



MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated: October 8, 2009

This Management's Discussion and Analysis ("MD&A") for the three months ended August 31, 2009 (third quarter of fiscal 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 interim financial statements and accompanying notes for the third quarter of fiscal 2009, being the period ended August 31, 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 October 8, 2009, 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, 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, recent comments by the Chair of the Federal Communications Commission in the United States (the "FCC") suggest that the FCC intends to consider additional regulation in respect of network management practices of internet service providers. These comments may cause uncertainty in the network investment decisions of the Company's target customers, and any new rules or regulations in this area may impact the demand for the Company's products within the United States, which has historically been the Company's largest market;
- 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 as at, and for the three and nine month periods ended August 31, 2009 and August 31, 2008 has been derived from the unaudited consolidated interim financial statements and accompanying notes for the three and nine months ended August 31, 2009 as well as the November 30, 2008 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 nine month periods ended August 31, 2009 and August 31, 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		Nine month period ended	
	August 31, 2009	August 31, 2008	August 31, 2009	August 31, 2008
	\$	\$	\$	\$
<i>Amounts in thousands, except share and per share data</i>				
Consolidated Statement of Operations Data:				
Revenue				
Product	11,995	10,263	37,045	22,977
Service	4,035	2,862	12,771	9,523
	<u>16,030</u>	<u>13,125</u>	<u>49,816</u>	<u>32,500</u>
Cost of Sales				
Product	3,452	2,682	10,211	6,221
Service	872	629	2,343	1,667
	<u>4,324</u>	<u>3,311</u>	<u>12,554</u>	<u>7,888</u>
Gross margin	<u>11,706</u>	<u>9,814</u>	<u>37,262</u>	<u>24,612</u>
Expenses				
Sales and marketing	4,682	4,408	15,313	12,580
Research and development	6,689	6,115	21,516	18,356
Net government (assistance) repayments	7	168	(832)	(214)
General and administration	2,228	1,886	6,578	6,386
Stock based compensation	823	1,538	2,463	3,036
Amortization of intangible assets	537	537	1,570	1,592
Depreciation	1,210	918	3,445	2,363
Goodwill impairment	-	-	2,425	-
	<u>16,176</u>	<u>15,570</u>	<u>52,478</u>	<u>44,099</u>
Loss from operations	(4,470)	(5,756)	(15,216)	(19,487)
Interest and other income	114	706	580	2,686
Loss before income taxes	(4,356)	(5,050)	(14,636)	(16,801)
Provision for income taxes	2	1,206	152	1,063
Net loss for the period	<u>(4,358)</u>	<u>(6,256)</u>	<u>(14,788)</u>	<u>(17,864)</u>
Basic and diluted loss per share	(0.032)	(0.046)	(0.109)	(0.131)
Basic and diluted weighted average common shares outstanding	135,653,593	136,191,095	135,597,816	136,654,074

	As at August 31, 2009	As at November 30, 2008
Consolidated Balance Sheet Data:		
Cash and cash equivalents	2,668	3,872
Marketable securities	84,790	88,676
Total assets	135,509	150,052
Total liabilities	16,118	18,274
Shareholders' equity	119,391	131,778

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		Nine month period ended	
	August 31, 2009 \$	August 31, 2008 \$	August 31, 2009 \$	August 31, 2008 \$
	<i>Amounts in thousands</i>			
Net loss	(4,358)	(6,256)	(14,788)	(17,864)
Excluded Expenses				
Stock based compensation expense	823	1,538	2,463	3,036
Amortization of intangible assets acquired through business acquisitions	400	400	1,200	1,200
Goodwill impairment	-	-	2,425	-
Net loss excluding the impact of Excluded Expenses	(3,135)	(4,318)	(8,700)	(13,628)

	Three month period ended		Nine month period ended	
	August 31, 2009 \$	August 31, 2008 \$	August 31, 2009 \$	August 31, 2008 \$
Basic and diluted loss per share	(0.032)	(0.046)	(0.109)	(0.131)
Impact on basic and diluted loss per share of Excluded Expenses	0.009	0.014	0.045	0.031
Basic and diluted loss per share excluding the impact of Excluded Expenses	(0.023)	(0.032)	(0.064)	(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 help identify network traffic and trends and apply network policies, with the aim of enhancing the subscriber’s quality of experience and improving the profitability of service providers.

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 August 2009, Sandvine had over 170 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

Sandvine expects that its investment in research and development and sales and marketing during fiscal 2009 will be above annual expenditure levels incurred in fiscal 2008. Increased expenditures in research and development will support further product development to continue to broaden and expand the Company's suite of products. In addition, increased sales and marketing investments will be made 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 focus on the cable market and penetrating emerging access technology markets such as FTTx.

In addition, the Company anticipates that throughout fiscal 2009 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%. Given the Company's growth strategy outlined above, the uncertain macro-economic environment and the Company's belief that it is at the forefront of an emerging market, the Company does not expect to achieve the targeted operating margin in 2009. 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 POLICIES AND ESTIMATES

The preparation of the consolidated interim 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.

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 that would materially impact the Company's financial condition or results of operation. The Company's significant accounting policies are discussed in note 2 to the November 30, 2008 audited consolidated financial statements. There have been no material changes to the Company's critical accounting policies and estimates from those disclosed in the Company's annual MD&A for the fiscal year ended November 30, 2008. Both the audited consolidated financial statements and annual MD&A for the year ended November 30, 2008 are available at www.sedar.com.

