Consolidated Financial Statements of

BRIDGEWATER SYSTEMS CORPORATION

December 31, 2009 and 2008

Deloitte & Touche LLP
800 - 100 Queen Street
Ottawa ON K1P 5T8
Canada

Tel: (613) 236-2442
Fax: (613) 236-2195
www.deloitte.ca

Auditors' Report

To the Shareholders of
Bridgewater Systems Corporation

We have audited the consolidated balance sheets of Bridgewater Systems Corporation (the "Company") as at December 31, 2009 and 2008 and the consolidated statements of earnings and comprehensive earnings, cash flows and of shareholders' equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

February 24, 2010

BRIDGEWATER SYSTEMS CORPORATION
Consolidated Financial Statements
December 31, 2009 and 2008

BRIDGEWATER SYSTEMS CORPORATION
Consolidated Statements of Earnings and Comprehensive Earnings
years ended December 31, 2009 and 2008
(expressed in Canadian dollars)

		2009		2008
Revenue				
Product	$	49,372,413	$	28,586,917
Service and support		17,303,896		15,591,272
		66,676,309		44,178,189
Cost of sales		20,951,811		10,226,717
Gross margin		45,724,498		33,951,472
Expenses				
Sales and marketing		13,880,517		13,372,256
Research and development (Note 6)		15,718,157		14,934,992
General and administration		5,428,610		3,919,694
Investment tax credit carryforwards recognized (Note 6)		(2,000,000)		-
Bad debt (recovery) expense (Note 8)		(158,278)		1,183,077
Stock-based compensation		370,817		234,827
		33,239,823		33,644,846
Earnings before undernoted items		12,484,675		306,626
Foreign exchange (loss) gain		(189,619)		1,495,851
Interest and other income		543,585		1,260,670
Loss on disposal of property, equipment and intangible assets		(130,820)		(118,159)
Earnings before income taxes		12,707,821		2,944,988
Current income tax expense (Note 6)		2,000,000		-
Future income tax (recovery) expense (Note 6)		(496,000)		180,000
NET EARNINGS AND COMPREHENSIVE EARNINGS	$	11,203,821	$	2,764,988
Net earnings per share - basic	$	0.46	$	0.12
Net earnings per share - diluted	$	0.44	$	0.11
Weighted average number of shares outstanding - basic (Note 5)		24,179,224		22,653,503
Weighted average number of shares outstanding - diluted (Note 5)		25,248,147		24,183,094

See accompanying notes to the consolidated financial statements

BRIDGEWATER SYSTEMS CORPORATION
Consolidated Balance Sheets
as at December 31, 2009 and 2008
(expressed in Canadian dollars)

		2009		2008
CURRENT ASSETS				
Cash and cash equivalents	$	**53,828,859**	$	50,363,771
Short-term investments (Note 8)		**13,459,190**		-
Accounts receivable (Note 8)		**24,879,197**		13,423,994
Unbilled receivables		**1,360,741**		968,363
Deferred cost of sales		**12,324,813**		3,518,085
Prepaid expenses and other assets		**3,229,227**		1,735,267
Future income tax asset (Note 6)		**5,113,000**		2,557,000
		114,195,027		72,566,480
DEFERRED COST OF SALES		**-**		5,525,354
FUTURE INCOME TAX ASSET (Note 6)		**3,703,000**		5,763,000
PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS (Note 3)		**3,604,811**		3,351,911
	$	**121,502,838**	$	87,206,745
CURRENT LIABILITIES				
Accounts payable and accrued liabilities	$	**9,617,441**	$	7,305,923
Deferred revenue		**44,288,403**		24,013,113
		53,905,844		31,319,036
SHAREHOLDERS' EQUITY				
Share capital (Note 5)		**69,872,842**		68,444,332
Contributed surplus		**908,194**		834,041
Deficit		**(3,184,042)**		(13,390,664)
		67,596,994		55,887,709
	$	**121,502,838**	$	87,206,745

APPROVED BY THE BOARD

Ed Ogonek, Director

Russ Freen, Director

See accompanying notes to the consolidated financial statements.

