sandvine™

MANAGEMENT'S DISCUSSION AND ANALYSIS
Dated: July 15, 2017

This Management's Discussion and Analysis ("MD&A") for the three months ended May 31, 2017 (second quarter of fiscal 2017) 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 unaudited interim condensed consolidated interim financial statements and accompanying notes for the second quarter of fiscal 2017. The financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") and are reported in United States dollars. The information contained herein is dated as of July 15, 2017, 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, 2017, is referred to as the "current fiscal year," "fiscal 2017", "2017", "FY-17" or using similar words. The previous fiscal year, which ended on November 30, 2016, is referred to as "previous fiscal year," "fiscal 2016," "2016", "FY-16" 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, constitute “forward-looking information” and "forward looking statements" (collectively, "forward looking statements") within the meaning of applicable Canadian securities laws and are based on assumptions, expectations, estimates and projections as of the date of this MD&A. Forward-looking statements include, without limitation, statements with respect to projected revenues, earnings, growth rates, targets, revenue mix and product plans and the Company’s future growth, results of operations, performance and business prospects and opportunities. The words “plans”, “expects”, “projected”, “estimated”, “forecasts”, “anticipates”, “intend”, “guidance”, “outlook”, “potential”, “prospects”, “seek”, “aim”, “strategy”, “targets” or “believes”, or variations of such words and phrases or statements that certain future conditions, actions, events or results “will”, “may”, “could”, “would”, “should”, “might” or “can”, or negative versions thereof, “occur”, “continue” or “be achieved”, and other similar expressions, identify forward-looking statements. Forward-looking statements are necessarily based upon management’s perceptions of historical trends, current conditions and expected future developments, as well as a number of specific factors and assumptions that, while considered reasonable by the Company as of the date of such statements, are outside of the Company's control and are inherently subject to significant business, economic and competitive uncertainties and contingencies which could result in the forward-looking statements ultimately being entirely or partially incorrect or untrue. Forward looking statements contained in this MD&A are based on various assumptions, including, but not limited to the following: the overall Network Policy Control market including reliance on major customers; adoption of Virtual Series solutions; the requirement for increasingly innovative product solutions; the Company's ability to achieve its growth strategy; the demand for the Company’s products and fluctuations in future revenues; target blended gross margin; expectations of growth in the wireless market; expectations for DSO; sufficiency of current working capital to support future operating and working capital requirements; the stability of general economic and market conditions; currency exchange rates and interest rates; equity and debt markets continuing to provide the Company with access to capital; the Company's ability to comply with applicable laws and regulations concerning the sale and export of its products; the Company’s continued compliance with third party intellectual property rights; foreign exchange hedging; ability of the Company to declare and pay quarterly dividends; and that the risk factors noted below, collectively, do not have a material impact on the Company's business, operations, revenues and/or results. By their nature, forward-looking statements are subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved.

Known and unknown risk factors, many of which are beyond the control of the Company, 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. Such risk factors include, but are not limited to each of the following, and those factors which are discussed in the Company’s Annual Information Form for the year ended November 30, 2016 (“AIF”), and management information circular dated June 16, 2017, copies of which are 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, the timing of customer purchase decisions, including the recent trend of slowing customer activity in the summer months, as well as the timing of when an order meets the Company’s revenue recognition criteria;
- The Company’s gross margins may fluctuate from quarter to quarter and year to year 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 and could change their buying patterns and/or source of supply at any time, which could have a material impact on the Company’s revenues. In addition, the Company extends credit

to its customers and resellers by virtue of agreed upon payment terms and could be exposed to collection risk on its receivables particularly if any key customer or key reseller were to face financial challenges. The Company's reseller partners may also offer their own products which are competitive with the Company's products;

- By selling its products in certain markets through resellers, the Company is able to avoid certain costs related to operating in those markets including but not limited to local support costs, costs of maintaining a local legal entity, administration costs, and logistics. Should the Company choose or be required to sell direct in these markets (due to customer preference, termination of a reseller relationship or other reasons) the cost advantages described will no longer be available to the Company which could result in an increase in operating costs. In addition, direct sales to Tier 1 communications service providers (CSPs) involve risks that may not be present (or that are present to a lesser extent) while sales to smaller CSPs or through the reseller channel. These risks include but are not limited to increased purchasing power held by large customers, longer sales cycles, more complicated infrastructure requirements or more intense and time-consuming customer support practices;
- The Company faces intense competition in markets where there are typically several different competing technologies and rapid technological changes. The Company faces the risk of the emergence of new technologies and new approaches to network architecture that may be either competitive to those of the Company or that change the requirements of the Company's customers for solutions such as those offered by the Company. If the Company is unable to adapt its offerings in response to these trends it could have a material impact on the ability of the Company to market and sell its solutions;
- The Company's growth is dependent on the development of the market for Network Policy Control solutions and the decisions of the Company's target customers to deploy and further invest in those technologies, which decisions may be impacted by changing requirements in the area of network management policies and/or changes in the regulatory framework to which the Company's customers may be subject. In particular, numerous telecommunications legislators and regulators in various jurisdictions have considered or are considering what, if any, regulations or laws might be appropriate with respect to how CSPs manage and charge for different types of traffic on their networks. These ongoing processes may cause uncertainty in the network investment decisions of the Company's target customers, and any new rules or regulations that result from these considerations may impact the demand for the Company's products within various markets, including markets that may not be considering any new regulation but where the Company's customers may look to other markets for future guidance or trends;
- With the adoption of network functions virtualization (NFV) and software defined networks (SDN), the market in which the Company operates may face a shift in how some of its customers purchase the Company's products. It is the Company's intention to continue to offer and develop Network Policy Control products for customer networks architected for NFV or SDN. These products will run on commercial off-the-shelf hardware. The introduction of these product offerings could see a shift in the Company's pricing practices from perpetual based software licenses to term based software licenses. As such, depending on the rate of adoption, the Company could experience a loss or delay in hardware and/or software revenue and reduced profits in 2017 and beyond;
- The Company is dependent on certain third party sub-assembly manufacturers in its supply chain and any disruption in the operations or quality of those suppliers or any increase in expected lead times from those suppliers could result in lost or delayed revenue and/or reduced profits;
- The majority of the Company's operating expenses are denominated in Canadian dollars, U.S. dollars, Euros and Indian rupees. The Company's earnings are impacted by fluctuations in the exchange rates between the U.S. dollar and these currencies;
- The Company operates in various jurisdictions throughout the world and generates revenues through its international sales efforts. The Company's financial results may be impacted by political and economic developments of a particular country or geography. The Company has operations in India and Hong Kong, both considered by management to be emerging markets. The operations in India are predominantly a contract

research and development facility and the Company conducts business in Hong Kong through a branch sales representative office;

- The Company is subject to government regulations concerning the sale and export of its products outside of North America and its failure or inability to comply with these regulations could materially restrict the Company's operations and subject it to penalties;
- The Company is dependent on effectively managing acquisitions and integrations. Acquisitions present a number of risks which are disclosed in the AIF. These risks or the inability of the Company to successfully realize upon the intended benefits of an acquisition could have a material adverse effect on its business, financial condition and results of operations;
- The Company's policy of paying dividends on the common shares of the Company (the "common shares") is subject to the discretion of the board of directors (the "Board") and is dependent on, among other matters, the Company's financial position, results of operations, available cash, cash requirements and alternative uses of cash.;
- The Company may experience interruptions in its information systems on which its global operations depend. Further, the Company may face attempts by others to gain unauthorized access through the Internet to its information technology systems, to intentionally hack, interfere with or cause physical or digital damage to or failure of such systems (such as significant viruses or worms), which attempts the Company may be unable to prevent. The Company could be unaware of an incident or its magnitude and effects until after it is too late to prevent it and the damage it may cause. Any security breaches, unauthorized access, unauthorized usage, virus or similar breach or disruption could result in loss of confidential information, personal data and customer content, damage to the Company's reputation, early termination of contracts, litigation, regulatory investigations or other liabilities; and
- The possibility that the Company's products may infringe the intellectual property rights of third parties and the potential exposure of the Company to a judgement for damages, royalties and injunctive relief precluding the sale or licensing of the Company's products.

These risk factors are not intended to represent a complete list of the factors that could affect the Company and the reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Forward-looking statements are provided for the purpose of providing information about management's expectations and plans relating to the future. The Company disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, or to explain any material difference between subsequent actual events and such forward-looking statements, except to the extent required by applicable law. All of the forward-looking statements contained in this MD&A are qualified by these cautionary statements.