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 three and nine month periods ended August 31, 2008 was \$0.1 million and \$0.4 million respectively. As of August 31, 2009, computer software of \$1.1 million is included within intangible assets. For the three and nine month periods ended August 31, 2009, amortization expense of \$0.1 million and \$0.4 million respectively has been recorded relating to computer software.

Hedging

CICA Handbook Section 3865, Hedges specifies the criteria that must be met in order for hedge accounting to be applied and the accounting for each of the permitted hedging strategies. Designation as a hedge is only allowed if, both at the inception of the hedge and throughout the hedge period, the changes in the fair value of the derivative financial instruments are expected to substantially offset the changes in the fair value of the hedged item attributable to the underlying risk exposure.

During the first quarter of fiscal 2009, the Company elected to apply hedge accounting for certain forward foreign exchange contracts used to manage foreign currency exposure on anticipated operational expenditures and has designated these as cash flow hedges.

For cash flow hedges which meet the criteria for hedge accounting, the effective portion of the change in fair value of the derivative are initially recorded in other comprehensive income and are reclassified to the consolidated statements of operations in the same period that the hedged anticipated transaction affects earnings. Any ineffective portion of the gain or loss on the derivative is recognized in income immediately. Hedge accounting is discontinued prospectively when it is determined that the hedging relationship is no longer effective, the derivative is terminated or sold, or the Company terminates its designation of the hedging relationship.

The Company formally documents all relationships between the hedging instruments and hedged items. This process includes linking all derivatives to forecasted foreign currency cash flows or to a specific asset or liability. The Company also formally documents and assesses, both at the hedge's inception and on an ongoing basis, whether the derivative financial instruments that are used in the hedging transactions are highly effective in offsetting the changes in the fair value or cash flows of the hedged items.

The fair value of these derivatives is included in "Other" when in an asset position and in "Accounts payable and accrued liabilities" when in a liability position. Gains or losses arising from hedging activities are reported in the same caption on the consolidated statements of operations as the hedged item.

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.

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 operational impacts into the Company’s underlying information systems and business processes.

During the first quarter of 2009, the Company completed phase one of the project. Phase two of the project is underway, 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. The Company anticipates the completion of phase two of the project during fiscal 2010.

As the Company is currently in the early stages of phase two of the project, the Company does not have sufficient information at this time to provide meaningful commentary on the anticipated impacts of transitioning 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, 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.

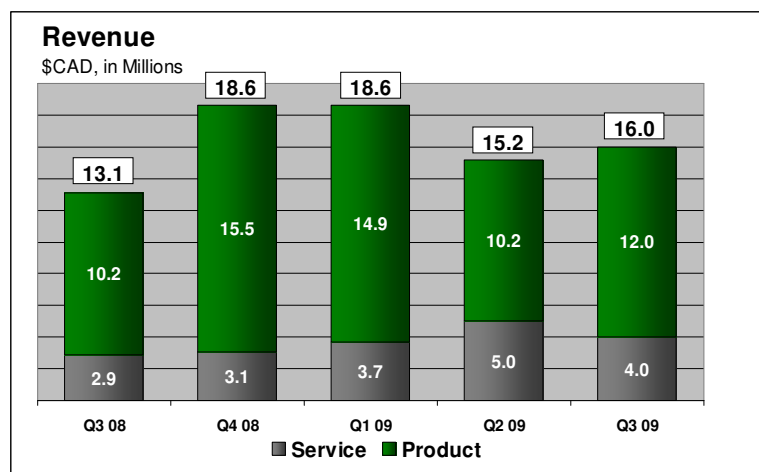
CURRENT PERIOD OPERATING RESULTS

Overview

The Company's total revenues for current quarter were \$16.0 million, an increase of \$0.8 million as compared to \$15.2 million recognized during the second quarter of 2009. The increase in current quarter revenue is primarily attributable to record quarterly revenues from the Asia Pacific ("APAC") region as well as the wireless access technology market, which was somewhat offset by lower revenues from the Europe, Middle East and Africa ("EMEA") region as well as the cable access technology market.

Current quarter revenues related to the APAC region increased by approximately \$2.4 million to \$3.1 million, as compared to \$0.7 million in the prior quarter, while current quarter revenues related to the EMEA region decreased by approximately \$2.6 million to \$3.2 million, as compared to \$5.8 million during the second quarter of 2009. Current quarter revenues related to the wireless access technology market increased by approximately \$1.3 million to \$6.7 million, as compared to \$5.4 million in the prior quarter, while current quarter revenues related to the cable access technology market (which is primarily generated within the United States) decreased by approximately \$0.8 million to \$3.8 million, as compared to \$4.6 million during the second quarter of 2009. While the Company has experienced a decline in revenues from the cable access technology market, 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 significant customer purchase decisions.

During the third quarter, the Company received initial purchase orders from 11 new customers and recognized revenue from ten new customers including two cable, three DSL and five wireless.



