,088
Depreciation	1,246	1,110	4,691	3,473	2,218
Goodwill impairment	-	-	2,425	-	-
	18,843	17,844	71,321	61,943	43,133
Income (loss) from operations	(4,994)	(2,525)	(20,210)	(22,012)	13,830
Interest and other income	82	687	662	3,373	3,808
Income (loss) before income taxes	(4,912)	(1,838)	(19,548)	(18,639)	17,638
Provision for (recovery of) income taxes	(183)	(67)	(31)	996	(1,324)
Net income (loss) for the period	(4,729)	(1,771)	(19,517)	(19,635)	18,962
Basic earnings (loss) per share	(0.035)	(0.013)	(0.144)	(0.144)	0.148
Diluted earnings (loss) per share	(0.035)	(0.013)	(0.144)	(0.144)	0.139
Weighted average common shares outstanding					
Basic	135,757,373	135,375,833	135,636,736	136,336,109	128,510,680
Diluted	135,757,373	135,375,833	135,636,736	136,336,109	135,973,372

	As at November 30, 2009	As at November 30, 2008	As at November 30, 2007
Consolidated Balance Sheet Data:			
Cash and cash equivalents	2,341	3,872	7,878
Marketable securities	83,423	88,676	105,136
Total assets	136,269	150,052	159,465
Total liabilities	19,035	18,274	10,895
Shareholders' equity	117,234	131,778	148,570

Non-GAAP Financial Measures

The following table provides a reconciliation of GAAP net loss and related per share amounts to non-GAAP net loss and the related per share amounts for the periods indicated. These non-GAAP financial measures which are used internally by management to evaluate the Company's ongoing performance exclude the impact of stock based compensation, amortization of intangible assets acquired through business acquisitions and goodwill impairment expenses (collectively referred to as "Excluded Expenses"). The Company provides these non-GAAP financial measures as it is the Company's view that the Excluded Expenses are either (i) not part of its normal day-to-day operations and/or (ii) represent a "non-cash" accounting charge that does not deplete its cash resources. Accordingly, the Company believes that such financial measures may also be useful to investors in enhancing their understanding of the Company's operating performance. Non-GAAP net loss is not recognized under Canadian GAAP and does not have a standardized meaning prescribed by Canadian GAAP. Therefore it is unlikely to be comparable to similarly titled measures reported by other issuers. Non-GAAP financial measures should be considered in the context of the Company's GAAP results.

	Three month period ended			Twelve month period ended	
	November 30, 2009 \$	August 31, 2009 \$	November 30, 2008 \$	November 30, 2009 \$	November 30, 2008 \$
	<i>Amounts in thousands</i>				
Net income (loss)	(4,729)	(4,358)	(1,771)	(19,517)	(19,635)
Excluded Expenses					
Stock based compensation expense	2,519	823	1,320	4,982	4,356
Amortization of intangible assets acquired through business acquisitions	400	400	400	1,600	1,600
Goodwill impairment	-	-	-	2,425	-
Net income (loss) excluding the impact of Excluded Expenses	(1,810)	(3,135)	(51)	(10,510)	(13,679)

	Three month period ended			Twelve month period ended	
	November 30, 2009 \$	August 31, 2009 \$	November 30, 2008 \$	November 30, 2009 \$	November 30, 2008 \$
Diluted earnings (loss) per share	(0.035)	(0.032)	(0.013)	(0.144)	(0.144)
Impact on diluted earnings (loss) per share of Excluded Expenses	0.022	0.009	0.013	0.067	0.044
Diluted earnings (loss) per share excluding the impact of Excluded Expenses	(0.013)	(0.023)	(0.000)	(0.077)	(0.100)

OVERVIEW

Our Company

Sandvine develops and markets Network Policy Control solutions for high-speed, or “broadband”, Internet service providers. The Company’s solutions provide the tools to help service providers apply specific network policies that will improve the quality of service for their subscribers, support the creation of new revenue-generating services, mitigate malicious traffic and/or more efficiently manage their network.

Sandvine began initial commercial deployments of its products in 2002 and has experienced growth in its number of customers and deployments since then. At the end of November 2009, Sandvine had over 180 Internet service provider customers in more than 70 countries who serve over 80 million fixed line broadband Internet subscribers and a rapidly growing number of mobile Internet subscribers.

The Market

Sandvine’s target market is broadband Internet service providers worldwide, including DSL, cable, fixed wireless, mobile and FTTx. Within the fixed line component (DSL, cable and FTTx) of the market, Sandvine primarily targets the top 250 operators around the world, by subscriber count, which hold more than 80% of the global subscriber base. In an April 2009 report, industry analyst Point Topic forecast that there were approximately 500 million fixed line broadband subscribers globally.

In the mobile data market (fixed wireless and mobile), Sandvine primarily targets the top 350 service providers in the world. These networks comprise over 2.5 billion total voice subscribers, however according to industry analyst Analysys Mason, in 2008 only 70 million of these were wireless *broadband* subscribers – the subscriber of interest for Sandvine’s solutions. Analysys Mason expects wireless broadband subscribers to exceed 2 billion by 2015. This segment of Sandvine’s market is still in its early stages, but the opportunity is expected to grow.

Products and solutions

Sandvine’s Network Policy Control solutions comprise a hardware platform and proprietary software modules that are typically bundled together to provide a system for broadband Internet service providers to identify specific types of traffic across their networks (for example, VoIP, online gaming or video streams). These solutions also provide the tools to help service providers apply specific network policies that will improve the quality of service for their subscribers, support the creation of new revenue-generating services, mitigate malicious traffic and/or more efficiently manage their network.

Traffic Optimization

In times of congestion, a relatively small number of users and applications can consume the majority of network resources. Sandvine’s Traffic Optimization solutions mitigate network congestion and ensure fairness through the optimal use of network resources.

Service Creation

Subscribers use the Internet in different ways and to different extents. Sandvine’s Service Creation solutions help service providers create new service plans that differentiate their businesses and let subscribers choose a plan that suits them the best.

Network Integrity

Service providers’ own subscribers have become a major source of malicious traffic. Sandvine’s Network Integrity solutions protect subscribers and the network from unpredictable attacks, such as spam Trojans, worms, denial-of-service attacks, and DNS server attacks.

Operations Management

Customer service issues are expensive both in terms of customer loyalty and the call centre costs needed to support them. Sandvine’s Operations Management solutions improve subscribers’ service quality and reduce customer service costs by allowing the service provider to identify and rectify application quality trends before subscribers are affected.

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 comprises sales where the ultimate end customer purchases products directly from the Company. The indirect sales channel utilizes global third party network equipment vendors and regional value-added resellers to market and sell 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). The indirect sales channel includes sales where a third party equipment vendor purchases the Company's product for the purpose of reselling it to the ultimate end customer. This sales and distribution strategy permits Sandvine to obtain global coverage while at the same time retaining direct contact with the customer base.

Growth strategy

The Company believes that it is at the forefront of an emerging market, and that investing in research and development, and sales and marketing is critical to maximizing the long term success of the Company. Continued investment in research and development will support further product development to continue to broaden and expand the Company's suite of products. Sales and marketing expenditures will continue to develop the direct sales force throughout the world and to grow and mature its relationships with both its regional and global resellers. Exclusive of the impacts of government assistance and repayments, during fiscal 2010 the Company does not expect to significantly increase its operating expenses related to research and development and sales and marketing above fiscal 2009 amounts. Investors should be aware that operating expenses for any given quarter could fluctuate depending on the activities for that period, including, but not limited to, revenue levels (which impact variable compensation and government repayments) and foreign exchange impacts.

The Company anticipates that throughout fiscal 2010 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 technology that will extend Sandvine's core technology, has a complementary customer base, has prospective growth rates commensurate with those of the Company, and has a compatible culture.

Target Business Model

Historically, the Company has communicated that in broad terms, excluding the impact of stock based compensation and non-cash acquisition related costs, the Company is working towards a target business model (outlined below) that includes a gross margin at or above 70%, and an operating margin between 10% and 20%. 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 this investment level will result in greater long term success as its market matures. As a result, the Company does not anticipate achieving this targeted business model until such time as this level of investment yields a sustainable increase in revenues or until such time as the Company revises its assessment of the market opportunity.