BRIDGEWATER SYSTEMS CORPORATION

Consolidated Statements of Cash Flows

years ended December 31, 2009 and 2008
(expressed in Canadian dollars)

		2009		2008
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net earnings	**$**	**11,203,821**	$	2,764,988
Items not affecting cash				
Bad debt expense		**332,461**		1,183,077
Stock-based compensation		**370,817**		234,827
Foreign exchange loss (gain) on cash held in foreign currency		**3,658,289**		(1,826,193)
Loss on disposal of assets		**130,820**		118,159
Future income tax (recovery) expense		**(496,000)**		180,000
Amortization of property, equipment and intangible assets		**1,494,768**		1,400,482
		16,694,976		4,055,340
Changes in non-cash operating working capital items (Note 10)		**5,531,388**		11,619,949
		22,226,364		15,675,289
INVESTING				
Purchase of short-term investments		**(13,459,190)**		-
Purchases of property, equipment and intangible assets		**(1,778,444)**		(1,053,072)
Deferred cost of sales		**-**		(5,525,354)
Repayment of note receivable		**-**		10,000,000
		(15,237,634)		3,421,574
FINANCING				
Proceeds from issuance of common shares (Note 5)		**2,621,796**		936,034
Repurchase of shares under normal course issuer bid (Note 5)		**(2,487,149)**		-
Share issuance costs		**-**		(66,558)
		134,647		869,476
Foreign exchange (loss) gain on cash held in foreign currency		**(3,658,289)**		1,826,193
NET CASH INFLOW		**3,465,088**		21,792,532
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**50,363,771**		28,571,239
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$**	**53,828,859**	$	50,363,771
Supplementary information:				
Cash on hand and bank balances	**$**	**17,485,505**	$	19,661,902
Cash equivalents		**36,343,354**		30,701,869
Total cash and cash equivalents	**$**	**53,828,859**	$	50,363,771
Interest received	**$**	**485,749**	$	1,258,824

See accompanying notes to the consolidated financial statements

BRIDGEWATER SYSTEMS CORPORATION
Consolidated Statements of Shareholders' Equity
years ended December 31, 2009 and 2008
(expressed in Canadian dollars)

	Common Shares Number	Common Shares Amount	Contributed Surplus	Deficit	Shareholders' Equity
Balance at December 31, 2007	22,202,882	$ 67,477,616	$ 696,454	$ (16,155,652)	$ 52,018,418
Stock-based compensation	-	-	234,827	-	234,827
Exercise of stock options (Note 5)	766,819	1,033,274	(97,240)	-	936,034
Share issuance costs	-	(66,558)	-	-	(66,558)
Net earnings	-	-	-	2,764,988	2,764,988
Balance at December 31, 2008	22,969,701	$ 68,444,332	$ 834,041	$ (13,390,664)	$ 55,887,709
Stock-based compensation	-	-	370,817	-	370,817
Repurchase of shares under normal course issuer bid	(528,485)	(1,489,950)	-	(997,199)	(2,487,149)
Exercise of stock options (Note 5)	1,991,252	2,918,460	(296,664)	-	2,621,796
Net earnings	-	-	-	11,203,821	11,203,821
Balance at December 31, 2009	**24,432,468**	**$ 69,872,842**	**$ 908,194**	**$ (3,184,042)**	**$ 67,596,994**

See accompanying notes to the consolidated financial statements.

1. DESCRIPTION OF BUSINESS

Bridgewater Systems Corporation (the "Company") was incorporated under the Canada Business Corporations Act and commenced operations in April 1997. The Company develops, designs, and markets mobile personalization products and services that enable service providers to efficiently manage and profit from mobile data services, content and commerce.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and include the following significant accounting policies.