The Company's GAAP operating loss for the current quarter was \$4.4 million, as compared to a GAAP operating loss of \$5.6 million in the second quarter of 2009. The Company's non-GAAP operating loss for the current quarter was \$3.1 million, as compared to a non-GAAP operating loss of \$4.4 million in the second 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 \$0.2 million to \$11.7 million in the current quarter as compared to \$11.5 million in the second quarter of 2009. The increase in gross margin dollars was due to an increase in revenues of \$0.8 million, which was somewhat offset by lower blended gross margins at 73.0%, compared to 75.7% in the second quarter of 2009. The decrease in blended gross margin compared to the previous quarter was primarily the result of lower service gross margins. Lower service gross margins were attributable to a decline in support and maintenance revenues compared to the previous quarter. Support and maintenance revenues for the second quarter of 2009 were positively impacted by \$0.7 million related to the timing of customer renewals.

Operating expenses (exclusive of “Excluded Expenses”) decreased by \$1.1 million, as compared to the second quarter of 2009. Significant elements of this decrease relate to a reduction in sales and marketing costs (\$0.7 million) relating primarily to a reduction in compensation costs, and a reduction in research and development costs (\$0.6 million) relating to decreases in prototype expenses and compensation costs. These decreases in expenses were somewhat offset by a reduction in government assistance received (\$0.4 million).

The Company continues to closely monitor whether the current macro-economic environment is causing a reduction or delay in demand for the Company’s products in future periods. In addition, recent comments by the Chair of the Federal Communications Commission in the United States (the “FCC”) suggest that the FCC intends to consider additional regulation in respect of network management practices of internet service providers. These comments by the FCC could have an impact on the buying patterns of the Company’s target customers in the United States if those customers choose to delay purchase decisions until there is greater clarity with respect to any new regulations or guidelines. While the Company does not believe those comments have had any impact on the results in the current quarter, the Company is continuing to monitor this situation very closely to assess the potential impact (if any) on future periods.

Revenue

	Three month period ended			Nine month period ended	
	August 31, 2009 \$	May 31, 2009 \$	August 31, 2008 \$	August 31, 2009 \$	August 31, 2008 \$
	<i>Amounts in thousands</i>				
Product	11,995	10,186	10,263	37,045	22,977
Service	4,035	5,023	2,862	12,771	9,523
Total	16,030	15,209	13,125	49,816	32,500

Q3 2009 compared to Q2 2009

The Company’s total revenues for current quarter were \$16.0 million, an increase of \$0.8 million as compared to \$15.2 million recognized during the second quarter of 2009. The increase in current quarter revenue is primarily attributable to record quarterly revenues from the APAC region as well as the wireless access technology market, which was somewhat offset by lower revenues from the EMEA region as well as the cable access technology market.

Current quarter revenues related to the APAC region increased by approximately \$2.4 million to \$3.1 million, as compared to \$0.7 million in the prior quarter, while current quarter revenues related to the EMEA region decreased by approximately \$2.6 million to \$3.2 million, as compared to \$5.8 million during the second quarter of 2009. Current quarter revenues related to the wireless access technology market increased by approximately \$1.3 million to \$6.7 million, as compared to \$5.4 million in the prior quarter, while current quarter revenues related to the cable access technology market (which is primarily generated within the United States) decreased by approximately \$0.8 million to \$3.8 million, as compared to \$4.6 million during the second quarter of 2009. While the Company has experienced a decline in revenues from the cable access technology market, 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 significant customer purchase decisions.

An element of the Company's growth strategy has, 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 in terms of geographic region and access technology market. Revenues generated from sales regions outside of North America comprised 44.8% of total revenues in the current quarter, as compared to 47.6% in the second quarter of 2009, and non-cable access technology markets accounted for 76.0% of total revenues in the current quarter as compared to 69.9% in the second quarter of 2009.

The Company continues to generate a significant portion of its revenues from its reseller partners. During the third quarter of 2009, the Company realized 26.8% or \$4.3 million of its revenue through its indirect channel, compared to 42.6% or \$6.5 million during the second quarter of 2009. Revenue generated through reseller partners is subject to period to period fluctuation as a result of the variability associated with significant customer purchase decisions.

Service revenue decreased by \$1.0 million to \$4.0 million, as compared to \$5.0 million recognized during the second quarter of 2009. The quarter to quarter decrease in service revenue relates primarily to a decrease in support and maintenance revenue, which was influenced positively in the second quarter by the timing of customer renewals. Support and maintenance revenue recognized during the current quarter was \$3.3 million, as compared to \$4.2 million in the second quarter of 2009. Support and maintenance revenue was positively impacted by \$0.7 million in the second quarter of 2009 due to the timing of customer renewals. Exclusive of the \$0.7 million, prior quarter support and maintenance revenue was \$3.5 million, relatively consistent with the \$3.3 million reported in the current quarter.

Q3 2009 compared to Q3 2008

The Company's total revenues have increased for the third quarter of 2009 as compared to the same period in 2008, due largely to growth in sales to the wireless access technology market, which were partially offset by decreases in revenues from the cables access technology market.

In the third quarter of 2009, the Company experienced an absolute dollar increase in revenue from the wireless/mobile market of \$5.8 million. Revenues generated from the cable market decreased from 53.1% of revenues (\$7.0 million) in the third quarter of 2008 to 24.0% (\$3.8 million) in the current quarter.

The increase in service revenue during the current quarter as compared to the same period last year relates to an increase in support and maintenance revenue, which is generally consistent with the growth in the Company's cumulative product revenue since inception. Service revenue recognized in a particular quarter can also be influenced by one time charges for installation, training or other services. These one time items accounted for \$0.5 million of the increase in service revenue over the same period last year.