Mid to Long Term Target Business Model

Percentage of 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%
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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 result in growth in the Company's revenue at targeted rates;
- The Company's existing customers, including its historically largest end customers and reseller channels 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 regulatory environment applicable to the use of technology of the type marketed by the Company will continue to permit service providers to use the Company's solutions and their full breadth of applications;
- 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;

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".

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates and assumptions are affected by management's application of accounting policies and historical experience, and are believed by management to be reasonable under the circumstances. Such estimates and assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from these estimates.

Estimates are deemed critical when a different estimate could have reasonably been used or where changes in the estimates are reasonably likely to occur from period to period and would materially impact the Company's financial condition or results of operation.

Revenue recognition

The Company recognizes revenue primarily from the sale of networking equipment (including embedded software), standalone software, and post contract support. In recognizing revenue, the Company makes estimates and assumptions on factors such as the probability of collection of the revenue from the customer, whether the sales price is fixed or determinable, the presence of fair value, the amount of revenue to allocate to individual elements in a multiple element arrangement and other matters. The Company makes these estimates and assumptions using past experience, taking into account any other current information that may be relevant. These estimates and assumptions may differ from the actual outcome for a given arrangement which could impact operating results in a future period.

Valuation of inventory

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. The business environment in which the Company operates is subject to long lead-time order requirements for certain components and rapid changes in technology and customer demand. 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, actual 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.

Valuation 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. 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 the Company's impairment assessment.

In the case of goodwill, the impairment test requires the identification of reporting units and a comparison of the estimated fair value of each reporting unit to the carrying value recorded on the Company's consolidated financial statements, including goodwill. Application of the goodwill impairment test requires judgment, including the identification of reporting units, estimation of control premium and determining the fair value of each reporting unit. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment. During the first quarter of fiscal 2009, the Company recorded a non-cash goodwill impairment charge of \$2.4 million. See "Current period operating results section" for further discussion.

Valuation allowance related to future tax assets

The ultimate realization of future tax assets is dependent upon future taxable income during the years in which these assets are deductible. In assessing the value of the future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The Company records a valuation allowance to reduce future income tax assets to the amount that is more likely than not to be realized. The Company regularly assesses all negative and positive evidence to evaluate the recoverability of its future tax assets including an evaluation of the nature and the amount of significant tax assets and their carry-forward period, the Company's recent earnings history, the Company's cumulative profit or loss in recent years and the Company's ability to reasonably forecast sufficient future earnings.

ACCOUNTING CHANGES AND IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Goodwill and intangible assets

Effective December 1, 2008, the Company adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3064, *Goodwill and Intangible Assets*. This standard establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard required the Company to retroactively reclassify its computer software assets on its consolidated balance sheet from plant and equipment to intangible assets. The net book value of computer software reclassified as of November 30, 2008 was \$1.1 million. In addition, the amortization of computer software has been reclassified from depreciation expense to amortization of intangible assets. The reclassification of amortization for the year ended November 30, 2008 was \$0.6 million. As of November 30, 2009, computer software of \$1.1 million is included within intangible assets. For the year ended November 30, 2009, amortization expense of \$0.5 million has been recorded relating to computer software.

Business combinations

In January 2009, the CICA issued Section 1582, *Business Combinations*, replacing Section 1581, *Business Combinations*. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This new Section will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its financial statements.

Consolidated financial statements

In January 2009, the CICA issued Section 1601, *Consolidated Financial Statements*, which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Company is currently assessing the future impact of this new standard on its financial statements.

Multiple deliverable revenue arrangements

In December 2009, the CICA issued EIC 175, *Multiple Deliverable Revenue Arrangements*, replacing EIC 142, *Revenue Arrangements with Multiple Deliverables*. This abstract was amended to (1) exclude from the application of the updated guidance those arrangements that would be accounted for in accordance with Financial Accounting Standards Board Statement (FASB) Statement of Position (SOP) 97-2, *Software Revenue Recognition* as amended by Accounting Standards Update (ASU) 2009-14; (2) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (3) require in situations where a vendor does not have vendor-specific objective evidence (“VSOE”) or third-party evidence of selling price, require that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (4) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (5) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance.

FASB ASU 2009-14 removed from the scope of accounting for software arrangements that is contained in the SOP 97-2 guidance, tangible products containing software components and non-software components that function together to deliver the product’s essential functionality.

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. If the Abstract is adopted early, in a reporting period that is not the first reporting period in the entity’s fiscal year, it must be applied retroactively from the beginning of the Company’s fiscal period of adoption. The Company is currently assessing the future impact of these amendments on its financial statements and has not yet determined the timing and method of its adoption.

Transition to International Financial Reporting Standards

In January 2006, the Accounting Standards Board (the “AcSB”) announced its decision to require all publicly accountable enterprises to report under International Financial Reporting Standards (“IFRS”) for years beginning on or after January 1, 2011. On February 13, 2008, the AcSB confirmed that publicly accountable enterprises will be required to use IFRS, as issued by the International Accounting Standards Board, unless modifications or additions to the requirements of IFRS are issued by the AcSB. For the Company, these new standards will be effective for the interim and annual financial statements commencing on December 1, 2011, with retrospective presentation of the comparative fiscal 2011 results. The Company’s first financial statements to be reported under IFRS will be for the three month period ending February 28, 2012, with restatement of comparative periods.

The Company has commenced its IFRS conversion project. The project will have three primary phases as follows:

1. Scoping and diagnostic phase - This phase involves a high-level assessment to identify key areas that may be impacted by the transition to IFRS, and ranking these as high, medium or low priority, as well as the creation of a formalized project plan including key milestones and timelines, resources required, education and training requirements.
2. Impact analysis, evaluation and design phase – In this phase, each area identified from the scoping and diagnostic phase will be addressed by performing an in depth analysis of Canadian GAAP/IFRS differences, evaluation and selection of available accounting policies, quantification of impacts and development of draft IFRS financial statement contents. This phase also includes the identification of operational impacts such as information technology, process and internal control changes.
3. Implementation and review phase - This phase will integrate our new accounting policies and resulting operational impacts into the Company’s underlying information systems, business processes and internal controls.

During the first quarter of 2009, the Company completed phase one of the project. The Company is currently in phase two of the project, with potential areas of impact being assessed with consideration to complexity, scope of operational impact, potential magnitude of impact, expected changes to IFRS standards and other matters. Based on IFRS standards in effect as of November 30, 2009, the key areas of impact on the Company’s consolidated financial statements are expected to be; revenue, accounting for government grants, foreign currency, share based payments, and property plant and equipment. This preceding list should not be regarded as a complete list of changes that will result from the transition to IFRS, but rather is intended to highlight the areas that the Company believes to be most significant based on the analysis performed to date. In addition, the standard-setting bodies that govern Canadian GAAP and IFRS have significant ongoing projects that could affect the ultimate differences between Canadian GAAP and IFRS.

The Company anticipates the completion of phase two of the project during fiscal 2010. The Company has completed all activities to date per its detailed project plan and expects to meet all milestones through to completion of its conversion to IFRS.

COMPOSITION OF REVENUES 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 post contract support (generally referred to as support and maintenance services) as well as various professional services including training and installation that is provided to its customers.

The majority of the Company's operating expenses are denominated in Canadian dollars, U.S. dollars and New Israeli Shekels while its sales and cost of 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, plus direct labour and an allocation of overhead applied to the product.

Service cost of sales includes certain overhead costs, warranty 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, trial material costs as well as trade show and conference costs.

Research and development expenses consist primarily of salaries and other personnel costs, off-shore development costs, certification 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 including the benefit of government assistance received, as well as repayments of such assistance.

Effective fiscal 2006, the Company commenced the repayment of funding received through the Technology Partnerships Canada ("TPC") program. The agreement requires the contribution to be repaid in the form of royalties to a maximum of \$16 million. Royalties are charged at 2.5% of the Company's gross revenues. The obligation to pay royalties expires on November 30, 2013. Any repayments accrued or paid have been included in the consolidated financial statements as part of the Company's research and development expenses.

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% - 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. Although the Company has made sales which incorporate the subsidiary's technology, to date, no royalty expense has been reflected in the consolidated statement of operations as the estimated fair value of the contingent obligation relating to a portion of these grants was recognized upon acquisition of the subsidiary.