Non-IFRS Financial Measures

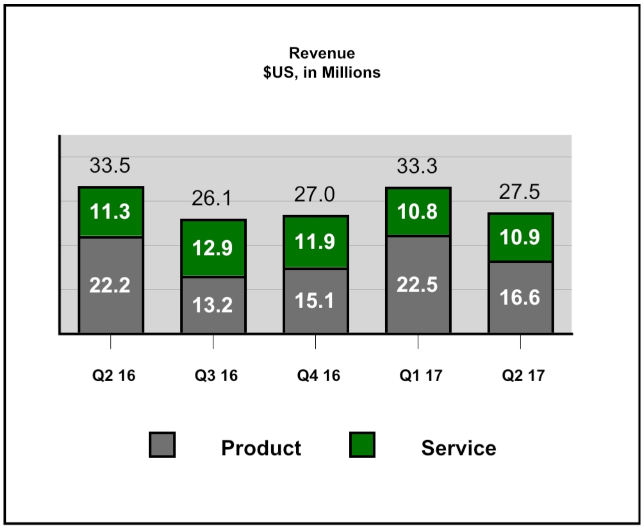
This MD&A discloses net income before interest, taxes, depreciation and amortization ("EBITDA") and the related per share amounts (EBITDA per share) for the periods indicated. These non-IFRS financial measures, which are used internally by management to evaluate the Company's ongoing performance, exclude the impact of interest, taxes, depreciation and amortization (collectively referred to as "Excluded expenses"). The Company provides these non-IFRS financial measures as it is the Company's view that the Excluded expenses either (i) affect the comparability of results from period to period as the Excluded expenses are not part of its normal day-to-day operations or only impact the current or comparable period 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. These non-IFRS measures are not recognized under IFRS and do not have standardized meanings prescribed by IFRS. Therefore it is unlikely that these measures will be comparable to similarly titled measures reported by other issuers. Non-IFRS financial measures should be considered in the context of the Company's IFRS results.

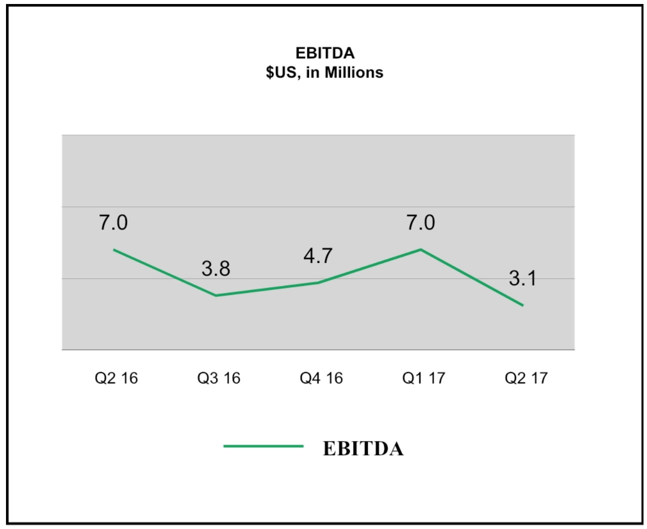
Non-IFRS Financial Measures

The following table provides a reconciliation of net income and related per share amounts to EBITDA and the related EBITDA per share amounts for the periods indicated.

	Three month period ended		Six month period ended	
Amounts in US$ thousands	**May 31, 2017 $**	**May 31, 2016 $**	**May 31, 2017 $**	**May 31, 2016 $**
Net income	1,107	3,988	5,175	9,607
Adjustment for				
Finance income	(278)	(126)	(484)	(218)
Taxes	627	1,427	2,100	3,228
Depreciation	981	1,015	1,926	1,934
Amortization	701	673	1,391	1,269
EBITDA	3,138	6,977	10,108	15,820
Basic EBIDTA per share	0.026	0.049	0.080	0.111
Diluted earnings per share	0.009	0.028	0.039	0.066
Impact on diluted earnings per share of non-IFRS measures	0.015	0.020	0.038	0.042
Diluted EBITDA per share	0.024	0.048	0.077	0.108

FINANCIAL HIGHLIGHTS





The Company's total revenues for the current quarter were $27.5 million, a decrease of $6.0 million or 17.9% compared to the second quarter of 2016. This decrease is as a result of a $5.6 million decline in product revenue, primarily due to less revenue generated from new customers.

The percentage breakdown of revenue generated from a particular geography or access technology will fluctuate significantly based on the origin of larger orders received during the quarter. In the current quarter, the largest access technology market was Wireless (55% of revenues). Geographically, EMEA and North America (37% and 29% of revenue, respectively) were the most significant sales regions in the quarter.

During the current quarter, the Company received initial purchase orders from sixteen new customers (Q2 2016: twenty), comprised of thirteen Wireless/other and three Fixed Telco service providers, and recognized revenue from eleven new customers. The value of orders received from customers during the second quarter of 2017 was greater than total revenue recognized during the quarter.

EBITDA for the current quarter was $3.1 million, a decrease of $3.9 million compared to the same period last year primarily as a result of the decrease in total revenues, earned at a slightly higher blended margin percentage. EBITDA for the six months ended May 31, 2017 was $10.1 million, a decrease of $5.7 million as compared to the same period last year primarily as a result of the decrease in total revenues.

On July 6, 2017, the Company entered into an amended and restated arrangement agreement (the "Amended Arrangement Agreement") with Scalar Acquireco Corp. ("Scalar Acquireco"), an affiliate of Vector Capital. Under the Amended Arrangement Agreement, and with support from Sandvine's Board of Directors, Scalar Acquireco has agreed to acquire all of the issued and outstanding common shares of Sandvine, other than certain shares held by members of management, for CAD $4.15 in cash per share. The Amended Arrangement Agreement permitted the Company to actively solicit other acquisition proposals until July 7, 2017. On July 7, 2017, the Company received a binding offer from PNI Canada Acquire Corp ("PNI Canada"), an affiliate of Francisco Partners, to acquire all of the issued and outstanding shares of the Company by way of a plan of arrangement for cash consideration of CAD $4.40 per common share which the Board of Directors determined constituted a Superior Proposal (as defined in the Amended Arrangement Agreement). If the Company terminates the Amended Arrangement Agreement it may be required to pay a termination fee to Vector Capital Management, L.P. in the amount of CAD $16.9 million. For further details of the Arrangement Agreement, please see the Arrangement Agreement of July 6, 2017 and the management information circular of Sandvine dated June 16, 2017 which are available on SEDAR at www.sedar.com.

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 unaudited interim condensed consolidated financial statements for the three and six months ended May 31, 2017, as well as the November 30, 2016 audited consolidated financial statements. Each investor should read the following information in conjunction with those statements and related notes. The financial information for the three and six month period ended May 31, 2017 and May 31, 2016 has been prepared by management in compliance with IFRS in a manner consistent with the Company's annual financial statements.

	For the three month period ended		**For the six month period ended**	
	May 31, 2017 $	**May 31, 2016 $**	**May 31, 2017 $**	**May 31, 2016 $**
	Amounts in US$ thousands, except share and per share data			
Revenue				
Product	16,592	22,222	39,155	45,557
Service	10,939	11,316	21,711	22,139
	27,531	33,538	60,866	67,696
Cost of sales				
Product	2,746	5,133	7,848	10,364
Service	3,701	3,520	7,330	6,423
	6,447	8,653	15,178	16,787
Gross margin	21,084	24,885	45,688	50,909
Expenses				
Sales and marketing	9,585	10,066	19,045	19,667
Research and development	5,807	6,120	11,187	11,824
General and administrative	4,331	3,388	8,791	6,738
Other losses, net	—	2	—	2
	19,723	19,576	39,023	38,231
Income from operations	1,361	5,309	6,665	12,678
Finance income	278	126	484	218
Foreign exchange gain (loss)	42	(20)	2	(61)
	320	106	486	157
Share of profit of equity accounted investees, net of tax	53	—	124	—
Income before provision for income taxes	1,734	5,415	7,275	12,835
Current and deferred provision for income taxes	627	1,427	2,100	3,228
Net income for the period	1,107	3,988	5,175	9,607
Basic earnings per share	0.009	0.028	0.041	0.067
Diluted earnings per share	0.009	0.028	0.039	0.066
Weighted average common shares outstanding				
Basic	122,489,259	141,080,615	126,018,453	142,377,374
Diluted	128,196,478	144,768,433	131,275,641	146,272,982

SELECTED CONSOLIDATED FINANCIAL INFORMATION (continued)

Amounts in US$ thousands	**As at May 31, 2017 $**	**As at November 30, 2016 $**
Consolidated Balance Sheet Data:		
Cash	11,955	14,922
Short term investments	99,637	118,064
Total assets	205,614	220,123
Total liabilities	42,030	40,593
Shareholders’ equity	163,584	179,530

OVERVIEW

Our Company

Sandvine develops and markets Network Policy Control solutions for CSPs. The Company's solutions help service providers better understand their networks and 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, more efficiently manage network traffic and notify subscribers of important information and let them take action on it.

Sandvine has over 300 CSP customers in over 100 countries who serve hundreds of millions of fixed line and mobile broadband Internet subscribers.

The Market

Sandvine's target market is broadband communications service providers worldwide, including those which offer such services through mobile, DSL, cable, fixed wireless, FTTx, and satellite Internet access technologies. Within the fixed line component, which is comprised of Fixed Cable and Fixed Telco (DSL and FTTx) of the market, Sandvine primarily targets the top 250 operators around the world, by subscriber count, which represents the vast majority of the global subscriber base. Industry analyst reports estimate that there were over 800 million fixed line broadband subscribers globally at the end of 2016.

In the Wireless market (mobile, fixed wireless and satellite), Sandvine primarily targets the top 350 service providers in the world. According to industry analysts there were approximately 4.8 billion mobile broadband users at the end of 2016. This figure is expected to grow rapidly over the next few years with ongoing adoption of smart devices.

Products and solutions

The Company's Network Policy Control solutions typically comprise a hardware platform and proprietary software modules that are typically bundled together to provide a system for broadband communications service providers to identify (e.g., video streams like Netflix, VoIP traffic like Skype, or online gaming), report on and take action on the data traversing their networks.