Basis of presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Bridgewater Systems Inc. and Bridgewater Systems (UK) Ltd. All intercompany accounts and transactions have been eliminated.

Cash and cash equivalents

Cash and cash equivalents includes investments and other highly liquid, low risk financial instruments which have terms of three months or less at the time of acquisition.

Short-term investments

Short-term investments includes financial instruments which have terms of greater than three months and less than one year at the time of acquisition. All short-term investments are classified as held to maturity and are measured at amortized cost.

Foreign currency translation

The accounts of the Company's US and UK subsidiaries, which are considered to be integrated subsidiaries, and accounts in foreign currencies have been translated into Canadian dollars using the temporal method of foreign currency translation. Under this method, monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Non-monetary items are at rates in effect on the dates of the transactions. Revenue and expenses are translated at the average rate for the period. The resulting translation adjustments are included in the determination of net earnings.

Property, equipment and intangible assets

Property, equipment and intangible assets are recorded at cost. Amortization is calculated using the declining-balance method over the estimated useful lives of the assets as follows:

Office furniture and fixtures	20%
Computer equipment	30%
Leasehold improvements	shorter of useful life or term of the lease
Intangible assets	100%

Intangible assets are comprised of computer software.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of long-lived and intangible assets

Long-lived and intangible assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Revenue recognition

The Company's revenue is derived from the sale of software licenses, hardware integrated with licensed software, professional services and maintenance and support. Product revenue includes licensed software, hardware integrated with licensed software and feature development on standard products. Service and support revenue includes installation, training and integration, maintenance, software support, updates and the right to receive product upgrades on a when and if available basis. Software is sold through a perpetual license or, in limited cases, a subscription with a customer support and maintenance contract and may be integrated with hardware or include feature development and professional services.

The Company recognizes revenue when there is a legally binding arrangement with a customer, delivery has occurred such that title and risk of loss have been transferred to the customer or services have been rendered, the fee is fixed or determinable and collectability is reasonably assured.

Customer acceptance provisions included in an arrangement are based on the Company's product specifications. Revenue is recognized when the Company has demonstrated compliance with the specifications or has had a history of customer acceptance that provides no uncertainty of acceptance upon delivery of the product that would defer revenue recognition.

Arrangements may be comprised of multiple product and service elements. Revenue for customer support and maintenance services, feature development and professional services included in a multiple element arrangement are unbundled from the total fee for the arrangement based on reliable objective evidence of their fair value and the residual amount is allocated to the initial products delivered. Where reliable objective evidence of fair value for an element does not exist, revenue is deferred until such evidence exists for the remaining deliverables or only one element remains to be delivered. Where software is sold as a perpetual license, revenue is recognized on each element of the arrangement when all revenue recognition criteria have been met. Customer support and maintenance services, which include upgrades only on a when and if available basis, are recognized ratably over the service period. Professional services revenue is generally recognized on a proportional performance basis taking into consideration the hours completed to date in relation to the total expected hours to complete the deliverable. Where software is sold on a subscription basis, revenue for the entire arrangement is recognized on a ratable basis over the term of the subscription. Where an arrangement is comprised of multiple deliverables of the same or similar products and related services over time, revenue is allocated proportionately to each product deliverable and recognized for the delivered product and related services when all revenue recognition criteria have been met.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Feature development services can either be sold separately or as a part of a multiple element arrangement. Development comprised of feature and functionality enhancements requested by a customer are treated as a separate element in a multiple element arrangement if they are not considered critical to the functionality of the products and the total price would vary if these features are excluded or included. If the development is considered critical to the functionality of the delivered product, the product revenue is included with the feature development revenue. Revenue for feature development is recognized as effort is incurred. If there is a significant uncertainty about the project completion or receipt of payment, revenue is deferred until the uncertainty is sufficiently resolved. The Company estimates the proportional performance on contracts with fixed or “not to exceed” fees on a monthly basis utilizing hours incurred to date as a percentage of total estimated hours to complete the project. When total cost estimates exceed revenues, the Company will accrue for the estimated losses immediately using cost estimates that are based upon an average fully burdened rate applicable to the individuals performing the feature development.