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 and software maintenance 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.

CURRENT PERIOD OPERATING RESULTS

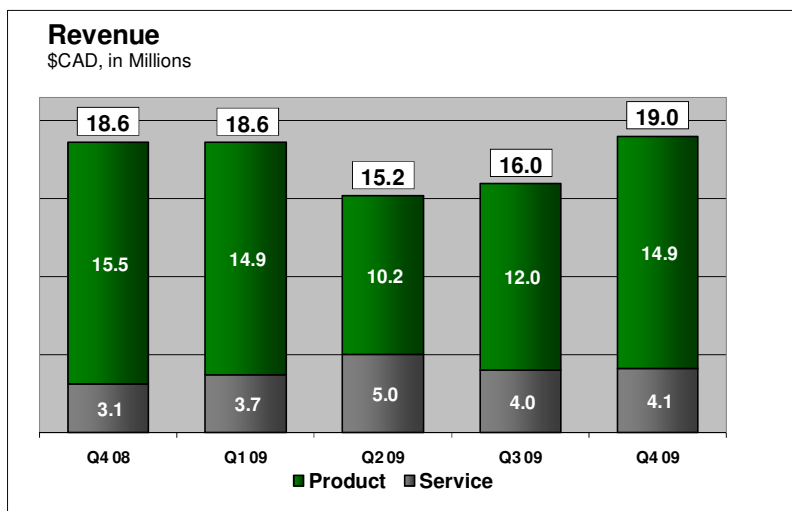
Overview

The Company's total revenues for the current quarter were \$19.0 million, an increase of \$3.0 million as compared to \$16.0 million recognized during the third quarter of 2009. The increase in current quarter revenue is primarily attributable to an increase in revenue derived from DSL access technology customers, located mainly in the Caribbean and Latin America ("CALA") and Europe, Middle East and Africa ("EMEA") regions.

Current quarter revenues related to the DSL access technology market increased by approximately \$2.7 million to \$8.0 million, as compared to \$5.3 million in the prior quarter. Current quarter revenues related to the CALA region increased by approximately \$1.5 million to \$2.3 million, as compared to \$0.8 million in the prior quarter, while current quarter revenues related to the EMEA region increased by approximately \$1.3 million to \$4.5 million, as compared to \$3.2 million during the third quarter of 2009.

Revenues associated with the cable access technology market increased by \$1.3 million to \$5.1 million, as compared to \$3.8 million in the prior quarter. Revenues associated with the wireless access technology market decreased by \$0.8 million to \$5.9 million from a record \$6.7 million in the prior quarter. The Company expects to continue to see significant period to period fluctuations in the revenues generated from various access technologies as a result of the variability in timing associated with significant customer purchase decisions.

During the fourth quarter, the Company received initial purchase orders from eight new customers and recognized revenue from eight new customers including seven wireless operators and one DSL service provider. During the fourth quarter, the Company recognized revenue relating to sales of its recently introduced PTS 24000 platform to four different end customers.



The Company's GAAP operating loss for the current quarter was \$4.7 million, as compared to a GAAP operating loss of \$4.4 million in the third quarter of 2009. The current quarter net loss includes \$1.7 million of stock based compensation expense which relates to the surrender of 780,000 options by certain employees during the fourth quarter of 2009. The Company's non-GAAP operating loss for the current quarter was \$1.8 million, as compared to a non-GAAP operating loss of \$3.1 million in the third quarter of 2009. The decrease in non-GAAP operating loss is primarily the result of the following factors:

Gross margins increased on an absolute dollar basis by \$2.1 million to \$13.8 million in the current quarter as compared to \$11.7 million in the third quarter of 2009. The increase in gross margin dollars was due to an increase in revenues of \$3.0 million, and relatively consistent blended gross margins at approximately 73%.

Operating expenses (exclusive of “Excluded Expenses” – as defined on page 4 of this document) increased by \$1.0 million, as compared to the third quarter of 2009. Significant elements of this increase relate to an increase in sales and marketing costs (\$0.6 million) relating primarily to an increase in compensation costs, including variable compensation costs, and an increase in research and development costs (\$0.3 million) primarily relating to decreases in government assistance received.

Revenue

	Three month period ended			Twelve month period ended	
	November 30, 2009 \$	August 31, 2009 \$	November 30, 2008 \$	November 30, 2009 \$	November 30, 2008 \$
	<i>Amounts in thousands</i>				
Product	14,913	11,995	15,482	51,958	38,459
Service	4,119	4,035	3,102	16,890	12,625
Total	19,032	16,030	18,584	68,848	51,084

Q4 2009 compared to Q3 2009

The Company’s total revenues for the current quarter were \$19.0 million, an increase of \$3.0 million as compared to \$16.0 million recognized during the third quarter of 2009. The increase in current quarter revenue is primarily attributable to an increase in revenue derived from DSL access technology customers, located mainly in the Caribbean and Latin America (“CALA”) and Europe, Middle East and Africa (“EMEA”) regions.

Current quarter revenues related to the DSL access technology market increased by approximately \$2.7 million to \$8.0 million, as compared to \$5.3 million in the prior quarter. Current quarter revenues related to the CALA region increased by approximately \$1.5 million to \$2.3 million, as compared to \$0.8 million in the prior quarter, while current quarter revenues related to the EMEA region increased by approximately \$1.3 million to \$4.5 million, as compared to \$3.2 million during the third quarter of 2009.

Revenues associated with the cable access technology market increased by \$1.3 million to \$5.1 million, as compared to \$3.8 million in the prior quarter. Revenues associated with the wireless access technology market decreased by \$0.8 million to \$5.9 million from a record \$6.7 million in the prior quarter.

The Company expects to continue to see significant period to period fluctuations in the revenues generated from various access technologies as a result of the variability in timing associated with significant customer purchase decisions.

An element of the Company’s growth strategy has been, and continues to be, investment in sales and marketing activities. As a result of these investments, the Company is continuing to realize a diversification in its revenue, both geographically and by access technology market. Revenues generated from sales regions outside of North America comprised 54.2% or \$10.3 million of total revenues in the current quarter, as compared to 44.8% or \$7.2 million in the third quarter of 2009, and non-cable access technology markets accounted for 73.4% or \$14.0 million of total revenues in the current quarter as compared to 76.0% or \$12.2 million in the third quarter of 2009.

The Company continues to generate a significant portion of its revenues from its reseller partners, also referred to as its “indirect channel”. During the fourth quarter of 2009, the Company realized 36.8% or \$7.0 million of its revenue through its indirect channel, compared to 26.8% or \$4.3 million during the third quarter of 2009. Revenue generated through reseller partners is subject to period to period fluctuation as a result of the variability in timing associated with significant customer purchase decisions.

Service revenue increased by \$0.1 million to \$4.1 million, as compared to \$4.0 million recognized during the third quarter of 2009. Support and maintenance revenue recognized during the current quarter was \$3.3 million, consistent with the third quarter of 2009.

Q4 2009 compared to Q4 2008

Revenues recognized during the fourth quarter of 2009 increased by \$0.4 million to \$19.0 million, as compared to \$18.6 million during the same period last year. Although total revenues were relatively consistent, the breakdown of revenue by access technology changed significantly. Current quarter revenues attributable to the wireless access technology market were \$4.1 million higher than the same period last year, while revenues associated with the cable access technology market were \$4.3 million lower than the fourth quarter of 2008. Revenues from the wireless access technology space have increased throughout 2009 as the Company begins to gain traction in this emerging market. The decrease in revenue from cable access technology customers during the current quarter, as compared to the same period last year, is primarily related to a significant follow on sale of stand alone software to Comcast Corporation during the fourth quarter of 2008.

The \$1.0 million increase in service revenue during the current quarter as compared to the same period last year primarily relates to an increase in support and maintenance revenue of \$0.6 million, which is generally consistent with the growth in the Company's cumulative product revenue since inception.

2009 compared to 2008

The Company's total revenues for the year ended November 30, 2009 have increased by \$17.7 million to \$68.8 million, as compared to \$51.1 million recognized during the same period last year.