2009 YTD compared to 2008 YTD

The Company's total revenues for the nine months ended August 31, 2009 have increased by \$17.3 million to \$49.8 million, as compared to \$32.5 million recognized during the same period last year. This increase is primarily the result of the continuing diversification of the Company's revenues both in terms of geographic region and access technology market. Revenues generated from sales regions outside of North America increased by \$11.5 million for the nine months ended August 31, 2009 as compared to the same period last year. Revenues generated from non-cable access technology markets increased by \$14.8 million for the nine months ended August 31, 2009 as compared to the same period last year.

Revenue by access technology

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

	Three month period ended			Nine month period ended	
	August 31, 2009 %	May 31, 2009 %	August 31, 2008 %	August 31, 2009 %	August 31, 2008 %
Cable	24.0	30.1	53.1	39.2	52.4
DSL	32.8	34.3	40.3	30.0	35.6
Fixed Wireless/Mobile/FTTx	41.6	35.4	6.4	30.0	10.1
Other*	1.6	0.2	0.2	0.8	1.9
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			Nine month period ended	
	August 31, 2009 %	May 31, 2009 %	August 31, 2008 %	August 31, 2009 %	August 31, 2008 %
Direct	73.2	57.4	73.6	65.6	80.6
Indirect	26.8	42.6	26.4	34.4	19.4
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. Each of those regions including the proportion of total revenue attributable to it is outlined in the following table. In situations where a reseller 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 month period ended			Nine month period ended	
	August 31, 2009 %	May 31, 2009 %	August 31, 2008 %	August 31, 2009 %	August 31, 2008 %
North America	55.2	52.4	46.9	54.9	66.0
Caribbean and Latin America	5.0	5.0	11.1	6.9	4.9
Europe, Middle East and Africa	20.2	38.3	37.6	26.2	25.3
Asia Pacific	19.6	4.3	4.4	12.0	3.8
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 45.0% of total revenue compared to 47.1% during the second quarter of 2009, and 50.5% for the third quarter of 2008. The following chart outlines the revenue generated from Major Customers during the third quarter of 2009, and their respective percentages from the prior quarter, the third quarter of 2008 and year to date for fiscal years 2009 and 2008.

	Three month period ended			Nine month period ended	
	August 31, 2009 %	May 31, 2009 %	August 31, 2008 %	August 31, 2009 %	August 31, 2008 %
Customer A *	21.3	0.0	0.0	6.8	0.0
Customer B *	12.2	2.4	3.5	7.5	2.2
Customer C *	11.5	10.8	11.1	13.4	4.7
Total	45.0	13.2	14.6	27.7	6.9

* 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.

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 B and Customer C are global resellers, who each resold the Company’s solutions to multiple end customers during the third quarter of 2009. Customer C has been a Major Customer for five consecutive quarters. The Company believes that a significant portion of the revenue generated through Customer C 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.

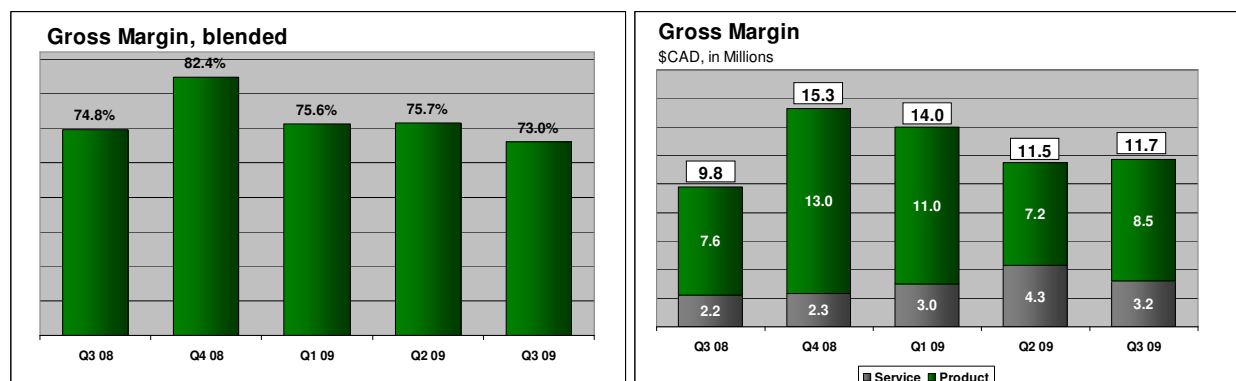
The breakdown of deferred revenue is as follows:

	August 31, 2009 \$	May 31, 2009 \$	November 30, 2008 \$
	<i>In thousands of dollars</i>		
Deferred revenue:			
Service	6,411	6,755	3,307
Product	1,867	1,007	5,830
Total	8,278	7,762	9,137
Reported as:			
Current	7,755	7,366	8,951
Non-current	523	396	186
Total	8,278	7,762	9,137

Fluctuations in deferred service revenue are primarily related to the timing of significant support and maintenance renewals. Product deferred revenue increased from May 31, 2009 levels, primarily due to several arrangements containing elements that remained undelivered as of August 31, 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			Nine month period ended	
	August 31, 2009 %	May 31, 2009 %	August 31, 2008 %	August 31, 2009 %	August 31, 2008 %
Product	71.2	70.8	73.9	72.4	72.9
Service	78.4	85.8	78.0	81.7	82.5
Blended	73.0	75.7	74.8	74.8	75.7

Q3 2009 compared to Q2 2009

Blended gross margins decreased to 73.0% as compared to 75.7% in the second quarter of 2009. This was the result of lower service gross margins being somewhat offset by higher product gross margins. Product gross margins were 71.2% in the current quarter, compared to 70.8% for the second quarter of 2009. Product gross margins realized in the current quarter were higher than the second quarter of 2009 due to a more favourable product mix which included stand alone software sales. Service margins

decreased by 7.4% to 78.4% in the current quarter, from 85.8% during the second quarter of 2009. This was primarily the result of a quarter on quarter decrease in support and maintenance revenues related to the timing of customer renewals. During the second quarter of 2009, support and maintenance revenue was positively impacted by \$0.7 million due to the timing of customer renewals.