The core of Sandvine's hardware platform is the Policy Traffic Switch ("PTS"). The PTS product line includes two hardware models, the PTS 22000 and PTS 32000, each of which is available in a range of variants with different performance characteristics. Sandvine also offers the PTS Virtual Series, which is a software-only version of the PTS functionality suitable for networks architected for NFV and SDN.

NFV is an industry wide, carrier-led effort to move away from proprietary hardware (like Sandvine's), motivated by desires to increase agility, enable faster service launches, and to reduce the cost of deployment by using standard commercial off-the-shelf ("COTS") hardware, for all network functions, in a shared environment. Running all functions on identical, shared hardware promises a much simpler, more efficient network. A related concept, SDN, seeks to establish the linkage/paths between virtualized network functions in software, on-the-fly, via application program interfaces ("APIs"). SDN is a deployment tool that enables a programmable network.

For Sandvine, the shift to NFV- and SDN-enabled network means that the functions running on its PTS, other aspects of its hardware platform and existing software offerings will all be offered as software-only to run on COTS hardware.

Sandvine's solutions provide the tools to help service providers understand and forecast network traffic, and apply specific network policies that will support the creation of new revenue-generating services, improve the quality of experience for their subscribers, more efficiently manage their network, mitigate malicious traffic and more effectively engage with subscribers.

Business Intelligence
In the era of big data, Sandvine's Business Intelligence solutions help communications service providers make informed business decisions with unique measurements, easy-to-use reporting, powerful analytics, and configurable data records. The Company's Business Intelligence solutions aim to enable confident business decisions regarding service plans, traffic management policies and capital investments.

Subscriber Services
To help service providers stay competitive in a dynamic consumer marketplace, Sandvine offers a flexible platform that enables a wide-range of subscriber services. CSPs can satisfy subscriber demand by launching new services like:

- Application-based service tiers and bolt-ons that appeal to specific subscriber tastes;
- Roaming packages, real-time notification, and bill shock prevention;
- Shared data plans, including family plans and multi-device data bundles;
- Sponsored connectivity and third-party bundles, including zero-rating of partner services; and
- Universal service plans that bridge access technologies.

Traffic Optimization
In times of congestion, a relatively small number of users and applications can consume the majority of network resources. The Company's Traffic Optimization solutions aim to mitigate network congestion and ensure fairness and maximize the subscribers' quality of experience through the optimal use of network resources to:

- Control bandwidth to contain transit costs and to cap traffic peaks;
- Protect subscriber quality of experience with the world's most accurate congestion management solution; and
- Optimize routing and media delivery to deliver superior subscriber quality of experience.

Cyber Security
As part of a multi-layer security strategy, Sandvine's Cyber Security solutions help service providers protect network infrastructure and subscribers from online threats, and comply with regulatory requirements. Sandvine's Cyber Security solutions are designed to help CSPs address these issues by gaining actionable insight into the threats on their networks:

- Reducing outbound spam to prevent blacklisting;
- Preventing service outages, reducing support calls and lowering incident response costs by protecting network services from malicious traffic;
- Identifying and communicating with subscribers infected by known botnets and other malicious activities; and
- Achieving regulatory URL filtering compliance.

Subscriber Engagement
Sandvine's Subscriber Engagement solutions help CSPs build relationships with subscribers through personalized, real-time multi-channel interaction. Different messages are best presented through different channels, devices have widely varying capabilities, and different channels provide different engagement options. Sandvine lets service providers choose the right channel or combination of channels aimed at optimizing the experience, and lets CSPs implement a wide variety of subscriber engagement use cases targeted to help CSPs grow revenue, increase loyalty, and reduce operating expenses.

Business Services

Sandvine's Business Services is targeted at enabling CSPs to help their business customers reduce network management costs and increase productivity without requiring on-premises hardware or extensive IT expertise. By selling a cloud-based, "as-a-service" offering that enables business customers to view, control and protect their network traffic, a service provider can differentiate their Internet access offering and create new revenue streams.

Sales and distribution

Sandvine distributes its products and services through a combination of direct and indirect sales channels in order to obtain global sales coverage and retain direct contact with the customer base. The direct sales channel is organized across four sales regions: (i) North America; (ii) Europe, the Middle East and Africa ("EMEA"); (iii) Asia-Pacific ("AsiaPac"); and (iv) Caribbean and Latin America ("CALA"). With direct sales, the ultimate end customer purchases products directly from the Company. The direct sales team comprises Sandvine employees and local area representatives, who generally have fixed and variable components to their compensation. The indirect sales channel utilizes reseller partners such as global network equipment vendors, systems integrators and regional value-added resellers to market and sell Sandvine's products. Sales may be initiated by partners or initiated by Sandvine and then fulfilled and serviced through reseller partners. In all cases the partner purchases the Company's product for the purpose of reselling it to the ultimate end customer.

Growth strategy

The Company believes that investing in research, development, and sales and marketing activities are critical to increasing revenues in future periods and maximizing the long-term success of the Company. Sandvine's customers continue to seek innovative ways to create new revenue sources, improve quality of experience of its subscribers, differentiate services, network security, and transform how their subscribers are engaged via Digital Channels. Sandvine continues to enhance and invest in the solution sets that support these objectives. These solutions are increasingly deployed through software-only offerings, including virtualized ones.

The Company has sales and marketing efforts in strategic locations globally. The Company believes that it has built strong products in each solution area and needs to leverage these product investments into increased sales globally, both to new customers and through accelerated expansion orders from its large existing customer base. The Company believes that continuing its current investment in sales and marketing and research and development is sufficient to support its expected 2017 revenue targets.

The Company anticipates that throughout fiscal 2017 and beyond 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 the Company's core capabilities in network policy control, has a complementary customer base, has prospective growth rates commensurate with those of the Company, and has a compatible culture. In the event the proposed arrangement with Scalar Acquireco is completed, Sandvine may reassess its growth strategy.

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 consulting, training and installation that is provided to its customers. The Company also derives revenue from selling cloud-based, subscriber engagement services to mobile operators which is included with product revenues. From time to time the Company has customers who place support and maintenance orders (including renewals) in a quarter subsequent to the commencement of the related support and maintenance period. In such situations the Company recognizes revenues related to a prior quarter in the quarter in which the order is received (this revenue is defined as “Arrears Maintenance Revenue”). The vast majority of the Company’s revenues are denominated in U.S. dollars.

Product cost of sales consists of the cost of direct materials, plus direct labour and an allocation of overhead applied to the product as well as direct costs associated with selling cloud-based, customer engagement services.

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, local area representative payments, variable agency costs, occupancy costs, depreciation and amortization, travel, advertising, trade analyst research, software maintenance costs, trial material costs as well as trade show and conference costs.

Research and development expenses consist primarily of salaries and other personnel costs, occupancy costs, depreciation and amortization, certification, material costs (including prototype costs) associated with new product introduction and software maintenance costs. The Company also recognizes the benefits of utilizing non-refundable investment tax credits ("SR&ED ITCs") by recording a reduction in its research and development expenses. The associated ITC receivable has been included in the deferred tax asset balance on the statement of financial position.

General and administrative expenses consist primarily of salaries and other personnel costs, occupancy costs, depreciation and amortization, professional costs associated with tax, accounting and legal advice, public company costs (including compliance costs), information system and software maintenance costs.

Sales and marketing, research and development, and general and administrative expenses are presented on the Company’s consolidated financial statements net of the benefit of non-repayable government assistance received. Non-refundable investment tax credits are netted against the related research and development expenses in the period when there is reasonable assurance that the investment tax credit will be realized against current or future income tax liabilities.

The Company entered into an agreement with the Province of Ontario relating to the Jobs and Prosperity Fund. This program will provide funding relating to one of the Company's research and development projects. Under the agreement, the Company is eligible to receive funding equal to 8.9% of eligible project expenditures from March 1, 2016 to November 30, 2023 to a maximum of $15.0 million CAD, with certain annual caps related to disbursements. Payments made in respect of the program can be made conditionally repayable if certain investment, cumulative job and payroll targets are not met.

The majority of the Company’s operating expenses are denominated in Canadian dollars, U.S. dollars, Euros and Indian Rupees. The Company’s earnings are impacted by fluctuations in the exchange rates between the U.S. dollar and these other currencies. In order to minimize the impact of this foreign exchange movement on the Company’s consolidated financial statements, the Company enters into forward foreign exchange contracts for a portion of this exposure.

Other losses (gains), net consist primarily of gains or losses on disposal of assets.

Finance income consists primarily of interest income (net of related expenses) earned on the Company's cash and short term investments.

Foreign exchange gains (losses) relate primarily to realized and unrealized foreign exchange on the Company's foreign denominated cash, accounts receivable and accounts payable.

Provision for income taxes consists of current and deferred income taxes. The Company recognizes the benefits of utilizing SR&ED ITCs by recording a reduction in its research and development expenses.

CURRENT PERIOD OPERATING RESULTS

Revenue

	Three month period ended		Six month period ended	
	May 31, 2017 $	**May 31, 2016 $**	**May 31, 2017 $**	**May 31, 2016 $**
	Amounts in US$ thousands			
Product	16,592	22,222	39,155	45,557
Service				
Support and maintenance	8,382	8,404	16,803	17,429
Professional services	1,634	2,153	3,205	3,452
Training, installation and other	923	759	1,703	1,258
	10,939	11,316	21,711	22,139
Total	27,531	33,538	60,866	67,696

Q2 2017 compared to Q2 2016

The Company's total revenue for the current quarter was $27.5 million, a decrease of $6.0 million from the $33.5 million recognized during the same period last year. Product revenue decreased by $5.6 million compared to same period last year. This decrease is primarily due to less revenue generated from new customers.