Fiscal 2008 revenue was \$51.1 million, \$22.6 million lower than the \$73.7 million of revenue in fiscal 2007. Prior to, and in early 2008, the majority of the Company's revenues were derived from the cable access technology market (91.8% in 2007). During the first three quarters of fiscal 2008, the Company experienced a significant decrease in its product revenue generated from North American cable service providers, including the Company's historically most significant customer, Comcast Corporation. The Company believes that the decrease in revenue within this market was largely attributable to the delaying of purchase decisions by service providers in the United States as a result of uncertainty caused by the Federal Commission Communication's ("FCC") investigation of Comcast Corporation's network management practices and a general level of uncertainty with respect to service providers' ability to deploy traffic management and policy solutions. Throughout 2008 the Company experienced a meaningful diversification in its revenue streams. Revenues generated from non-cable access technologies (DSL, wireless) during fiscal 2008 were \$24.0 million, as compared to \$6.0 million in 2007. The increase in DSL and wireless access technology is consistent with the Company increasing its penetration into non-North American geography's. In 2008, revenues generated from sales regions outside of North America comprised 43.2% of total revenues, compared to 11.5% in 2007.

Fiscal 2009 revenue was \$68.8 million, \$17.7 million higher than the \$51.1 million of revenue in fiscal 2008. The growth in revenue during 2009 is the result of a number of factors including the maturing of reseller relationships, greater geographical diversification, specifically the EMEA and APAC regions, and growth in revenues generated from the wireless access technology market. Revenues generated from the wireless access technology market increased by \$15.9 million to \$20.9 million for the year ended November 30, 2009 as compared to \$5.0 million during the same period last year. Revenue generated from the cable access technology market represented \$24.6 million of total revenue for 2009, with \$11.1 million of this revenue being recognized during the first quarter. Overall, 2009 revenues related to the cable access technology market were \$1.8 million lower than 2008. The Company continues to believe that the cable access technology market could represent a significant component of the Company's future revenues. The Company expects to continue to see significant period to period fluctuations in the revenues generated from various access technologies as a result of the variability associated with the timing of significant customer purchase decisions.

Revenue by access technology

The breakdown of total revenue generated by customer access technology is outlined in the following table.

	Three month period ended			Twelve month period ended	
	November 30, 2009 %	August 31, 2009 %	November 30, 2008 %	November 30, 2009 %	November 30, 2008 %
Cable	26.6	24.0	50.3	35.7	51.6
DSL	42.2	32.8	41.2	33.3	37.2
Fixed Wireless/Mobile/FTTx	31.0	41.6	8.2	30.3	9.9
Other*	0.2	1.6	0.3	0.7	1.3
Total	100.0	100.0	100.0	100.0	100.0

* The other category is primarily comprised of sales to partners (including resellers and solutions partners) who have purchased the product for their own internal use e.g. 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.

Revenue by sales channel

The Company continues 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 and sell its products. The breakdown of revenue by the direct and indirect sales channel is as follows:

	Three month period ended			Twelve month period ended	
	November 30, 2009 %	August 31, 2009 %	November 30, 2008 %	November 30, 2009 %	November 30, 2008 %
Direct	63.2	73.2	54.5	65.0	71.1
Indirect	36.8	26.8	45.5	35.0	28.9
Total	100.0	100.0	100.0	100.0	100.0

Revenue by geographic region

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

	Three month period ended			Twelve month period ended	
	November 30, 2009 %	August 31, 2009 %	November 30, 2008 %	November 30, 2009 %	November 30, 2008 %
North America	45.8	55.2	51.7	52.3	60.7
Caribbean and Latin America	12.2	5.0	22.6	8.4	11.3
Europe, Middle East and Africa	23.7	20.2	14.9	25.5	21.6
Asia Pacific	18.3	19.6	10.8	13.8	6.4
Total	100.0	100.0	100.0	100.0	100.0

Revenue derived from major customers

During the current quarter, “Major Customers”, being those that represent more than 10% of total revenues in the current quarter, represented 45.6% of total revenue compared to 45.0% during the third quarter of 2009, and 84.8% for the fourth quarter of 2008. The following chart outlines the revenue generated from Major Customers during the fourth quarter of 2009, and their respective percentages from the prior quarter, the fourth quarter of 2008 and fiscal years 2009 and 2008.

	Three month period ended			Twelve month period ended	
	November 30, 2009 %	August 31, 2009 %	November 30, 2008 %	November 30, 2009 %	November 30, 2008 %
Customer A *	20.3	11.5	33.6	15.3	15.2
Customer B *	13.1	5.3	0.1	7.1	0.8
Customer C *	12.2	12.2	10.3	8.8	5.2
Total	45.6	29.0	44.0	31.2	21.2

* it should be noted that the delineation of customer A, B or C does not necessarily correspond to such delineation in a previous MD&A. For example, “Customer A” in the current quarter is not necessarily the same customer as the one referenced as “Customer A” in any previous MD&A.

The Company believes that this chart highlights the fact that at its current size, the Company’s revenues from period to period can be significantly impacted by the buying patterns of any single individual large customer, which will also impact the Company’s revenue segmentation by region, channel and access technology.

Based on annual revenues for the year ended November 30, 2009, the Company had only one Major Customer, representing 15.3% of total revenues.

In situations where a particular customer is a reseller who has purchased equipment for resale 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 period. Customer A and Customer C in the above chart are resellers. Customer A resold the Company’s solutions to multiple end customers during the fourth quarter of 2009. Customer A has been a Major Customer for six consecutive quarters. The Company believes that a significant portion of the revenue generated through Customer A related to the supply of the Company’s products to several different service providers within a common group.

Deferred revenue

The Company enters into complex arrangements that may involve meeting customer based specifications, multiple deliverables and/or post contractual support which can remain undelivered at the end of the period. This may result in the deferral of revenue because, in most cases, the Company has not completed the customer based specification requirements or established fair value for the undelivered elements. Where the Company has sold post contract support, the resulting revenue is recognized ratably over the service period, which is typically one to three years. The Company does not recognize any revenue or deferred revenue related to initial support and maintenance or support and maintenance renewals until evidence of such an arrangement exists or cash in respect of such renewal is received.

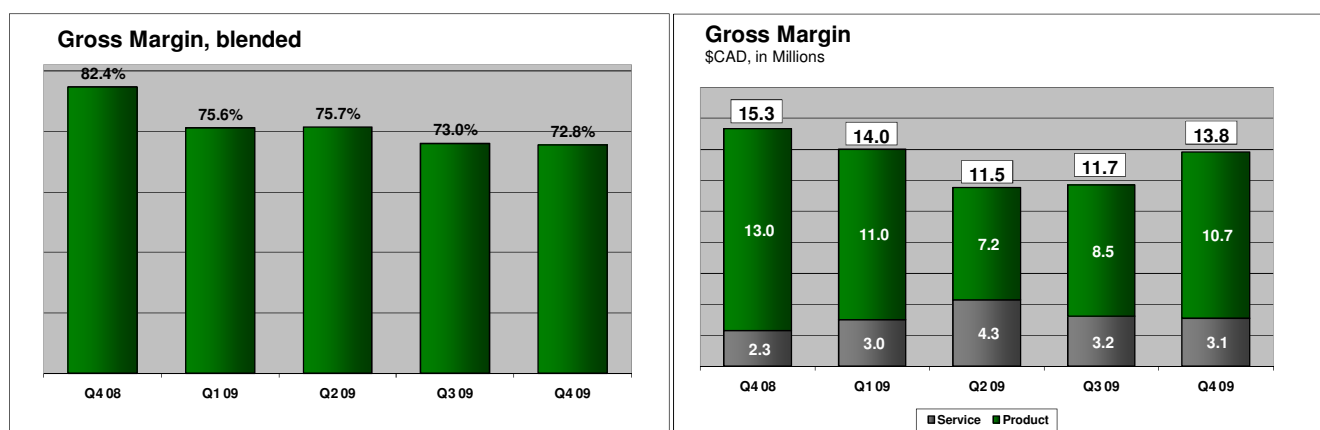
The breakdown of deferred revenue is as follows:

	November 30, 2009 \$	August 31, 2009 \$	November 30, 2008 \$
	<i>In thousands of dollars</i>		
Deferred revenue:			
Service	6,126	6,411	3,307
Product	2,177	1,867	5,830
Total	8,303	8,278	9,137
Reported as:			
Current	7,513	7,755	8,951
Non-current	790	523	186
Total	8,303	8,278	9,137

Fluctuations in deferred service revenue are primarily related to the timing of significant support and maintenance renewals. Product deferred revenue increased from August 31, 2009 levels, primarily due to several arrangements containing customer based specifications and/or elements that remained undelivered as of November 30, 2009.