The Company does not provide for a right of return to its customers or resellers, with the exception of one reseller who has the right to return any unused licenses for a defined period of time after delivery. A return provision is recorded for the estimated returns at the time of delivery based on historical experience. Revenue for sales to resellers is recognized upon delivery to the reseller and when all revenue recognition criteria have been met.

Under certain arrangements, the Company may be required to provide compensation to a customer if and when specified product performance or customer support service levels are not met. A portion of the revenue for the arrangement is deferred equivalent to our estimate of the expected performance compensation payments to be incurred until the performance period has lapsed or there is sufficient evidence to adjust the estimate.

Warranty costs are accrued based on the expected costs to be incurred.

Unbilled receivables arise where professional services are performed or product is delivered prior to the Company’s ability to invoice in accordance with the contract terms.

Deferred revenue arises when payments are received from customers in advance of revenue recognition criteria being met.

Deferred cost of sales

Under certain arrangements, the Company incurs costs for hardware and third party software delivered as part of the arrangement and in advance of recognizing revenue. These costs are recorded as deferred cost of sales and carried forward until the related revenues are recognized, at which time it is expensed. Deferred cost of sales is recorded at the lower of cost and net realizable value.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of accounting estimates

The preparation of these consolidated financial statements in conformity with GAAP requires the Company's management to make estimates that affect the reported amount of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Significant estimates are used in determining proportional performance on contracts, stock-based compensation expense, expected performance compensation payments, future income taxes, amortization, warranty provision, allowance for doubtful accounts, investment tax credits and contingencies. Actual results could differ from the estimates made by management.

Research and development

Research costs are expensed as incurred. Development costs are deferred and amortized when the criteria for deferral are met, or otherwise, are expensed as incurred. To date, no development costs have been deferred.

Income taxes

The Company uses the asset and liability method to account for income taxes. Future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases. Future income tax assets and liabilities are measured using substantively enacted statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in statutory tax rates is recognized in net earnings in the year of change. Future income tax assets are recorded when their recoverability is considered more likely than not.

Stock-based compensation

The Company follows the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870, *Stock-Based Compensation and Other Stock-Based Payments*, which establishes standards for the recognition, measurement and disclosure of stock-based compensation. The Company measures and recognizes compensation expense based on the fair value of the stock options issued. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. Consideration paid by employees on the exercise of stock options is recorded as share capital and the related stock-based compensation is transferred from contributed surplus to share capital.

Earnings per share

Basic net earnings per share is calculated by dividing the net earnings by the weighted average shares outstanding for the period. Diluted net earnings per share is calculated using the treasury stock method by dividing net earnings by the diluted weighted average shares outstanding for the period. Options under the stock-based compensation plan that have a dilutive impact are assumed to have been exercised on the later of the beginning of the period or the date granted and are included in the diluted weighted average shares.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

The Company classifies its financial instruments as held-for-trading, held-to-maturity, available-for-sale, loans and receivables and other financial liabilities. The classification depends on the purpose for which the financial instruments were acquired, their characteristics and management's intent. Management determines the classification of financial assets and liabilities at initial recognition and, except in very limited circumstances, the classification is not changed subsequent to initial recognition. The Company designated its cash and cash equivalents and foreign exchange contracts as held-for-trading which are measured at fair value, with changes in fair value being recorded in net earnings. Short-term investments and accounts receivable have been classified as held-to-maturity and loans and receivables respectively, which are both measured at amortized cost. Accounts payable and accrued liabilities have been classified as other financial liabilities, which are measured at amortized cost. Due to the short-term nature of these assets and liabilities, the fair values approximate amortized cost.