Q3 2009 compared to Q3 2008

Product gross margins realized in the current quarter were 2.7% lower than for the same period in 2008, primarily due the Company's current period inventory provision, which was partially offset by a favourable product mix which included more stand alone software sales. Service gross margins remained relatively stable at 78.4% in the current quarter, compared to 78.0% in the third quarter of 2008.

2009 YTD compared to 2008 YTD

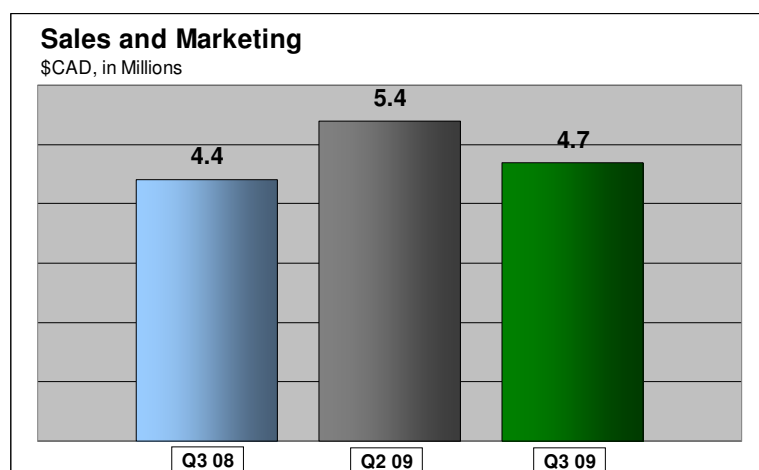
The Company's blended gross margin for the nine month period ended August 31, 2009 decreased by 0.9% when compared to the same period last year. The decrease is primarily attributable to increased inventory provisions which reduced product gross margins, as well as increased compensation costs associated with the provision of support and maintenance services, which reduced service gross margins.

Operating expenses

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

	Three month period ended			Nine month period ended	
	August 31, 2009	May 31, 2009	August 31, 2008	August 31, 2009	August 31, 2008
	\$	\$	\$	\$	\$
	<i>Amounts in thousands</i>				
Revenue	16,030	15,209	13,125	49,816	32,500
Sales and marketing	4,682	5,380	4,408	15,313	12,580
<i>% of revenue</i>	29.3%	35.4%	33.6%	30.7%	38.7%
Research and development	6,689	7,309	6,115	21,516	18,356
<i>% of revenue</i>	41.8%	48.0%	46.6%	43.2%	56.5%
Net government assistance	7	(419)	168	(832)	(214)
<i>% of revenue</i>	0.0%	(2.8%)	1.3%	(1.7%)	(0.7%)
General and administration	2,228	2,438	1,886	6,578	6,386
<i>% of revenue</i>	13.9%	16.1%	14.4%	13.2%	19.6%
Stock based compensation	823	824	1,538	2,463	3,036
<i>% of revenue</i>	5.1%	5.4%	11.7%	4.9%	9.3%
Amortization of intangible assets	537	535	537	1,570	1,592
<i>% of revenue</i>	3.3%	3.5%	4.0%	3.2%	4.9%
Depreciation	1,210	1,185	918	3,445	2,363
<i>% of revenue</i>	7.5%	7.8%	7.0%	6.9%	7.3%
Goodwill impairment	-	-	-	2,425	-
<i>% of revenue</i>	-	-	-	4.9%	-
Total operating expenses	16,176	17,252	15,570	52,478	44,099
<i>% of revenue</i>	100.9%	113.4%	118.6%	105.3%	135.7%

Sales and marketing expenses



Q3 2009 compared to Q2 2009

For the third quarter of 2009, sales and marketing expenditures decreased by \$0.7 million to \$4.7 million, which represents a 13.0% decrease from the \$5.4 million incurred during the second quarter of 2009. The reduction in expenses relates to the timing of certain compensation and recruiting costs which took place in the second quarter of 2009.

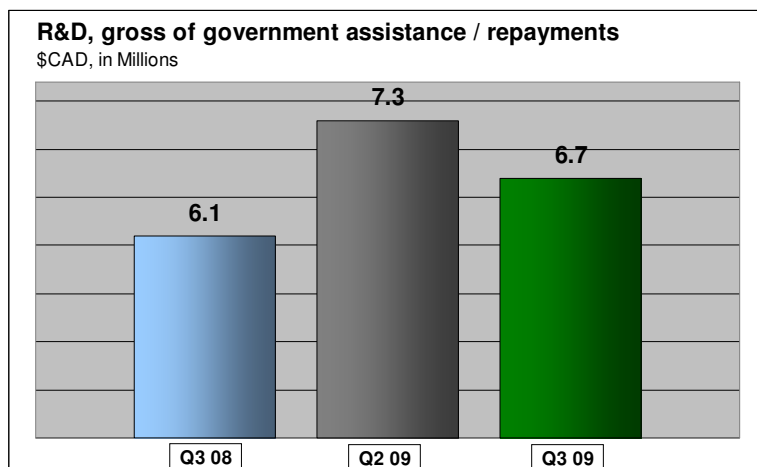
Q3 2009 compared to Q3 2008

For the third quarter of 2009, sales and marketing expenditures increased by \$0.3 million to \$4.7 million, which represents a 6.2% increase from the \$4.4 million incurred for the same period last year. Major factors contributing to the increase include higher variable compensation costs, consistent with increased revenue and higher costs associated with customer trials.