The Company's 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.

Gross margin



The following table outlines the Company's gross margin levels for the revenue categories indicated.

	Three month period ended			Twelve month period ended	
	November 30, 2009 %	August 31, 2009 %	November 30, 2008 %	November 30, 2009 %	November 30, 2008 %
Product	72.1	71.2	83.7	72.3	77.3
Service	75.3	78.4	76.0	80.1	80.9
Blended	72.8	73.0	82.4	74.2	78.2

Q4 2009 compared to Q3 2009

Blended gross margins decreased to 72.8% as compared to 73.0% in the third quarter of 2009. This was the result of lower service gross margins being somewhat offset by higher product gross margins. Product gross margins were 72.1% in the current quarter, compared to 71.2% for the third quarter of 2009. Product gross margins realized in the current quarter were higher than the third quarter of 2009 due to a lower inventory provision, which was somewhat offset by a less favourable product mix. Service margins decreased by 3.1% to 75.3% in the current quarter, from 78.4% during the third quarter of 2009. This was primarily the result of adding additional members to the team which provides support and maintenance services resulting in a quarter on quarter increase in compensation.

Q4 2009 compared to Q4 2008

Product gross margins realized in the current quarter were 11.6% lower than for the same period in 2008, primarily due to a less favourable product mix which included less stand alone software sales. Service gross margins remained relatively stable at 75.3% in the current quarter, compared to 76.0% in the fourth quarter of 2008.

2009 compared to 2008

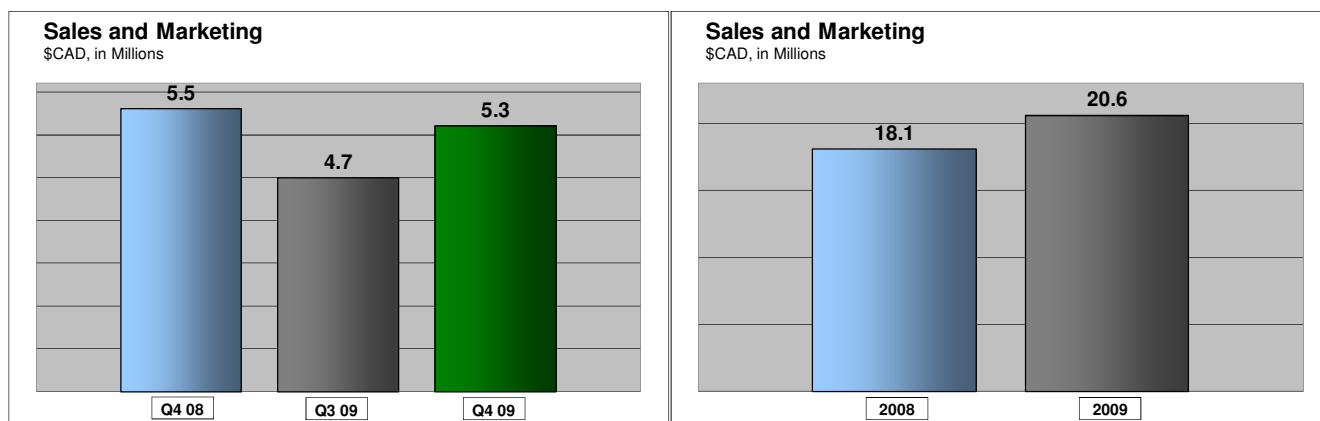
The Company's blended gross margin for the year ended November 30, 2009 decreased by 4.0% when compared to the same period last year. The decrease is primarily attributable to increased inventory provisions during the current year which reduced product gross margins, as well as lower stand alone software revenues which typically carry higher gross margins.

Operating expenses

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

	Three month period ended			Twelve month period ended	
	November 30, 2009 \$	August 31, 2009 \$	November 30, 2008 \$	November 30, 2009 \$	November 30, 2008 \$
	<i>Amounts in thousands</i>				
Revenue	19,032	16,030	18,584	68,848	51,084
Sales and marketing	5,271	4,682	5,472	20,584	18,052
<i>% of revenue</i>	<i>27.8%</i>	<i>29.3%</i>	<i>29.4%</i>	<i>29.9%</i>	<i>35.4%</i>
Research and development	6,646	6,689	7,565	28,162	25,921
<i>% of revenue</i>	<i>35.0%</i>	<i>41.8%</i>	<i>40.7%</i>	<i>40.9%</i>	<i>50.7%</i>
Net government repayments (assistance)	351	7	465	(481)	251
<i>% of revenue</i>	<i>1.8%</i>	<i>0.0%</i>	<i>2.5%</i>	<i>(0.7)%</i>	<i>0.5%</i>
General and administration	2,250	2,228	1,316	8,828	7,702
<i>% of revenue</i>	<i>11.8%</i>	<i>13.9%</i>	<i>7.1%</i>	<i>12.9%</i>	<i>15.1%</i>
Stock based compensation	2,519	823	1,320	4,982	4,356
<i>% of revenue</i>	<i>13.2%</i>	<i>5.1%</i>	<i>7.1%</i>	<i>7.2%</i>	<i>8.5%</i>
Amortization of intangible assets	560	537	596	2,130	2,188
<i>% of revenue</i>	<i>2.9%</i>	<i>3.3%</i>	<i>3.2%</i>	<i>3.1%</i>	<i>4.3%</i>
Depreciation	1,246	1,210	1,110	4,691	3,473
<i>% of revenue</i>	<i>6.5%</i>	<i>7.5%</i>	<i>6.0%</i>	<i>6.8%</i>	<i>6.8%</i>
Goodwill impairment	-	-	-	2,425	-
<i>% of revenue</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>3.5%</i>	<i>-</i>
Total operating expenses	18,843	16,176	17,844	71,321	61,943
<i>% of revenue</i>	<i>99.0%</i>	<i>100.9%</i>	<i>96.0%</i>	<i>103.6%</i>	<i>121.3%</i>

Sales and marketing expenses



Q4 2009 compared to Q3 2009

For the fourth quarter of 2009, sales and marketing expenditures increased by \$0.6 million to \$5.3 million, which represents a 12.6% increase from the \$4.7 million incurred during the third quarter of 2009. The increase in expenses relates to higher compensation costs, including the impact of variable compensation, which is consistent with increased revenue, and higher costs associated with increased tradeshow activity.

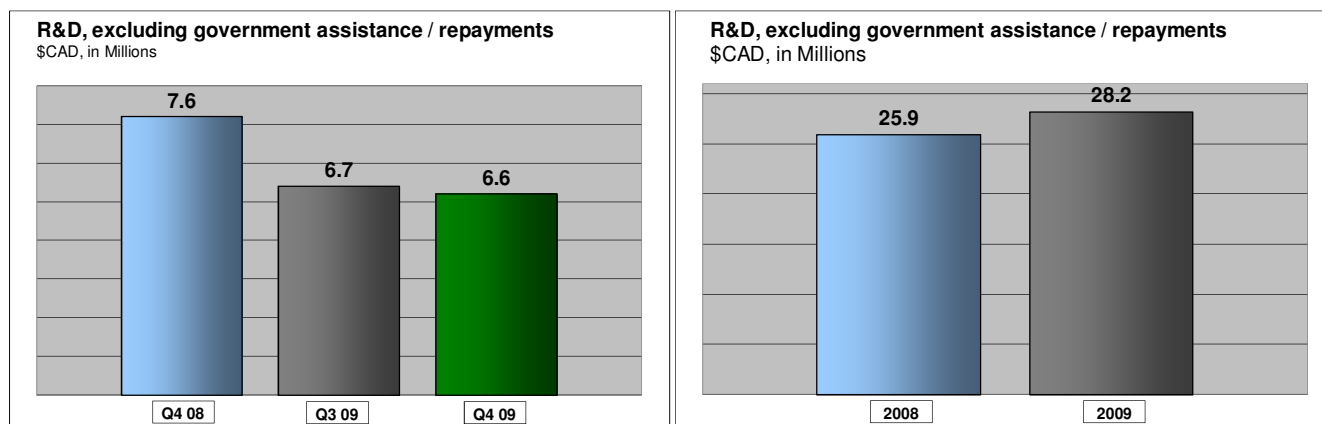
Q4 2009 compared to Q4 2008

For the fourth quarter of 2009, sales and marketing expenditures decreased by \$0.2 million to \$5.3 million, which represents a 3.7% decrease from the \$5.5 million incurred for the same period last year. Major factors contributing to the decrease include lower variable compensation costs and lower meals, entertainment and communication costs, which were somewhat offset by increased tradeshow and customer trial costs.