Transaction costs directly attributable to the acquisition of a financial asset or the issuance of a financial liability are recorded in net earnings in the period in which they are incurred.

Hedging relationships and derivative financial instruments

The Company enters into forward contracts to reduce its exposure to fluctuations in foreign exchange rates. The Company does not use any derivative financial instruments for speculative purposes. As the Company does not designate these forward contracts as hedges, these instruments are measured at fair value with changes recognized in earnings.

Changes in accounting policies

Goodwill and intangible assets

Effective January 1, 2009, the Company adopted the new CICA standard, Handbook Section 3064, *Goodwill and Intangible Assets,* which replaced Handbook Section 3062 *Goodwill and Other Intangible Assets* and Handbook Section 3450, *Research and Development Costs*. This revision aligns Canadian GAAP with International Financial Reporting Standards ("IFRS") and establishes standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Adoption of this new standard did not have a material effect on the Company's consolidated financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in accounting policies (Continued)

Financial instruments

In June 2009, the CICA amended Section 3862 *Financial Instruments – Disclosure* which requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The accounting standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. CICA Handbook Section 3862 prioritizes the inputs into three levels that may be used to measure fair value:

a) Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
b) Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.
c) Level 3 – Applies to assets or liabilities for which there are not observable market data.

The Company's financial instruments consist principally of cash, short-term investments, accounts receivable, accounts payable and accrued liabilities. Pursuant to CICA Handbook Section 3862, fair value of assets and liabilities measured on a recurring basis include cash and cash equivalents determined based on Level 1 and Level 2 inputs. The Company believes that the recorded values of all of the other financial instruments approximate their current fair values because of their nature and respective maturity dates or durations.

Recently issued accounting standards

Business combinations

In January 2009, the CICA issued Handbook Section 1582, *Business Combinations*, which will replace Handbook Section 1581, *Business Combinations.* The new standard is effective for acquisitions in fiscal years beginning on or after January 1, 2011 but with earlier adoption permitted and provides the Canadian equivalent to IFRS 3, *Business Combinations*. The new standard is not expected to have a material effect on the Company's consolidated financial statements.

Consolidated financial statements

In January 2009, the CICA issued Handbook Sections 1601, *Consolidated Financial Statements*, and 1602, *Non-Controlling Interests*, which will replace Handbook Section 1600, *Consolidated Financial Statements*. These new standards are effective for interim and annual consolidated statements for fiscal years beginning on or after January 1, 2011 but with earlier adoption permitted and provide the Canadian equivalent to IFRS IAS 27, *Consolidated and Separate Financial Statements*. The new standards are not expected to have a material effect on the Company's consolidated financial statements.

(expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently issued accounting standards (Continued)

Revenue recognition

In December 2009, the CICA issued Emerging Issues Committee EIC-175, *Multiple Deliverable Revenue Arrangements.* This new standard is applied to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011 but with earlier adoption permitted. The new standard requires a vendor to allocate arrangement consideration at the inception of an arrangement to all deliverables using the relative selling price method. It also changes the level of evidence of the standalone selling price required to separate deliverables when more objective evidence of the selling price is not available. It is the Company's intention to not early adopt the standard and therefore the Company has not assessed the impact the standard may have on the Company's consolidated financial statements.

3. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	2009		
	Cost	**Accumulated Amortization**	**Net Book Value**
Office furniture and fixtures	**$ 498,875**	**$ 283,954**	**$ 214,921**
Computer equipment	**5,978,671**	**3,082,012**	**2,896,659**
Leasehold improvements	**1,105,655**	**758,760**	**346,895**
Property and equipment	**$ 7,583,201**	**$ 4,124,726**	**$ 3,458,475**
Computer software	**512,526**	**366,190**	**146,336**
Intangible assets	**$ 512,526**	**$ 366,190**	**$ 146,336**
	$ 8,095,727	**$ 4,490,916**	**$ 3,604,811**