2009 YTD compared to 2008 YTD

For the nine month period ended August 31, 2009, sales and marketing expenditures increased by \$2.7 million to \$15.3 million, which represents a 21.7% increase from the \$12.6 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 cost related to additional staff being added to the sales and marketing team.

Research and development expenses



Q3 2009 compared to Q2 2009

Exclusive of government assistance and repayments, research and development expenses decreased by \$0.6 million to \$6.7 million, which represents an 8.5% decrease from the \$7.3 million incurred during the second quarter of 2009. The decrease in research and development costs during the third quarter of 2009 as compared to the prior quarter primarily relates to decreases in prototype expenses and compensation costs.

Q3 2009 compared to Q3 2008

Exclusive of government assistance and repayments, research and development expenses for the third quarter of 2009 increased by \$0.6 million to \$6.7 million, which represents a 9.4% increase from the \$6.1 million incurred for the same period last year. The increase is mainly related to additional staffing costs associated with having additional team members, which was somewhat offset by a decrease in off-shore development costs.

2009 YTD compared to 2008 YTD

Exclusive of government assistance and repayments, research and development expenses for the nine month period ended August 31, 2009 increased by \$3.1 million to \$21.5 million, which represents a 17.2% increase from the \$18.4 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 PTS 24000, introduced in September 2009.

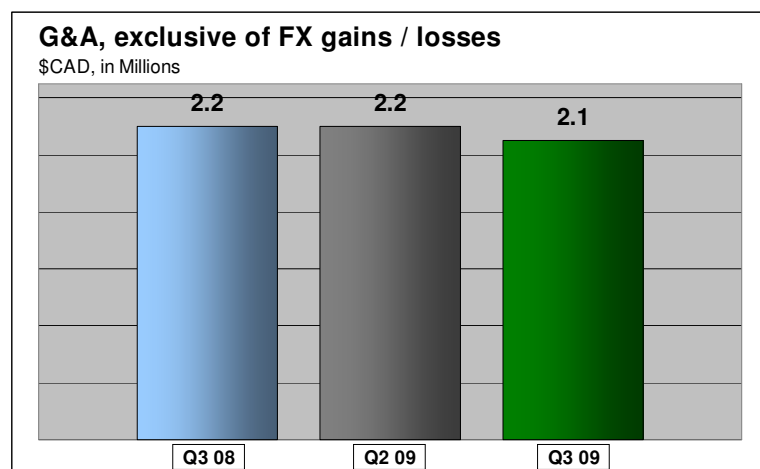
Government assistance and repayments

Research and development expenses are presented on the Company's consolidated interim 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			Nine month period ended	
	August 31, 2009 \$	May 31, 2009 \$	August 31, 2008 \$	August 31, 2009 \$	August 31, 2008 \$
	<i>Amounts in thousands</i>				
Assistance					
Repayable	-	-	-	(885)	(401)
Non-repayable	(394)	(799)	(160)	(1,193)	(625)
	(394)	(799)		(2,078)	(1,026)
Repayments	401	380	328	1,246	812
Net government (assistance) repayments	7	(419)	168	(832)	(214)

As of August 31, 2009, the Company has recorded the benefit of all government assistance for which it is currently approved.

General and administrative



Q3 2009 compared to Q2 2009

For the current quarter general and administrative expenditures, exclusive of foreign exchange losses (Q3 2009: \$0.1 million loss, Q2 2009: \$0.2 million loss), decreased by \$0.1 million to \$2.1 million which represents a 5.8% decrease from the \$2.2 million incurred during the second quarter of 2009. 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.

Q3 2009 compared to Q3 2008

For the third quarter of fiscal 2009 general and administrative expenditures, exclusive of foreign exchange gains / losses (Q3 2009: \$0.1 million loss, Q3 2008: \$0.3 million gain), decreased by \$0.1 million to \$2.1 million which represents a 2.7% decrease from the \$2.2 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 YTD compared to 2008 YTD

For the nine months ended August 31, 2009, general and administrative expenditures, exclusive of foreign exchange losses (Q3 2009 YTD: \$0.2 million loss, Q3 2008 YTD: \$0.3 million loss), increased by \$0.3 million to \$6.4 million which represents an 4.3% increase from the \$6.1 million incurred for the same period last year. The increase relates to an increase in compensation costs, resulting from additional team members, compared to the comparative period in 2008. Additional cost increases relate to increased occupancy and software maintenance costs, which were somewhat offset by a decrease in professional fees and compliance costs.

Amortization of intangible assets

Q3 2009 compared to Q2 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 second and third 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 \$0.1 million of amortization related to computer software assets, consistent with the second quarter of 2009.