2009 compared to 2008

For the year ended November 30, 2009, sales and marketing expenditures increased by \$2.5 million to \$20.6 million, which represents a 14.0% increase from the \$18.1 million incurred for the same period last year. Major factors contributing to the increase relate to higher variable compensation costs, consistent with increased revenue, higher costs associated with customer trials and increased salary costs related to additional staff being added to the sales and marketing team.

Research and development expenses



Q4 2009 compared to Q3 2009

Exclusive of government assistance and repayments, research and development expenses decreased by \$0.1 million to \$6.6 million, which represents a 0.6% decrease from the \$6.7 million incurred during the third quarter of 2009. Exclusive of government assistance, there has not been a significant change in the composition or amount of research and development expenses when comparing the current and prior quarter.

Q4 2009 compared to Q4 2008

Exclusive of government assistance and repayments, research and development expenses for the fourth quarter of 2009 decreased by \$1.0 million to \$6.6 million, which represents a 12.1% decrease from the \$7.6 million incurred for the same period last year. The decrease is mainly related to a decrease in off-shore development and prototype costs, which was somewhat offset by additional staffing costs associated with having additional team members.

2009 compared to 2008

Exclusive of government assistance and repayments, research and development expenses for year ended November 30, 2009 increased by \$2.3 million to \$28.2 million, which represents an 8.6% increase from the \$25.9 million incurred for the same period last year. The increase mainly relates to additional staffing costs associated with having additional team members and increased prototype expenditures related to the newly introduced PTS 24000, which was somewhat offset by a decrease in off-shore development costs.

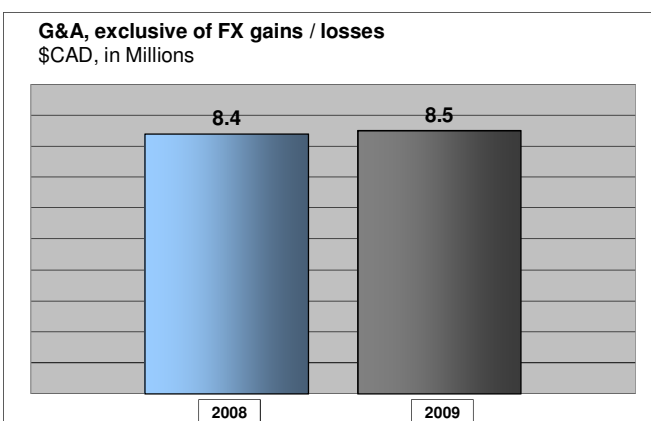
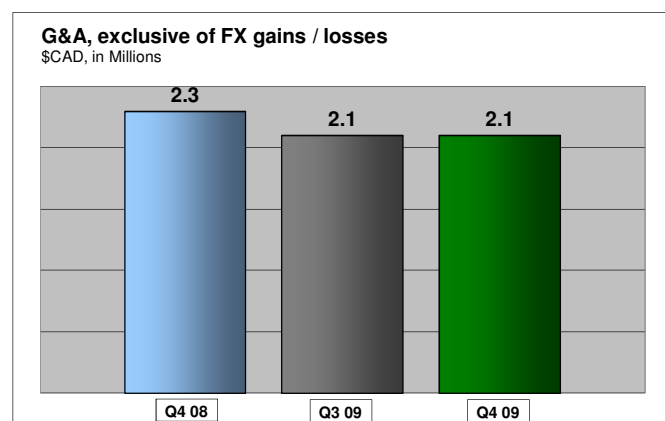
Government assistance and repayments

Research and development expenses are presented on the Company's consolidated financial statements including the benefit of government assistance received, as well as the expense associated with recording the repayment of such assistance. The following table provides details regarding government assistance and repayments.

	Three month period ended			Twelve month period ended	
	November 30, 2009 \$	August 31, 2009 \$	November 30, 2008 \$	November 30, 2009 \$	November 30, 2008 \$
	<i>Amounts in thousands</i>				
Assistance					
Repayable	-	-	-	(885)	(401)
Non-repayable	(125)	(394)	-	(1,318)	(625)
		(394)		(2,203)	(1,026)
Repayments	476	401	465	1,722	1,277
Net government repayments (assistance)	351	7	465	(481)	251

As of November 30, 2009, the Company has recorded the benefit of all government assistance for which it is currently approved.

General and administrative



Q4 2009 compared to Q3 2009

For the current quarter general and administrative expenditures, exclusive of foreign exchange losses (Q4 2009: \$0.1 million loss, Q3 2009: \$0.1 million loss), were \$2.1 million, consistent with prior quarter. Exclusive of foreign exchange impacts, there has not been a significant change in the composition or amount of general and administrative expenses when comparing the current and prior quarter.

Q4 2009 compared to Q4 2008

For the fourth quarter of fiscal 2009 general and administrative expenditures, exclusive of foreign exchange gains / losses (Q4 2009: \$0.1 million loss, Q4 2008: \$1.0 million gain), decreased by \$0.2 million to \$2.1 million which represents a 7.1% decrease from the \$2.3 million incurred for the same period last year. Exclusive of foreign exchange impacts, there has not been a significant change in the composition or amount of general and administrative expenses when comparing the current and prior quarter.

2009 compared to 2008

For the year ended November 30, 2009, general and administrative expenditures, exclusive of foreign exchange losses (2009: \$0.3 million loss, 2008: \$0.7 million gain), increased by \$0.1 million to \$8.5 million which represents a 1.2% increase from the \$8.4 million incurred for the same period last year. Changes in the composition of general and administrative costs relate to an increase in compensation costs, resulting from additional team members, increases relate to increased occupancy and software maintenance costs, which were largely offset by a decrease in professional fees and compliance costs.

Amortization of intangible assets

Q4 2009 compared to Q3 2009

During fiscal 2007 the Company completed two acquisitions. As a result of these acquisitions, the Company incurs certain non-cash acquisition related costs in the form of amortization of the acquired intangible assets. During both the third and fourth quarter of fiscal 2009, the Company recorded \$0.4 million of amortization related to these acquired intangible assets. Consistent with the adoption of CICA Handbook section 3064 *Goodwill and Intangible Assets* during the first quarter of 2009 (as described in "Accounting changes and impact of recently issued accounting pronouncements"), also included within current quarter amortization of intangible assets is \$0.2 million of amortization related to computer software assets, compared to \$0.1 million in the third quarter of 2009.

Q4 2009 compared to Q4 2008

During the fourth quarter fiscal 2009, the Company recorded \$0.4 million of amortization related to acquired intangible assets, consistent with the same period last year. During the current quarter, computer software amortization of \$0.2 million was recorded, consistent with the same period last year.

2009 compared to 2008

During the year ended November 30, 2009, the Company recorded \$1.6 million of amortization related to acquired intangible assets, consistent with the same period last year. During the year ended November 30, 2009, computer software amortization of \$0.5 million was recorded, compared to \$0.6 million during the same period last year.

Goodwill impairment

Goodwill represents the excess, at the date of acquisition, of the cost of an acquired business over the fair value of the identifiable assets acquired and liabilities assumed. Goodwill is not amortized but is subject to an annual impairment test, or more frequently if events or circumstances indicate that the fair value of a reporting unit is below its carrying amount. The impairment test requires the identification of reporting units and a comparison of the estimated fair value of each reporting unit to the carrying value recorded on the Company's consolidated financial statements, including goodwill. Based on the Company's review, only one reporting unit has been identified for the purpose of performing the annual impairment test. If the carrying value of the Company exceeds its fair value, the Company performs the second step of the goodwill impairment test to determine the amount of the impairment loss. The second step of the impairment test involves comparing the implied fair value of the Company's goodwill with its carrying amount to measure the amount of impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination.