Service revenue for the current quarter was $10.9 million, a decrease of $0.4 million from the $11.3 million recognized during the same period last year. Professional services revenue decreased $0.5 million primarily due to less revenue from projects which met the revenue recognition criteria in the current period as compared to the same period last year.

The Company expects to continue to see significant quarterly fluctuations in the revenues generated from the Company's various access technology markets, sales regions and sales channels due to variability associated with the timing of significant customer purchase decisions.

2017 YTD compared to 2016 YTD

The Company's total revenue for the six months ended May 31, 2017 was $60.9 million, a decrease of $6.8 million from the $67.7 million recognized during the same period last year. Product revenue decreased by $6.4 million compared to same period last year. This decrease is primarily the result of less revenue generated from new customers.

Service revenue for the six months ended May 31, 2017 was $21.7 million, a decrease of $0.4 million. Support and maintenance revenue decreased $0.6 million as compared to the same period last year primarily due to decreased Arrears Maintenance Revenue compared to the same period last year.

Revenue by access technology

The Company evaluates its revenue based on customer access technology. In the case where revenue is generated from a customer with converged network technology, revenue is allocated to the specific customer access technology where the Company's product and services are being deployed within the network. The breakdown of total revenue generated by customer access technology is outlined in the following table.

	Three month period ended		Six month period ended	
	May 31, 2017 %	May 31, 2016 %	May 31, 2017 %	May 31, 2016 %
Fixed Cable	17.4	14.6	14.4	25.5
Fixed Telco *	26.0	29.3	29.3	30.3
Wireless **	54.6	55.0	54.7	43.1
Other ***	2.0	1.1	1.6	1.1
Total	100.0	100.0	100.0	100.0

* Fixed Telco includes revenue generated from DSL and FTTx.

** Wireless includes revenue generated from mobile, fixed wireless and satellite.

*** 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 MD&As prior to the fourth quarter of fiscal 2016, the Company included FTTx in the Wireless category.

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.

Over the long-term, the Company expects the Wireless access technology to remain its largest market.

Revenue by sales channel

The breakdown of revenue by the direct and indirect sales channel is as follows:

	Three month period ended		Six month period ended	
	May 31, 2017 %	May 31, 2016 %	May 31, 2017 %	May 31, 2016 %
Direct	54.8	49.4	43.4	51.2
Indirect	45.2	50.6	56.6	48.8
Total	100.0	100.0	100.0	100.0

Revenue by geographic region

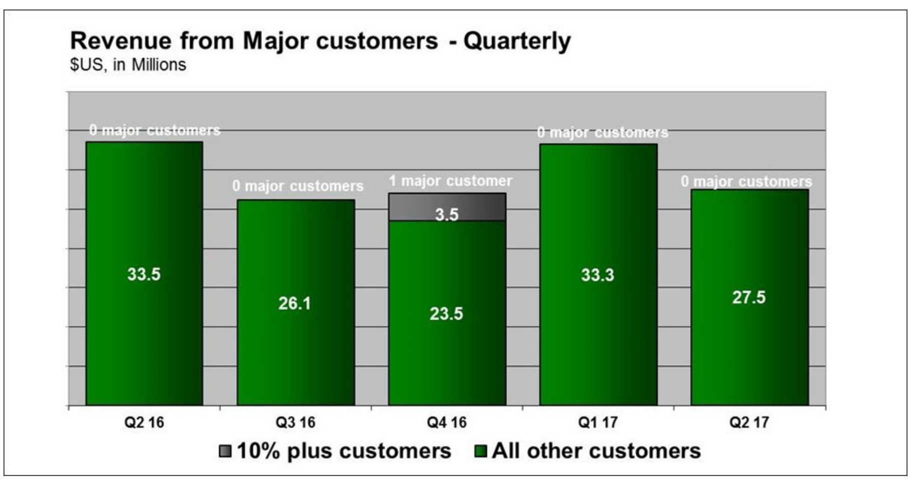
The Company evaluates its revenue performance based on four geographic regions. The proportion of total revenue attributable to each is outlined in the following table. In situations where a reseller has purchased equipment for resale to an end customer, the location of the end customer is used in allocating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

	Three month period ended		Six month period ended	
	May 31, 2017 %	May 31, 2016 %	May 31, 2017 %	May 31, 2016 %
North America	28.7	29.5	23.7	36.6
Caribbean and Latin America (“CALA”)	17.2	21.1	12.8	15.9
Europe, Middle East and Africa (“EMEA”)	37.3	29.4	35.4	27.2
Asia Pacific	16.8	20.0	28.1	20.3
Total	100.0	100.0	100.0	100.0

Generally, revenues by geographic region will be impacted by the location of end customers.

Revenue derived from major customers

“Major customers” are customers who represent 10% or more of total revenues in a given period. Major customers can also include resellers who may have sold to multiple end customers. Currently, the Company’s quarterly revenues can be significantly impacted by the buying patterns of individual large customers, which will also impact the Company’s revenue split by region, sales channel and/or access technology. The Company continues to expand its customer base and the composition of the individual service providers or resellers who are Major customers in any quarter often changes between quarters.



The following summarizes revenue from Major customers on a quarterly basis.

	Three month period ended				
	May 31, 2017 %	**February 28, 2017 %**	**November 30, 2016 %**	**August 31, 2016 %**	**May 31, 2016 %**
Percentage of revenue					
Major customers	—	—	13.0	—	—
Other customers	100.0	100.0	87.0	100.0	100.0
Total	100.0	100.0	100.0	100.0	100.0

For the three months ended May 31, 2017 there were no Major customers (May 31, 2016 - no major customers).

In situations where a Major customer is a reseller, the number of end customers that generated product revenue through such reseller is highlighted for each of the applicable periods noted.

	Three month period ended				
	May 31, 2017 %	**February 28, 2017 %**	**November 30, 2016 %**	**August 31, 2016 %**	**May 31, 2016 %**
Major customers – resellers**	—	—	1	—	—
# of end customers represented by the above resellers	—	—	1	—	—
Percentage of revenue	—%	—%	13.0%	—%	—%

** It should be noted that the identity of resellers in the table above may not be the same from period to period.

Deferred revenue

The Company enters into complex arrangements that may involve meeting customer based specifications or multiple deliverable revenue arrangements. This may result in the deferral of revenue if the Company has not completed the customer based specification requirements, or has not established that the delivered elements of a multiple deliverable revenue arrangement represent a separate unit(s) of accounting. Where the Company has sold post contract support, the resulting revenue is deferred and recognized rateably over the service period, which is typically one to three years. The Company does not recognize any revenue or deferred revenue related to 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.

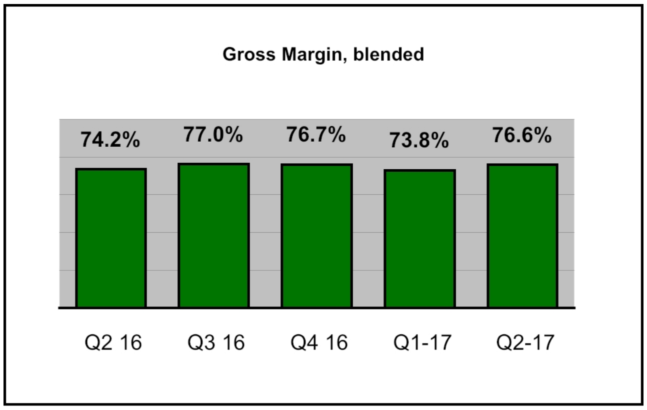
The breakdown of deferred revenue is as follows:

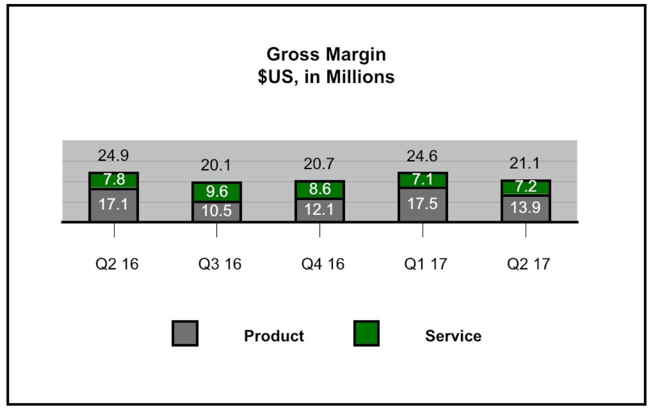
	May 31, 2017 $	**November 30, 2016 $**	**May 31, 2016 $**
		In US$ thousands	
Deferred revenue:			
Service	27,920	18,800	22,685
Product	2,019	1,156	1,727
Total	29,939	19,956	24,412
Reported as:			
Current	25,780	16,243	21,818
Non-current	4,159	3,713	2,594
Total	29,939	19,956	24,412

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.

The increase in deferred service revenue as compared to November 30, 2016 primarily relates to the level of customers who renew support and maintenance contracts based on a calendar year-end, and as a result their renewals were received during the first half of fiscal 2017. The increase in deferred service revenue as compared to May 31, 2016 primarily relates to an increase in securing longer-term support and maintenance contracts as well as a net increase in the support and maintenance base.