Q3 2009 compared to Q3 2008

During the third 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 \$0.1 million was recorded, consistent with the same period last year.

2009 YTD compared to 2008 YTD

During the nine months ended August 31, 2009, the Company recorded \$1.2 million of amortization related to acquired intangible assets, consistent with the same period last year. During the nine months ended August 31, 2009, computer software amortization of \$0.4 million was recorded, consistent with 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

Q3 2009 compared to Q2 2009

For the third quarter of 2009, interest and other income was \$0.1 million, consistent with the second quarter of 2009. During the current quarter the annualized yield earned on the Company's investment portfolio was approximately 0.7%, consistent with the second quarter of 2009.

Q3 2009 compared to Q3 2008

For the third 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 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 0.7% compared to 3.1% for the same period in 2008.

2009 YTD compared to 2008 YTD

For the nine month period ended August 31, 2009, interest and other income decreased by \$2.1 million to \$0.6 million as compared to \$2.7 million for the same period last year. The decrease in investment and other income 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 nine month period ended August 31, 2009, the annualized yield earned on the Company's investment portfolio was approximately 1.0% compared to 3.6% for the same period in 2008.

Future income tax expense

Q3 2009 compared to Q3 2008

During the third quarter of fiscal 2008, the Company determined that it was no longer able to conclude, based on the assessment of available negative and positive evidence, that it was more likely than not that its future tax assets associated with unused loss carry forwards and temporary differences would be realized. As a result, a full valuation allowance was provided against its future tax assets resulting in the recognition of a non-cash future income tax expense of \$1.1 million. During the current quarter, the Company recorded a future income tax recovery of \$25.

LIQUIDITY AND CAPITAL

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

	August 31, 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	87,458	92,548
Working capital	101,424	110,331
Working capital ratio	7.6:1	7.2:1
Days sales outstanding in accounts receivable	81 days	76 days
Pro forma days sales outstanding in accounts receivable	59 days	53 days
Inventory turnover	1.2 times	0.7 times
Pro forma inventory turnover	1.7 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 (August 31, 2009; \$4.4 million, May 31, 2009; \$3.2 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.

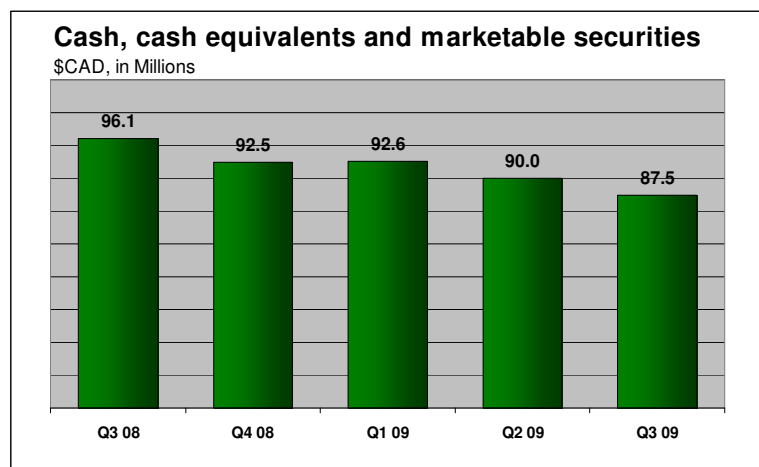
In periods of low sales the annualized revenues and cost of sales used in these measures will illustrate decreased inventory turns and higher DSO’s.

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 \$84.8 million at August 31, 2009 included bankers' acceptances (95.9% of portfolio) and guaranteed investment certificates (4.1% of portfolio) with yields ranging from 0.37% to 1.2%.



At August 31, 2009, the Company had \$87.5 million of cash and cash equivalents and marketable securities, a decrease of \$5.0 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 \$4.4 million in capital asset acquisitions during the nine month period.

Working capital

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance decreased to \$101.4 million at August 31, 2009 compared to \$110.3 million at the end of fiscal 2008. This decrease primarily relates to the acquisition of capital assets and to fund the operating activities of the business. The Company's working capital ratio (which is its current assets divided by its current liabilities) increased to 7.6:1 compared to 7.2:1 at November 30, 2008.

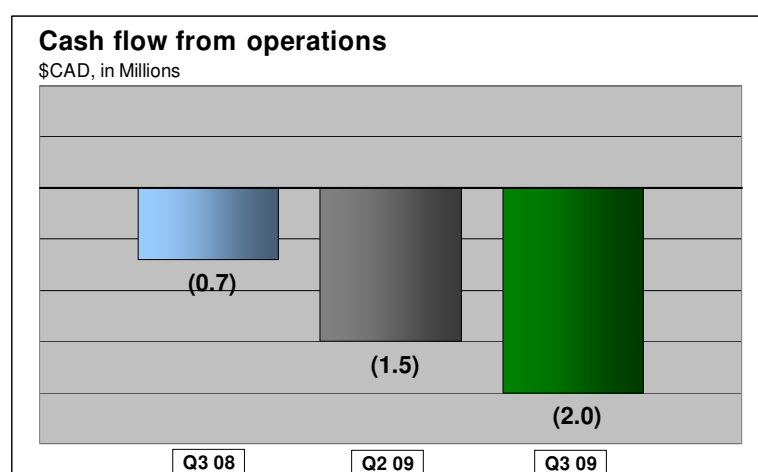
The Company's DSO's increased to 81 days from the 76 days reported at the end of fiscal 2008. The Company's pro-forma DSO's were 59 days at August 31, 2009 which are relatively consistent with year end levels. As the proportion of revenue generated from markets outside of North America and through the Company's indirect sales channel increases it is expected that pro forma DSO's will be in the range of 60 – 75 days.