	2008		
	Cost	Accumulated Amortization	Net Book Value
Office furniture and fixtures	$ 520,567	$ 291,674	$ 228,893
Computer equipment	5,185,536	2,747,877	2,437,659
Leasehold improvements	1,137,165	563,994	573,171
Property and equipment	$ 6,843,268	$ 3,603,545	$ 3,239,723
Computer software	222,115	109,927	112,188
Intangible assets	$ 222,115	$ 109,927	$ 112,188
	$ 7,065,383	$ 3,713,472	$ 3,351,911

(expressed in Canadian dollars)

4. LEASE OBLIGATIONS

The Company has operating leases for office space and equipment. The future minimum lease payments related to these leases are as follows:

Fiscal Year	Operating Leases
2010	**$ 1,379,000**
2011	**586,000**
2012	**318,000**

5. SHARE CAPITAL

Authorized: unlimited number of voting common shares entitled to dividends when and if declared.

Stock options

The Company has established a stock option plan applicable to full-time employees, and members of the Board of Directors for the purchase of common shares. Options are granted with an exercise price equal to the fair value of the common shares of the Company, and may be exercised as follows: up to 25% following the first anniversary date and up to 1/36 of 75% during each of the 36 months immediately following the first anniversary. All options expire on the fifth anniversary of grant or upon termination of employment.

The maximum number of options available for issuance under the plan at December 31, 2009 is 3,664,870, reflecting 15% of the Company's issued and outstanding common shares.

The terms of the plan include:

- Until such time as the number of shares issuable under granted options plus 450,000 is less than 15% of the common shares outstanding, as options are exercised, forfeited or expire, 50% of the number of common shares previously issuable under such options will be available for future grant and the other 50% will no longer be available.

- If an option expires within or immediately following a black-out period, an option holder may elect to extend the expiry date of the option to ten days beyond the end of the black-out period providing it is no later than December 31st of the original year of expiry or no later than the 15th of the third month following the original month of expiry.

- The exercise price of all new options granted will be equal to the fair value of the common shares deemed to be the volume weighted average for the five trading days prior to the date of grant.

(expressed in Canadian dollars)

5. SHARE CAPITAL (Continued)

Stock options (Continued)

Activity in the stock option plan is summarized below:

	Number of Options	Weighted Average Exercise Price
Options outstanding, December 31, 2007	3,823,767	$ 1.75
Granted	639,250	$ 2.54
Exercised	(766,819)	$ 1.22
Forfeited	(243,457)	$ 2.99
Expired	(41,041)	$ 1.15
Options outstanding, December 31, 2008	**3,411,700**	**$ 1.93**
Granted	451,250	$ 3.86
Exercised	(1,991,252)	$ 1.32
Forfeited	(71,962)	$ 3.44
Expired	(86)	$ 1.15
Options outstanding, December 31, 2009	**1,799,650**	**$ 3.04**

The following tables summarize information about stock options outstanding at December 31, 2009:

Exercise Price	Number Outstanding	Weighted Average Remaining Life (Years)	Number Exercisable
$ 1.15	600	0.01	600
$ 1.50	249,951	0.56	249,305
$ 1.85	206,251	3.94	41,247
$ 2.00	95,550	1.47	76,830
$ 2.76	326,845	3.33	131,845
$ 3.09	13,954	3.09	5,980
$ 3.62	41,265	3.16	13,068
$ 3.76	336,250	4.20	63,009
$ 4.00	397,246	2.38	239,686
$ 4.08	102,488	4.33	14,904
$ 4.98	10,000	4.44	1,248
$ 5.50	19,250	2.67	10,896
$ 3.04	**1,799,650**	**2.92**	**848,618**

The weighted average exercise price of all options exercisable at December 31, 2009 was $2.78.