Gross margin





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

	Three month period ended		Six month period ended	
	May 31, 2017 %	May 31, 2016 %	May 31, 2017 %	May 31, 2016 %
Product	83.4	76.9	80.0	77.3
Service	66.2	68.9	66.2	71.0
Blended	76.6	74.2	75.1	75.2

Q2 2017 compared to Q2 2016

The blended gross margin realized in the current quarter increased 2.4% to 76.6% compared to 74.2% in the second quarter of 2016. Product gross margin increased by 6.5% to 83.4% compared to 76.9% in the second quarter of 2016. The increase in product gross margin was primarily the result of software revenue being higher as a proportion of total product revenue in the current quarter as compared to the same period last year.

Service gross margin decreased 2.7% to 66.2% compared to 68.9% in the second quarter of 2016. This decrease was primarily due to less revenue from projects which met the revenue recognition criteria in the current period as compared to the same period last year as well as increased costs to support the customer base in the current quarter as compared to the same period last year.

The Company continues to be focused on a target blended gross margin at or above 70%.

2017 YTD compared to 2016 YTD

The blended gross margin realized for the six months ended May 31, 2017 of 75.1%, is consistent with the same period last year. Product gross margin increased by 2.7% to 80.0% compared to 77.3% in the six months period ended May 31, 2016. The increase in product gross margin was primarily the result of software revenue being higher as a proportion of total product revenue in the six months ended May 31, 2017 as compared to the same period last year.

Service gross margin decreased 4.8% to 66.2% compared to 71.0% in the six months ended May 31, 2016. This decrease was primarily due to lower support and maintenance gross margin due to decreased Arrears Maintenance Revenue compared to the same period last year as well as increased costs to support the customer base in the current quarter as compared to the same period last year.

The Company continues to be focused on a target blended gross margin at or above 70%.

Expenses

The following table provides analysis of the Company's expenses and government assistance.

	Three month period ended		Six month period ended	
	May 31, 2017 $	**May 31, 2016 $**	**May 31, 2017 $**	**May 31, 2016 $**
	Amounts in US$ thousands			
Revenue	**27,531**	**33,538**	**60,866**	**67,696**
Sales and marketing	9,613	10,068	19,098	19,669
% of revenue	***34.9 %***	***30.0 %***	***31.4 %***	***29.0 %***
Research and development	6,471	6,788	12,487	12,861
% of revenue	***23.5 %***	***20.3 %***	***20.5 %***	***19.0 %***
General and administrative	4,331	3,388	8,791	6,738
% of revenue	***15.7 %***	***10.1 %***	***14.4 %***	***10.0 %***
Other losses, net	—	2	—	2
% of revenue	***— %***	***— %***	***— %***	***— %***
Total operating expenses before government assistance[1]	20,415	20,246	40,376	39,270
% of revenue	***74.1 %***	***60.4 %***	***66.3 %***	***58.0 %***
Government assistance[2]	(692)	(670)	(1,353)	(1,039)
% of revenue	***(2.5)%***	***(2.0)%***	***(2.2)%***	***(1.5)%***
Total operating expenses	19,723	19,576	39,023	38,231
% of revenue	***71.6 %***	***58.4 %***	***64.1 %***	***56.5 %***

[1] The Company believes that total operating expenses before government assistance is an important measure as a result of the variability in the nature and timing of government assistance and how government assistance programs impact *Sales and marketing*, *Research and development* and *General and administrative* expenses in its consolidated financial statements. This measure does not have a standardized meaning under IFRS and is unlikely to be comparable to similarly titled measures reported by other issuers. The calculation of this item is summarized above.

[2] Government assistance can include SR&ED ITCs and other non-repayable government assistance. These amounts are included within *Sales and marketing*, *Research and development* and *General and administrative* expenses in the Company's consolidated financial statements.

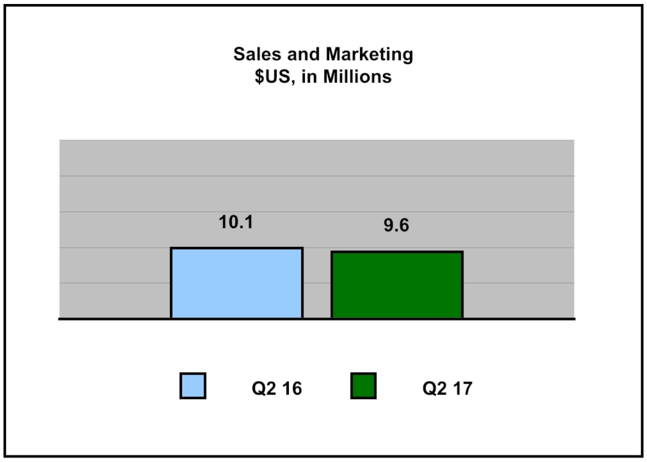
The following government assistance is included in *Sales and marketing*, *Research and development* and *General and administrative*:

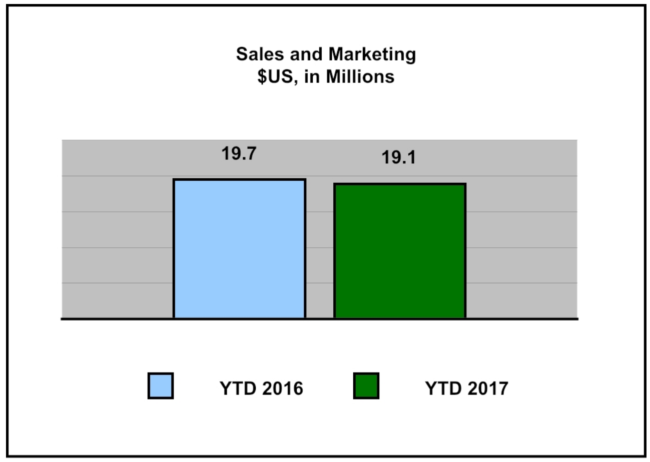
	Three month period ended		Six month period ended	
	May 31, 2017 $	May 31, 2016 $	May 31, 2017 $	May 31, 2016 $
	Amounts in US$ thousands			
Government assistance				
Sales and marketing	(28)	(2)	(53)	(2)
Research and development	(664)	(668)	(1,300)	(1,037)
Total government assistance in operating expenses	(692)	(670)	(1,353)	(1,039)

The following stock compensation, depreciation and amortization expenses are included in *Cost of sales*, *Sales and marketing*, *Research and development* and *General and administrative*:

	Three month period ended		Six month period ended	
	May 31, 2017 $	May 31, 2016 $	May 31, 2017 $	May 31, 2016 $
	Amounts in US$ thousands			
Stock compensation				
Cost of sales	9	22	17	42
Sales and marketing	229	218	469	424
Research and development	189	177	379	339
General and administrative	228	159	477	347
Total stock compensation	655	576	1,342	1,152
Depreciation and amortization				
Cost of sales	88	67	160	165
Sales and marketing	267	254	519	503
Research and development	937	981	1,869	1,750
General and administrative	390	386	769	785
Total depreciation and amortization	1,682	1,688	3,317	3,203

Sales and marketing expenses, excluding government assistance





Q2 2017 compared to Q2 2016

	Three month period ended			
	May 31, 2017 $	**May 31, 2016 $**	**Increase (decrease) $**	**Increase (decrease) %**
	Amounts in US$ thousands			
Sales and marketing	9,613	10,068	(455)	(4.5)%

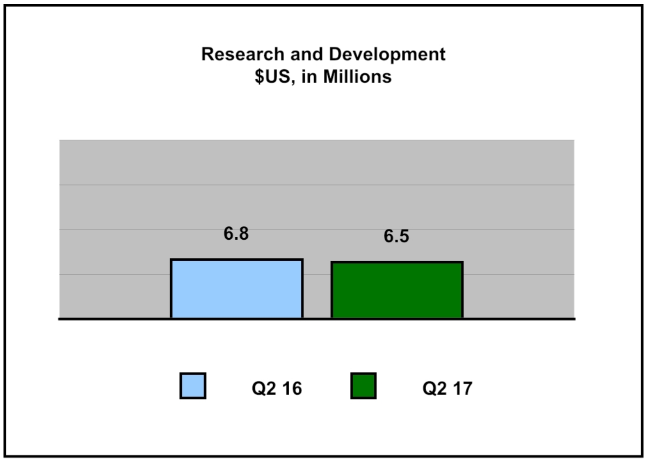
Sales and marketing expense in the current quarter did not materially change from the comparative quarter in the prior year.

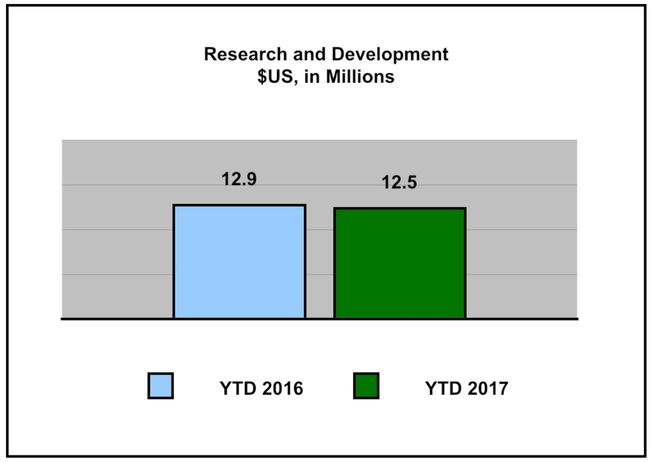
2017 YTD compared to 2016 YTD

	Six month period ended			
	May 31, 2017 $	**May 31, 2016 $**	**Increase (decrease) $**	**Increase (decrease) %**
	Amounts in US$ thousands			
Sales and marketing	19,098	19,669	(571)	(2.9)%

The decrease in sales and marketing expense compared to the six months ended May 31, 2016 was comprised of immaterial changes in several cost categories.