The Company's inventory turnover for the current quarter was 1.2 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 (Q3 2009 \$2.3 million; Q2 2009 \$2.9 million) and deferred cost of sales inventory (Q3 2009: \$0.5 million; Q2 2009: \$0.3 million). The Company's pro forma inventory turnover was 1.7 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 the year end level relates to lower average inventory during the current quarter. The Company has historically carried relatively high levels of inventory as a result of product mix, securing supply of long lead time parts and a strategic decision to maintain inventory that permits the Company to minimize customer delivery times.

Cash flow

	Three month period ended			Nine month period ended	
	August 31, 2009 \$	May 31, 2009 \$	August 31, 2008 \$	August 31, 2009 \$	August 31, 2008 \$
	<i>Amounts in thousands</i>				
Cash inflows and (outflows) by activity:					
Operating activities	(2,029)	(1,469)	(658)	(656)	(10,808)
Investing activities	(1,661)	(1,735)	2,860	(612)	13,227
Financing activities	44	20	(1,003)	64	(1,581)
Net increase (decrease) in cash	(3,646)	(3,184)	1,199	(1,204)	838

Cash provided by operating activities



Q3 2009 compared to Q2 2009

During the current quarter the Company used \$2.0 million of cash from operating activities as compared to \$1.5 million used in the second quarter of 2009. During the current quarter, the Company had a net loss, excluding items not affecting cash, of \$1.6 million, and used \$0.5 million of cash through changes in working capital balances (primarily the collection of accounts receivable, and payment of accounts payable). During the second quarter of 2009, the Company incurred a net loss, excluding items not affecting cash of \$3.2 million, which was partially offset by the generation of \$1.6 million in cash from changes in working capital balances.

Q3 2009 compared to Q3 2008

During the current quarter the Company used \$2.0 million of cash from operating activities as compared to a use of \$0.7 million for the third quarter of 2008. During the current quarter, the Company had a net loss, excluding items not affecting cash, of \$1.6 million, and used \$0.5 million of cash through changes in working capital balances (primarily the collection of accounts receivable, and payment of accounts payable). During the third quarter of 2008, the Company incurred a net loss, excluding items not affecting cash of \$2.2 million, which was partially offset by the generation of \$1.6 million in cash from changes in working capital balances.

Purchase of capital and intangible software assets

Additions to capital and intangible software assets were \$0.6 million during the third quarter of fiscal 2009, as compared to \$2.0 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 and continued investment in IT infrastructure. For the nine month period ended August 31, 2009, capital and intangible software asset additions were \$4.4 million, as compared to \$4.5 million for the same period last year.

During the third quarter of fiscal 2009, the Company capitalized \$0.1 million of internally manufactured assets, as compared to \$0.6 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. The Company expects future capitalization of internally manufactured assets to increase as a result of the introduction of the PTS 24000 platform. For the nine month period ended August 31, 2009, capitalized internally manufactured assets totalled \$1.5 million, as compared to \$1.3 million for the same period last year.

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.

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 August 31, 2009:

Designation	Currency Sold	Currency Bought	Notional Amount Sold (\$000's)	Weighted Average Rate
Held for trading	USD	CAD	9,600	1.0954
Held for trading; cash flow hedges	CAD	ILS	2,632	3.3745

Management estimates that there would be an impact of \$nil realized if these forward contracts were terminated on August 31, 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 income (loss) within the next twelve months and are expected to offset the impact of foreign exchange fluctuations on the underlying hedged items. An unrealized gain of \$0.1 million on forward contracts not designated as hedges is included in net income (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 August 31, 2009, the Company had a significant concentration of credit risk with two customers representing 44.0% (23.8% and 20.2%) 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 October 8, 2009, the Company has issued 135,763,468 common shares, one common share purchase warrant which entitles the holder to acquire 619,280 common shares and 11,302,829 common share options under the Company's stock option plan (as further described in note 4 of its August 31, 2009 consolidated interim 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 the current quarter, 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) 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.

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 Company's management, under the supervision of the CEO and CFO have evaluated whether there were changes to the Company's internal control over financial reporting during the interim period ended August 31, 2009 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.

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.

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			Year to date
	February 28, 2009 \$	May 31, 2009 \$	August 31, 2009 \$	August 31, 2009 \$
Revenue	18,577	15,209	16,030	49,816
Operating expenses	19,050	17,252	16,176	52,478
Net loss – total	(4,795)	(5,635)	(4,358)	(14,788)
Basic loss per share	(0.035)	(0.042)	(0.032)	(0.109)
Diluted loss per share	(0.035)	(0.042)	(0.032)	(0.109)
Total assets	144,652	136,517	135,509	135,509

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

Fiscal 2007 <i>(in thousands of dollars)</i>	Three months ended				Fiscal year ended
	February 28, 2007 \$	May 31, 2007 \$	August 31, 2007 \$	November 30, 2007 \$	November 30, 2007 \$
Revenue	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 per share	0.048	0.084	0.021	0.001	0.148
Diluted earnings per share	0.045	0.079	0.020	0.000	0.139
Total assets	100,766	102,811	163,704	159,465	159,465

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.