(expressed in Canadian dollars)

5. SHARE CAPITAL (Continued)

Stock options (Continued)

The following tables summarize information about stock options outstanding at December 31, 2008:

Exercise Price	Number Outstanding	Weighted Average Remaining Life (Years)	Number Exercisable
$ 1.15	1,584,422	0.33	1,583,888
$ 1.50	530,260	1.56	449,886
$ 1.85	220,000	4.94	–
$ 2.00	165,929	2.45	103,749
$ 2.76	338,000	4.33	56,264
$ 3.09	21,250	4.83	884
$ 3.62	53,320	4.16	12,141
$ 4.00	462,182	3.37	182,548
$ 5.50	36,337	3.71	11,628
$ 1.93	3,411,700	1.85	2,400,988

The weighted average exercise price of total options exercisable at December 31, 2008 was $1.54.

The weighted average fair value of all options granted was estimated as of the date of grant using the Black-Scholes option pricing model with the following assumptions:

	2009	2008
Expected option life (years)	**4.0**	4.0
Volatility	**48.98%**	46.05%
Risk-free interest rate	**1.87%**	2.78%
Dividend yield	–	–

The weighted average fair value of stock options granted in the years ending December 31, 2009 and 2008 were $1.53 and $0.98, respectively.

The Black-Scholes model used by the Company to calculate option values, as well as other currently accepted option valuation models, was developed to estimate the fair value of freely tradable, fully transferable options without vesting restriction, which significantly differ from the Company's stock option awards. These models also require highly subjective assumptions, including future stock price volatility and expected time until exercise, which greatly affect the calculated values.

(expressed in Canadian dollars)

5. SHARE CAPITAL (Continued)

Share repurchase

On March 12, 2009, the Toronto Stock Exchange (the "TSX") accepted the Company's notice of intention to repurchase up to 1,148,962 common shares (5 percent of the Company's issued and outstanding common shares) through a normal course issuer bid ("NCIB"). The NCIB was effective March 17, 2009 and will expire March 16, 2010. Daily purchases over the facilities of the TSX are limited to 9,545 shares, other than pursuant to block purchase exemptions. Except in the case of an exempt purchase, the prices that the Company will pay for the common shares purchased will be the market price of the shares at the time of acquisition.

During the year ended December 31, 2009, the Company acquired 528,485 common shares pursuant to the NCIB through an automatic share purchase plan at prevailing market prices. These shares were purchased for cancellation at an aggregate cost of $2,487,149 of which $1,489,950 was charged to share capital, based on the average per share amount in the share capital account at the date of purchase, and the balance of $997,199 was charged to deficit.

Earnings per share

For the year ended December 31, 2009, 99,318 (2008 – 896,001) weighted average stock options outstanding had an exercise price greater than the average fair value of the shares and were excluded from the computation of earnings per share because they were anti-dilutive.

	2009	2008
Weighted average shares outstanding – basic	**24,179,224**	22,653,503
Dilutive effect of stock options	**1,068,923**	1,529,591
Weighted average shares outstanding – diluted	**25,248,147**	24,183,094

Capital management

The Company's capital is composed of its shareholders' equity. The Company manages its capital to ensure financial stability to increase shareholder value through organic growth, as well as allow the Company to respond to changes in economic and/or commercial conditions. In order to maintain or adjust its capital structure, the Company could issue new shares, purchase shares for cancellation, approve special dividends or raise debt. At this time, the Company has not utilized debt facilities as part of its capital management program nor paid dividends to its shareholders. With the exception of a letter of credit issued in conjunction with a supply agreement (see Note 9), the Company is not subject to externally imposed capital requirements and there were no other changes in the Company's approach to capital management during the year.