Research and development expenses, excluding government assistance





Q2 2017 compared to Q2 2016

	Three month period ended			
	May 31, 2017 $	May 31, 2016 $	Increase (decrease) $	Increase (decrease) %
	Amounts in US$ thousands			
Research and development	6,471	6,788	(317)	(4.7)%

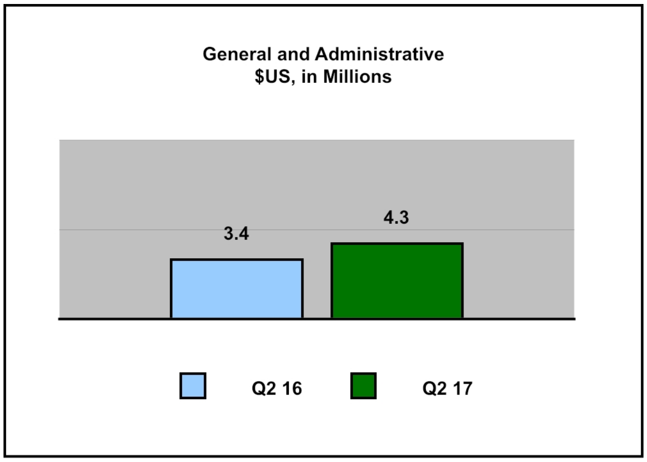
Research and development expense in the current quarter did not materially from the comparative quarter in the prior year.

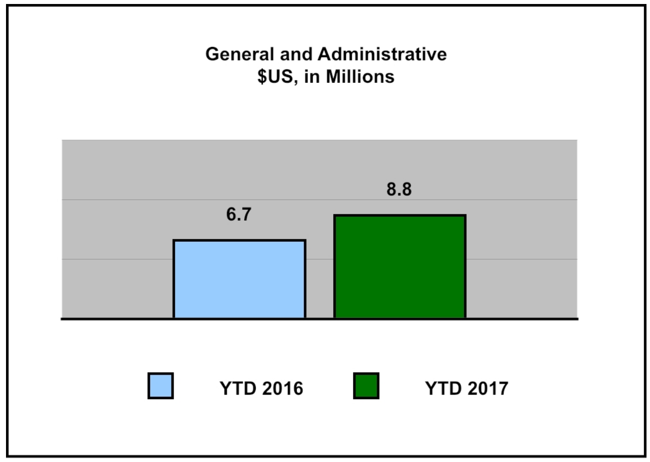
2017 YTD compared to 2016 YTD

	Six month period ended			
	May 31, 2017 $	May 31, 2016 $	Increase (decrease) $	Increase (decrease) %
	Amounts in US$ thousands			
Research and development	12,487	12,861	(374)	(2.9)%

Research and development expense for the current six months ended May 31, 2017 did not materially change from the comparative period in the prior year.

General and administrative expenses, excluding government assistance





Q2 2017 compared to Q2 2016

	Three month period ended			
	May 31, 2017 $	May 31, 2016 $	Increase (decrease) $	Increase (decrease) %
	Amounts in US$ thousands			
General and administrative	4,331	3,388	943	27.8%

The increase in general and administrative expenses in the current quarter compared to the same period of 2016 is primarily related to increased professional fees. On a comparative basis professional fees increased $0.6 million as a result of increased activity around the patent infringement proceedings, which commenced February 17, 2016 (see Legal Proceedings Section of this MD&A for additional information). The Company also incurred professional fees of $0.5 million in respect of the proposed arrangement agreement with Scalar Acquireco in the current quarter.

2017 YTD compared to 2016 YTD

	Six month period ended			
	May 31, 2017 $	May 31, 2016 $	Increase (decrease) $	Increase (decrease) %
	Amounts in US$ thousands			
General and administrative	8,791	6,738	2,053	30.5%

The increase in general and administrative expenses compared to the six months ended May 31, 2016 is primarily related to increased professional fees and a bad debt expense related to the financial condition of an individual regional reseller incurred during the first quarter of fiscal 2017. Professional fees increased $1.2 million related to the patent infringement proceedings as discussed above. The Company also incurred professional fees of $0.5 million in respect of the proposed arrangement agreement with Scalar Acquireco in the current period.

Government assistance

Q2 2017 compared to Q2 2016

	Three month period ended		
	May 31, 2017 $	**May 31, 2016 $**	**(Increase) decrease $**
	Amounts in US$ thousands		
Jobs and Prosperity Fund	(228)	(267)	39
ITCs and other non repayable assistance	(464)	(403)	(61)
	(692)	(670)	(22)

Government assistance in the current quarter did not materially change from the comparative quarter in the prior year.

2017 YTD compared to 2016 YTD

	Six month period ended		
	May 31, 2017 $	**May 31, 2016 $**	**(Increase) decrease $**
	Amounts in US$ thousands		
Jobs and Prosperity Fund	(467)	(267)	(200)
ITCs and other non repayable assistance	(886)	(772)	(114)
	(1,353)	(1,039)	(314)

Government assistance for the current six months ended May 31, 2017 did not materially change from the comparative period in the prior year.

Impact of foreign exchange on operating expenses

The Company has a significant percentage of its operating expenses denominated in currencies other than U.S. dollars, including Canadian dollars, Euro and Indian rupees. Changes in foreign exchange rates can cause fluctuations in the Company's operating expenditures from period to period and are reflected in the individual operating expense line item. Management of foreign exchange currency exposure is governed by the Company's foreign exchange policy as approved by its Board. 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 related to Canadian payroll and related expenditures and rent costs.

Q2 2017 compared to Q2 2016

Fluctuations in foreign exchange rates between the current quarter of 2017 and the second quarter of 2016 resulted in a decrease in *Sales and marketing*, *Research and development* and *General and administrative* expenses by $0.6 million, $0.2 million, and $0.1, respectively, or $0.9 million of operating expenses.

2017 YTD compared to 2016 YTD

Fluctuations in foreign exchange rates between the six months ended May 31, 2017 and the same period in 2016 resulted in a decrease in *Sales and marketing*, *Research and development* and *General and administrative* expenses by $0.7 million, $0.3 million, and $0.1, respectively, or $1.1 million of operating expenses.

Provision for income taxes

Q2 2017 compared to Q2 2016

The Company's combined tax provision for the second quarter of 2017 is 36% of income before taxes is above the expected Canadian tax rate as a result of recording certain permanent differences. For the three months ended May 31, 2017 the Company paid $nil for income tax in cash (May 31, 2016 - $0.7 million).

2017 YTD compared to 2016 YTD

The Company's combined tax provision for the six months ended May 31, 2017 is 29% of income before taxes, consistent with the expected Canadian tax rate. For the six months ended May 31, 2017 the Company paid $0.1 million for income tax in cash (May 31, 2017 - $1.0 million).

LIQUIDITY AND CAPITAL

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

	May 31, 2017	November 30, 2016
Key Balance Sheet Amounts and Ratios:	*US$ thousands, except balance sheet ratios and metrics*	
Cash and short term investments	111,592	132,986
Working capital	127,198	141,032
Working capital ratio (:1)	4.5	5.0
Days sales outstanding in accounts receivable (days)	137	112
Pro forma days sales outstanding in accounts receivable (days)	106	97
Inventory turnover (times)	2.0	2.2
Pro forma inventory turnover (times)	2.3	2.7

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. Management believes that DSO and pro forma DSO to be important indicators of the Company's ability to convert trade receivables into cash. A lower DSO or pro forma DSO indicates a more efficient cash collection process. Management believes that inventory turnover and pro forma inventory turnover to be important indicators for how well the Company is managing inventory in relation to customer demand. A higher level of inventory turnover or pro forma inventory turnover reflects a more efficient use of our capital. These terms do not have a standardized meaning under IFRS 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 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 ("pro forma DSO") - The Company has calculated pro forma DSO 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 (May 31, 2017 - $11.8 million; November 30, 2016 - $5.7 million).

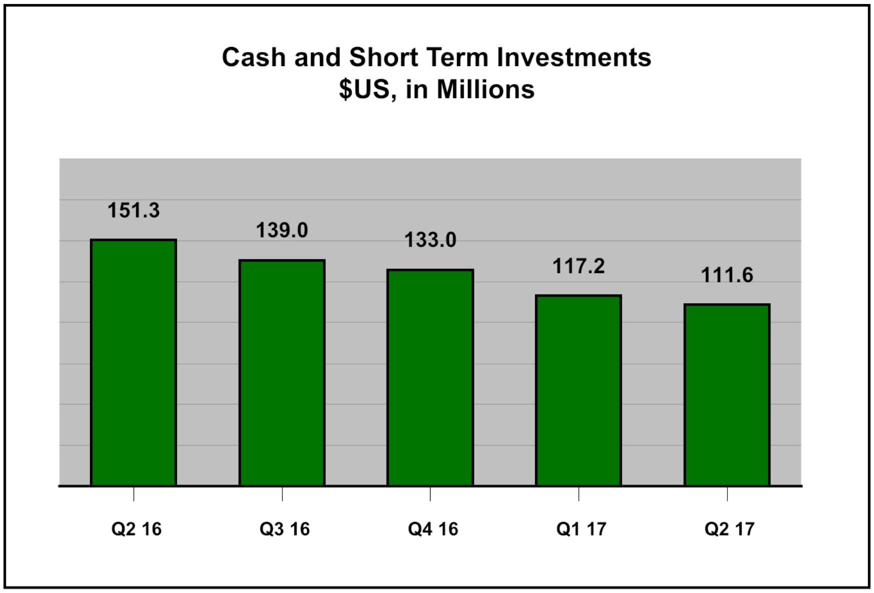
Inventory turnover - The Company has calculated its inventory turnover using the annualized most recent three months product cost of sales and the average of the beginning and ending inventory balance for such three month period.