During the three months ended February 28, 2009, in connection with a sustained, significant decline of the Company's market capitalization, as reflected by its publicly traded share price, at a level lower than the net book value of the Company, the Company concluded that an indicator of impairment was present. As a result, the Company tested goodwill for impairment in the first quarter of 2009. Under step one, the Company's estimate of fair value is principally determined by reference to its publicly traded share price over a reasonable period of time prior to performing the impairment test. Based on the first step of the analysis, the Company determined that the carrying value of the reporting unit was in excess of its fair value. As a result, the Company performed the second step of the goodwill impairment test and determined that the fair value of the Company,

including both recognized and unrecognized intangible assets, did not support the carrying amount of goodwill. Accordingly the Company recorded a non-cash goodwill impairment charge of \$2.4 million during the three months ended February 28, 2009.

Interest and other income

Q4 2009 compared to Q3 2009

For the fourth quarter of 2009, interest and other income was \$0.1 million, consistent with the third quarter of 2009. During the current quarter the annualized yield earned on the Company's investment portfolio was approximately 0.5%, a decrease of 0.2% from the 0.7% yield realized during the third quarter of 2009.

Q4 2009 compared to Q4 2008

For the fourth quarter of 2009, interest and other income decreased by \$0.6 million to \$0.1 million as compared to \$0.7 million for the same period last year. The decrease in investment and other income primarily relates to the decrease in the yields earned on the company's investment portfolio, as well as a reduction in the size of the portfolio during the current quarter as compared to the same period last year. During the current quarter the annualized yield earned on the Company's investment portfolio was approximately 0.5% compared to 3.2% for the same period in 2008.

2009 compared to 2008

For the year ended November 30, 2009, interest and other income decreased by \$2.7 million to \$0.7 million as compared to \$3.4 million for the same period last year. The decrease in investment and other income primarily relates to the decrease in the yields earned on the company's investment portfolio, as well as a reduction in the size of the portfolio during the current fiscal year as compared to the same period last year. During the year ended November 30, 2009, the annualized yield earned on the Company's investment portfolio was approximately 0.9% compared to 3.5% for the same period in 2008.

Stock based compensation

Q4 2009 compared to Q3 2009

For the fourth quarter of 2009, stock based compensation expense was \$2.5 million, compared to \$0.8 million during the third quarter of 2009. The current quarter expense includes \$1.7 million which relates to the surrender of 780,000 options by certain employees during the fourth quarter of 2009. After removing the impacts of the option surrender, the current quarter stock based compensation expense is \$0.8 million, consistent with the prior quarter.

Q4 2009 compared to Q4 2008

For the fourth quarter of 2009, stock based compensation expense increased by \$1.2 million to \$2.5 million as compared to \$1.3 million for the same period last year. The current quarter expense includes \$1.7 million which relates to the surrender of 780,000 options by certain employees during the fourth quarter of 2009. During the fourth quarter of 2008, the Company incurred \$0.5 million of stock based compensation expense associated with previous business acquisitions and related earn-out arrangements. After removing the impacts of the above items, the current quarter stock based compensation expense was \$0.8 million, consistent with the same period last year.

2009 compared to 2008

During fiscal 2009, stock based compensation expense increased by \$0.6 million to \$5.0 million as compared to \$4.4 million for the same period last year. The current fiscal year expense includes \$1.7 million which relates to the surrender of 780,000 options by certain employees. During fiscal 2008, the Company incurred \$1.6 million of stock based compensation expense associated with previous business acquisitions and related earn-out arrangements. After removing the impacts of the above items, the 2009 stock based compensation expense was \$3.3 million, as compared to \$2.8 million during the same period last year. The increase in stock based compensation expense is related to current year option grants.

LIQUIDITY AND CAPITAL

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

	November 30, 2009	November 30, 2008
Key Balance Sheet Amounts and Ratios:	<i>Thousands of dollars, except balance sheet ratios and metrics</i>	
Cash, cash equivalents and marketable securities	85,764	92,548
Working capital	99,777	110,331
Working capital ratio	6.5:1	7.2:1
Days sales outstanding in accounts receivable	90 days	76 days
Pro forma days sales outstanding in accounts receivable	68 days	53 days
Inventory turnover	1.7 times	0.7 times
Pro forma inventory turnover	2.4 times	0.9 times

The Company uses working capital, working capital ratio, days sales outstanding in accounts receivable, pro forma days sales outstanding in accounts receivable, inventory turnover and pro forma inventory turnover as measures to enhance comparisons between periods. These terms do not have a standardized meaning under GAAP and are unlikely to be comparable to similarly titled measures reported by other issuers. The calculation of each of these items is more fully described below.

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

Pro forma days sales outstanding - The Company has calculated pro forma days sales outstanding in the same manner as DSO. However, the beginning and ending accounts receivable balances have been reduced for amounts which are also included in the Company’s deferred revenue balance (November 30, 2009 - \$5.0 million; August 31, 2009 - \$4.4 million; November 30, 2008 - \$6.6 million; August 31, 2008 - \$2.7 million).

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

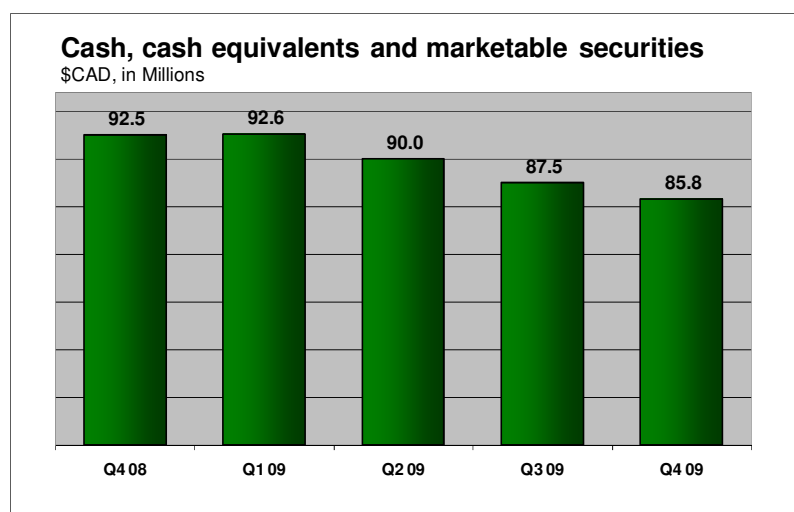
Pro forma inventory turnover - The Company has calculated its pro forma inventory turnover using the annualized most recent three months product cost of sales and the average of the beginning and ending inventory balances excluding demonstration inventory and deferred cost of sales inventory for such three month period (demonstration inventory: November 30, 2009 - \$2.4 million; August 31, 2009 - \$2.3 million; November 30, 2008 - \$3.4 million; August 31, 2008 - \$3.1 million) (deferred cost of sales: November 30, 2009 - \$0.8 million; August 31, 2009 - \$0.5 million; November 30, 2008 - \$1.8 million; August 31, 2008 - \$1.0 million).

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.

The Company's short-term investment portfolio of \$83.4 million at November 30, 2009 included bankers' acceptances (97.6% of portfolio) and guaranteed investment certificates (2.4% of portfolio) with yields ranging from 0.27% to 1.2%.



At November 30, 2009, the Company had \$85.8 million of cash and cash equivalents and marketable securities, a decrease of \$6.7 million from the amount it held at November 30, 2008. The decrease in the Company's cash, cash equivalents and marketable securities is primarily the result of \$5.8 million in capital asset acquisitions during the year.

Working capital

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance decreased to \$99.8 million at November 30, 2009 compared to \$110.3 million at the end of fiscal 2008. This decrease primarily relates to marketable securities being used to fund the acquisition of capital assets and the reduction of the Company's inventory balances. The Company's working capital ratio (which is its current assets divided by its current liabilities) decreased to 6.5:1 compared to 7.2:1 at November 30, 2008.