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 for such three month period (demonstration inventory: May 31, 2017 - $0.7 million; November 30, 2016 - $0.8 million).

Cash and short term investments

Investments in cash equivalents and short term investments are governed by the Company's investment policy guidelines as approved by the Board. 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 $99.6 million at May 31, 2017 included mutual funds invested in money market instruments and high interest savings accounts with yields ranging from 0.86% to 1.44%.



At May 31, 2017, the Company's cash and short term investments decreased by $21.4 million, to $111.6 million, compared to $133.0 million at November 30, 2016. The decrease is primarily due to $26.5 million used for common share repurchases under a normal course issuer bid ("NCIB") (see Share Capital section of this MD&A for additional information) and $3.8 million used for the payment of the first and second quarter dividends. These decreases were partially offset by $11.2 generated by operating activities.

Working capital

Working capital represents the Company's current assets less its current liabilities. The Company's working capital balance decreased by $13.8 million to $127.2 million at May 31, 2017 from $141.0 million at the end of fiscal 2016. The decrease is primarily due to decreases in cash and short term investments (discussed above) of $21.4 million as well as the increase in deferred revenue of $9.5 million. These decreases to working capital were partially offset by the increase in accounts receivable of $8.2 million and the decrease in trade and other payables of $8.4, primarily as a result of the Company purchasing and canceling the limit of 12.5 million common shares under the 2016 NCIB (as defined in the Share Capital section of this MD&A) as of May 25, 2017. The Company's working capital ratio at May 31, 2017 (current assets divided by its current liabilities) decreased to 4.5 compared to 5.0 at November 30, 2016.

The Company's DSO increased to 137 days, compared to 112 days reported at the end of fiscal 2016. The Company's pro forma DSO was 106 days at May 31, 2017, compared to 97 days at the end of fiscal 2016. The increase in the Company's DSO and pro-forma DSO is consistent with the impact of increasing the payment terms provided to its direct and indirect customers as well as the impact the decrease in product revenue in the current quarter has on the determination of revenues for the purpose of the DSO calculation.

The Company anticipates the pro forma DSO will typically be in the range of 90-120 days. The Company will continue to monitor this target and update accordingly.

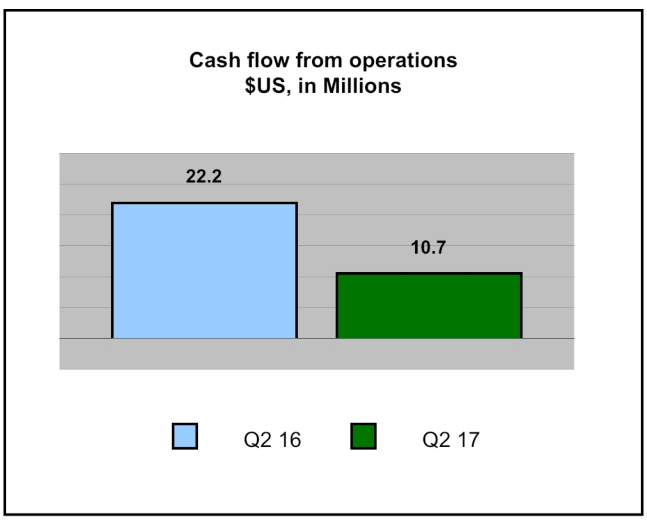
The Company's inventory turnover for the current quarter was 2.0 times per year, compared to 2.2 times per year at the end of fiscal of 2016. The Company also assesses its inventory turnover on a pro forma basis, which excludes demonstration inventory. The Company's pro forma inventory turnover for the current quarter was 2.3 times per year, compared to 2.7 times per year for the fourth quarter of 2016. The decrease compared to the fourth quarter is primarily the result of decreased product costs of sales as a result software revenue being higher as a proportion of total product in the current quarter.

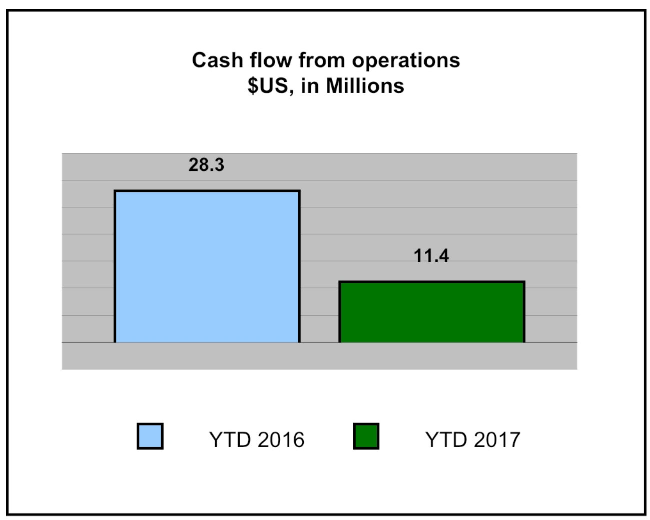
Historically, the Company has carried relatively high levels of inventory as a result of variability in product mix, the need to secure supply of long lead time parts and a strategic decision to maintain inventory levels that permit the Company to minimize customer delivery times. The Company continues to leverage a manufacturing services agreement to subcontract the manufacturing of some of its sub-assemblies reducing the levels of inventory on-hand.

Cash flow

	Three month period ended		Six month period ended	
	May 31, 2017 $	**May 31, 2016 $**	**May 31, 2017 $**	**May 31, 2016 $**
Amounts in US$ thousands				
Cash inflows and (outflows) by activity:				
Operating activities	10,720	22,215	11,435	28,334
Investing activities	1,301	(4,609)	16,227	(932)
Financing activities	(14,848)	(10,538)	(30,629)	(16,618)
Net increase (decrease) in cash	(2,827)	7,068	(2,967)	10,784

Cash provided by operating activities





Q2 2017 compared to Q2 2016

During the current quarter the Company generated $10.7 million of cash from operating activities, compared to generating cash of $22.2 million for the second quarter of 2016. During the current quarter, the Company had net income, adjusted for items not affecting cash, of $3.3 million and generated $7.4 million from changes in non-cash working capital balances. During the second quarter of 2016, the Company had net income, adjusted for items not affecting cash, of $7.0 million and generated $15.2 million from changes in non-cash working capital balances.

2017 YTD compared to 2016 YTD

During the six months ended May 31, 2017 the Company generated $11.4 million of cash from operating activities, compared to generating cash of $28.3 million for the same period of 2016. During the current six months, the Company had net income, adjusted for items not affecting cash, of $10.2 million and generated $1.2 million from changes in non-cash working capital balances. During the six months ended May 31, 2016, the Company had net income, adjusted for items not affecting cash, of $15.4 million and generated $12.9 million from changes in non-cash working capital balances.

Additions of capital and intangible software assets

Additions to capital and intangible software assets, were $1.2 million during the second quarter of fiscal 2017, compared to $2.9 million for the same period last year. The current quarter's acquisitions are primarily related to continued investment in hardware equipment to support the Company's research and development and IT infrastructure activities.

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 twelve months before consideration of completion of the Arrangement Agreement.

See the Corporate Information section of this MD&A for additional information regarding the Arrangement Agreement its impact on the Company's liquidity and capital resource requirements.

FINANCIAL INSTRUMENTS

The fair value of accounts receivable, other current assets, accounts payable and accrued liabilities approximates their carrying value due to the immediate or short-term maturity of these financial instruments. At May 31, 2017, the Company had a significant concentration of credit risk with one customer representing 10.2% of the Company's accounts receivable (May 31, 2016; one customer representing 10.1%).

Management of foreign exchange currency exposure is governed by the Company's foreign exchange policy as approved by its Board. 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 fifteen months, as at May 31, 2017:

Designation and maturity	Currency Sold	Currency Bought	Notional Amount Sold (in thousands)	Weighted Average Rate
Foreign exchange contracts – Cash flow hedges, maturing within one year	USD	CAD	21,363	1.317
Foreign exchange contracts – Cash flow hedges, maturing between one year and fifteen months	USD	CAD	2,407	1.329
Foreign exchange contracts – Cash flow hedges, maturing within one year	USD	EURO	2,209	0.918
Foreign exchange contracts – Cash flow hedges, maturing between one year and fifteen months	USD	EURO	263	0.890
Foreign exchange contracts – Cash flow hedges, maturing within one year	USD	GBP	1,121	0.789
Foreign exchange contracts – Cash flow hedges, maturing between one year and fifteen months	USD	GBP	133	0.769

The cash flow hedges are measured at fair value with the effective portion of the change in fair value initially recorded in other comprehensive income and reclassified to the consolidated statements of operations in the same period that the hedged anticipated transaction affects earnings. As at May 31, 2017, the cash flow hedges were assessed to be fully effective.

OUTSTANDING SHARE DATA

The Company has one class of shares consisting of an unlimited number of common shares. As of July 15, 2017, the Company has issued 123,497,198 common shares and 8,056,714 common share options under the Company's stock option plan (as further described in note 7 of its May 31, 2017 consolidated condensed interim financial statements).

SHARE CAPITAL

On November 3, 2016, the Toronto Stock Exchange ("TSX") approved the repurchase of the Company's common shares through a NCIB ("2016 NCIB"). Under the 2016 NCIB the Company may purchase for cancellation up to 12.5 million common shares (approximately) over a twelve month period. Transactions were 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 made by the Company were made in accordance with the rules of the TSX and the price that the Company paid for any shares acquired by it at the market price of the shares at the time of acquisition. The Company entered into an automatic share purchase plan (the "Plan") with a broker in order to facilitate the repurchase of its Shares under the 2016 NCIB which covers the period from November 7, 2016 to November 6, 2017. Under the Plan, Sandvine's broker was able to repurchase common shares under the 2016 NCIB. Purchases were made by Sandvine's broker based upon the parameters prescribed by the TSX and the terms of the Plan.

On October 7, 2015, the TSX approved the repurchase of the Company's common shares through a NCIB ("2015 NCIB"). The 2015 NCIB permitted the Company to purchase for cancellation up to 13.6 million common shares (approximately) over a twelve month period with transactions, purchases and payments to be in accordance and consistent with those outlined above. The Company entered into an automatic share purchase plan with a broker in order to facilitate the repurchase of its Shares under the 2015 NCIB which covered the period from October 13, 2015 to October 12, 2016. As of September 7, 2016, the Company had purchased and cancelled the limit of 13.6 million common shares under the 2015 NCIB.

During the three and six months ended May 31, 2017, the Company repurchased 5,760,400 and 12,041,000 shares under the 2016 NCIB for a total cost of $13.3 million and $26.5 million. The excess amount of $7.3 million and $13.8 million paid for these shares, relative to their weighted average carrying amount of $6.0 million and $12.7 million, was charged to retained earnings. All common shares repurchased by the Company have been cancelled. As of May 25, 2017, the Company had purchased and cancelled the maximum permitted limit of 12.5 million common shares under the 2016 NCIB.

CORPORATE INFORMATION

Vector Capital arrangement agreement

On July 6, 2017, the Company entered into the Amended Arrangement Agreement with Scalar Acquireco , an affiliate of Vector Capital. Under the Amended Arrangement Agreement, and with support from Sandvine's Board of Directors, Scalar Acquireco has agreed to acquire all of the issued and outstanding common shares of Sandvine, other than certain shares held by members of management, for CAD $4.15 in cash per share. The Amended Arrangement Agreement permitted the Company to actively solicit other acquisition proposals until July 7, 2017. On July 7, 2017, the Company received a binding offer from PNI Canada, an affiliate of Francisco Partners, to acquire all of the issued and outstanding shares of the Company by way of a plan of arrangement for cash consideration of CAD $4.40 per common share which the Board of Directors determined constituted a Superior Proposal (as defined in the Amended Arrangement Agreement). If the Company terminates the Amended Arrangement Agreement it may be required to pay a termination fee to Vector Capital Management, L.P. in the amount of CAD $16.9 million.

In the event the proposed arrangement with Scalar Acquireco is completed the Company will transfer to Scalar Acquireco by way of a non-interest bearing loan, all Unrestricted Cash (as defined in the Arrangement Agreement) other than $5.8 million, which amount is directed by Scalar Acquireco to be delivered by Sandvine to the Computershare Investor Services Inc., the depositary on behalf of, and for the benefit of, Scalar Acquireco.

For further details of the Arrangement Agreement, please see the Arrangement Agreement of July 6, 2017 and the management information circular of Sandvine dated June 16, 2017 which are available on SEDAR at www.sedar.com.

LEGAL PROCEEDINGS

From time to time, the Company may be involved in certain claims and litigation arising out of the ordinary course and conduct of business. Management assesses such claims and, if considered likely to result in a loss and, when the amount of the loss is quantifiable, provisions for loss are made, based on management's assessment of the most likely outcome. The Company does not provide for claims for which the outcome is not determinable or claims where the amount of the loss cannot be reasonably estimated. Any settlements or awards under such claims are provided for when reasonably determinable.

A patent infringement claim against the Company and its wholly owned subsidiary Sandvine Incorporated ULC was filed on February 17, 2016 in the United States District Court of the Eastern District of Texas by Packet Intelligence LLC. Damages have not been specified. In addition, a patent infringement claim against the Company and its wholly owned subsidiary Sandvine Incorporated ULC, and Sandvine GmbH (Germany) was filed on July 7, 2016 in Regional Court of Mannheim, Germany. Damages have been specified at 0.7 million Euros.

The outcome of all the proceedings and claims against the Company, including the matters described above, are subject to future resolution that includes the uncertainties of litigation. It is not possible for the Company to predict the result or magnitude of the claims described above due to the various factors and uncertainties involved in the legal process. If it becomes probable that the Company will be held liable for claims against the Company, the Company will recognize a provision during the period in which the change in probability occurs, which could be material to the Company's consolidated statements of income or consolidated statements of financial position.

OFF BALANCE SHEET ARRANGEMENTS

The Company has entered into forward currency contracts (disclosed under "Financial Instruments" above), and letters of credit (disclosed under note 15 of the May 31, 2017 unaudited interim condensed consolidated financial statements) which are considered "off-balance sheet" arrangements as that term is described in National Instrument 51-102F2.

SIGNIFICANT ACCOUNTING POLICIES AND CRITIAL ACCOUNTING ESTIMATES

The preparation of the interim condensed consolidated financial statements in compliance with IFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. It also requires management to exercise judgement in applying the Company's accounting policies. 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 judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The significant accounting policies applied in the preparation of the consolidated condensed interim financial statements are consistent with those disclosed in note 2 of the Company's audited consolidated financial statements for the year ended November 30, 2016. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant have not changed from those disclosed in notes 2.2 and 2.3 to the Company's audited consolidated financial statements for the year ended November 30, 2016.

ACCOUNTING CHANGES AND IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The standard issued but not yet effective or amended up to the date of issuance of the Company's interim condensed consolidated financial statements is listed below. This listing is of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The standard below should be read in conjunction with the annual audited consolidated financial statements for a complete description of future changes in accounting policies. The Company has not determined if they will early adopt any standards at this time.

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which establishes a single comprehensive model of accounting for revenue arising from contracts with customers that an entity will apply to determine the measurement of revenue and timing of when it is recognized. IFRS 15 supersedes current revenue recognition guidance, which is found currently across several standards and interpretations including IAS 11, Construction Contracts and IAS 18, Revenue. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods and services to customers in an amount that reflects the amount an entity expects to be entitled in exchange for those goods and services. The new standard will also result in enhanced disclosures about revenue that would result in an entity providing comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. This amendment is applicable for annual periods beginning on January 1, 2018. The Company has not yet assessed the impact of the adoption of this standard on its interim condensed consolidated financial statements.

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 compliance with IFRS. 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 May 31, 2017 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. There were no material changes to the Company's internal controls during the second quarter of fiscal 2017.

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 the Company's unaudited operating results for each of the quarters ended on the date indicated:

Fiscal 2017 *(in thousands of US dollars)*	**Three months ended**				**Fiscal year to date**
	February 28, 2017 $	**May 31, 2017 $**	**August 31, 2017 $**	**November 30, 2017 $**	**May 31, 2017 $**
Revenue	33,335	27,531			60,866
Expenses	19,300	19,723			39,023
Net income	4,068	1,107			5,175
Basic earnings per share	0.031	0.009			0.041
Diluted earnings per share	0.031	0.009			0.039
Total assets	209,650	205,614			205,614

Fiscal 2016 *(in thousands of US dollars)*	**Three months ended**				**Fiscal year to date**
	February 29, 2016 $	**May 31, 2016 $**	**August 31, 2016 $**	**November 30, 2016 $**	**November 30, 2016 $**
Revenue	34,158	33,538	26,084	26,953	120,733
Expenses	18,655	19,576	17,911	17,626	73,768
Net income	5,619	3,988	1,471	2,043	13,121
Basic earnings per share	0.039	0.028	0.011	0.015	0.095
Diluted earnings per share	0.038	0.028	0.010	0.015	0.092
Total assets	243,141	241,124	221,335	220,123	220,123

Fiscal 2015 *(in thousands of US dollars)*	**Three months ended**				**Fiscal year to date**
	February 28, 2015 $	**May 31, 2015 $**	**August 31, 2015 $**	**November 30, 2015 $**	**November 30, 2015 $**
Revenue	32,441	28,586	27,265	35,039	123,331
Expenses	17,195	18,124	18,867	3,905	58,091
Net income	10,164	2,985	2,951	25,178	41,278
Basic earnings per share	0.069	0.020	0.020	0.172	0.280
Diluted earnings per share	0.067	0.020	0.019	0.168	0.273
Total assets	213,485	220,720	219,934	240,458	240,458

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.