The Company's DSO's increased to 90 days from the 76 days reported at the end of fiscal 2008. The Company's pro-forma DSO's were 68 days at November 30, 2009 as compared to 53 days at the end of fiscal 2008. Pro forma DSO's at November 30, 2008 were significantly reduced as a result of a larger percentage of revenue being both recognized and collected during fourth quarter of 2008. The Company expects that pro forma DSO's will be in the range of 60 – 75 days.

The Company's inventory turnover for the current quarter was 1.7 times per year, compared to 0.7 times per year for the fourth quarter of 2008. The Company also assesses its inventory turnover on a pro forma basis, which excludes demonstration inventory and deferred cost of sales inventory. The Company's pro forma inventory turnover was 2.4 times per year for the current quarter, as compared to 0.9 times per year for the fourth quarter of 2008. The increase in the Company's inventory turnover and pro forma inventory turnover from 2008 levels relates to lower average inventory and higher product cost of sales during the current quarter. The decline in inventory balances throughout 2009 is a result of management's focus on decreasing general inventory levels along with increased product sales, partially offset by minimal purchases of PTS 24000 inventory. The Company expects that its inventory balance will increase as PTS 24000 inventory ramps to regular production levels. The Company has historically carried relatively high levels of inventory as a result of variability in product mix, the need to secure supply of long lead time parts and a strategic decision to maintain inventory levels that permit the Company to minimize customer delivery times.

Purchase of capital and intangible software assets

Additions to capital and intangible software assets were \$1.4 million during the fourth quarter of fiscal 2009, as compared to \$3.0 million for the same period last year. The current quarter additions mainly relate to continued investment in hardware equipment to support the Company's research and development activities as well as computer software licenses. For the year ended November 30, 2009, capital and intangible software asset additions were \$5.8 million, as compared to \$7.5 million for the same period last year.

During the fourth quarter of fiscal 2009, the Company capitalized \$0.4 million of internally manufactured assets, as compared to \$0.9 million for the same period last year. These additions predominantly relate to continued investment in hardware equipment to support the Company's research and development activities. For the year ended November 30, 2009, capitalized internally manufactured assets totalled \$1.9 million, as compared to \$2.3 million for the same period last year. The Company expects future capitalization of internally manufactured assets to increase over 2009 levels as a result of the introduction of the PTS 24000 platform.

Liquidity and capital resource requirements

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

Contractual obligations

The following table summarizes the Company's contractual commitments as of November 30, 2009 and the effect those commitments are expected to have on liquidity and cash resources.

Contractual Obligations (000's)	Total	Less than 1 year	1 – 3 years	4 – 5 years	Beyond 5 years
Operating leases	1,691	837	854	-	-
Purchase obligations	1,140	1,140	-	-	-
Total	2,831	1,977	854	-	-

The Company is required to pay royalties on its revenue streams relating to the repayment of certain government assistance. A detailed discussion of these royalty obligations is included in Note 17 of the November 30, 2009 consolidated financial statements, a copy of which can be found at www.sedar.com.

FINANCIAL INSTRUMENTS

Management of 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. The Company enters into forward contracts to reduce its exposure to fluctuations in foreign exchange rates. The following table summarizes the Company's commitments to buy and sell foreign currencies under foreign exchange contracts, all of which have a maturity date of less than one year, as at November 30, 2009:

Designation	Currency Sold	Currency Bought	Notional Amount Sold (\$000's)	Weighted Average Rate
Held for trading	USD	CAD	9,580	1.0581
Held for trading; cash flow hedges	CAD	ILS	2,566	3.4175

Management estimates that a loss of \$0.1 million would be realized if these forward contracts were terminated on November 30, 2009. Forward contracts designated as cash flow hedges have unrealized losses of \$0.1 million, which are recorded in accumulated other comprehensive income (loss) ("AOCI"). The net losses included in AOCI will be reclassified to net loss within the next twelve months and are expected to offset the impact of foreign exchange fluctuations on the underlying hedged items. All hedging relationships are formally documented, including the risk management objective and strategy. On a monthly basis, an assessment is made

as to whether the designated derivative financial instruments have been and continue to be effective in offsetting changes in cash flows of the hedged transactions.

The unrealized gain on forward contracts not designated as hedges is not significant, and is included in net loss which offsets losses recorded on the foreign denominated items, namely accounts payable and accounts receivable.

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 November 30, 2009, the Company had a significant concentration of credit risk with three customers representing 41.3% (17.3%, 13.3% and 10.7%) of the Company's accounts receivable (November 30, 2008; four customers representing 88.1% (52.0%, 13.6%, 11.5% and 11.0%)).

OUTSTANDING SHARE DATA

The Company has one class of shares consisting of an unlimited number of common shares. As of January 14, 2010, the Company has issued 135,862,731 common shares, one common share purchase warrant which entitles the holder to acquire 619,280 common shares and 10,383,728 common share options under the Company's stock option plan (as further described in note 13 of its November 30, 2009 consolidated financial statements).

The Company's Board of Directors has approved the repurchase of up to 10,173,673 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 14, 2009. 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 fiscal 2009, no common shares were repurchased under the NCIB.

OFF BALANCE SHEET ARRANGEMENTS

The Company has entered into forward currency contracts (disclosed under "Financial Instruments" above), and letters of credit (disclosed under note 14 of the November 30, 2009 consolidated financial statements) which are considered "off-balance sheet" arrangements as that term is described in National Instrument 51-102F.

DISCLOSURE CONTROLS AND PROCEDURES

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("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. An evaluation of the design of and operating effectiveness of the Company's disclosure controls and procedures was conducted as of November 30, 2009 under the supervision of the CEO and CFO as required by CSA Multilateral Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*. The evaluation included documentation, review, enquiries and other procedures considered appropriate in the circumstances. Based on that evaluation, the CEO and the CFO have concluded that such disclosure controls and procedures are effective.

INTERNAL CONTROLS AND PROCEDURES

CSA Multilateral Instrument 52-109 requires the CEO and CFO to certify that they are responsible for establishing and maintaining internal control over financial reporting for the Company, that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. The CEO and CFO are also responsible for disclosing any changes to the Company's internal controls during the most recent interim period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Management, including the CEO and CFO, does not expect that the Company's disclosure controls or internal controls over financial reporting will prevent or detect all errors and all fraud or will be effective under all future conditions. A control system is subject to inherent limitations and, no matter how well designed and operated, can provide only reasonable, not absolute assurance that the control system objectives will be met.

The CEO and CFO have, using the framework and criteria established in "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission, evaluated the design and operating effectiveness of the Company's internal controls over financial reporting and concluded that, as of November 30, 2009, and subject to the inherent limitations described above, internal controls over financial reporting were effective to provide reasonable assurance over the reliability of financial reporting and preparation of financial statements in accordance with Canadian GAAP.

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 2009 <i>(in thousands of dollars)</i>	Three months ended				Fiscal year ended
	February 28, 2009	May 31, 2009	August 31, 2009	November 30, 2009	November 30, 2009
	\$	\$	\$	\$	\$
Revenue	18,577	15,209	16,030	19,032	68,848
Operating expenses	19,050	17,252	16,176	18,843	71,321
Net loss – total	(4,795)	(5,635)	(4,358)	(4,729)	(19,517)
Basic loss per share	(0.035)	(0.042)	(0.032)	(0.035)	(0.144)
Diluted loss per share	(0.035)	(0.042)	(0.032)	(0.035)	(0.144)
Total assets	144,652	136,517	135,509	136,269	136,269

Fiscal 2008 <i>(in thousands of dollars)</i>	Three months ended				Fiscal year ended
	February 29, 2008	May 31, 2008	August 31, 2008	November 30, 2008	November 30, 2008
	\$	\$	\$	\$	\$
Revenue	8,288	11,087	13,125	18,584	51,084
Operating expenses	14,359	14,170	15,570	17,844	61,943
Net loss – total	(6,977)	(4,631)	(6,256)	(1,771)	(19,635)
Basic loss per share	(0.051)	(0.034)	(0.046)	(0.013)	(0.144)
Diluted loss per share	(0.051)	(0.034)	(0.046)	(0.013)	(0.144)
Total assets	157,022	149,489	145,846	150,052	150,052

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 reseller customers, which may place large single orders in any one quarter, and to the timing of staffing and infrastructure additions to support growth.