(expressed in Canadian dollars)

6. INCOME TAXES

Tax reconciliation

	2009	2008
Statutory tax rate	**33.00%**	33.50%
Expected income tax expense	**$ 4,193,581**	$ 986,571
Permanent differences	**159,609**	120,882
Foreign/provincial rate differential	**94,893**	(28,965)
Valuation allowance (reduction) increase	**(3,438,562)**	442,174
Impact of change in substantively enacted tax rates	**585,169**	—
Benefit of tax deductions not previously recorded	**—**	(1,257,331)
Other	**(90,690)**	(83,331)
Income tax expense	**$ 1,504,000**	$ 180,000

Research and development

The Company claims research and development expenditures and related investment tax credits based on management's interpretation of the applicable legislation in the Income Tax Act of Canada. These claims are subject to review by the Canada Revenue Agency. As at December 31, 2009, the Company has recorded non-refundable investment tax credits earned in prior years of $2,000,000 (December 31, 2008 - $NIL) in operating expenses. These credits were used to offset current income tax liabilities.

At December 31, 2009, the Company has approximately $7,700,000 (2008 - $7,061,000) of non-refundable investment tax credits carried forward, relating primarily to research and development, available to reduce future years Canadian federal income taxes. These potential benefits expire as follows:

2027	**$ 2,432,000**
2028	**867,000**
2029	**2,383,000**
2030	**2,018,000**
	$ 7,700,000

The Company has claimed less research and development expenses for income tax purposes than has been expensed in the financial statements. As at December 31, 2009, these unclaimed expenses total approximately $27,700,000 (December 31, 2008 - $30,000,000). These deductions are available without expiry to reduce future years' taxable income.

As at December 31, 2009, the Company has $360,000 (December 31, 2008 - $684,000) of Ontario tax balance harmonization credits that can be applied against Ontario provincial corporate taxes.

(expressed in Canadian dollars)

6. INCOME TAXES (Continued)

The US subsidiary has losses available to reduce future years' federal taxable income totalling approximately $2,835,000 (US$2,700,000) (December 31, 2008 - $4,025,000, US$3,500,000). These losses begin to expire in 2020.

Future tax assets

In assessing the value of future tax assets, the Company considers whether it is more likely than not that all or some portion of the future tax asset will not be realized. During fiscal 2009 and 2008, the Company determined that certain future tax assets are considered more likely than not to be realized.

The sources of accumulated temporary differences and carry forwards and the related future income taxes are as follows:

	2009	2008
Tax basis of capital assets (less than) greater than book values	**$ (189,405)**	$ (80,552)
Research and development expenses not deducted for tax purposes	**7,345,490**	9,164,464
Provincial tax balance harmonization credits	**360,242**	684,188
Losses available to offset future income taxes	**1,140,870**	1,610,903
Share issue costs available to offset future income taxes	**463,496**	684,252
Future income tax asset before valuation allowance	**9,120,693**	12,063,255
Less: valuation allowance	**(304,693)**	(3,743,255)
Future income tax asset	**$ 8,816,000**	$ 8,320,000
Current	**$ 5,113,000**	$ 2,557,000
Long term	**3,703,000**	5,763,000

7. RELATED PARTY TRANSACTIONS

The Company leases premises from a company controlled by the Chairman of the Board of Directors, under terms and conditions reflecting prevailing market conditions at the time of entering the lease. For the year ended December 31, 2009, the Company incurred rent expenses of $884,924 (2008 - $888,781). In addition, the Company purchased leasehold improvements from a company controlled by the Chairman of the Board of Directors for $55,563 in fiscal 2009 (2008 - $17,643).

For the year ended December 31, 2009, the Company purchased sales and development services from a company controlled by the Chairman of the Board in the amount of $129,920 (2008 - $NIL).

All related party transactions noted above were entered into the normal course of operations and are recorded at the exchange amount.

8. FINANCIAL INSTRUMENTS

Comprehensive earnings

The Company had no other comprehensive earnings or loss transactions during the year ended December 31, 2009 and no opening or closing balances for accumulated other comprehensive earnings or loss.

Financial assets and financial liabilities

Financial instruments are classified into one of the following categories: held-for-trading, held-to-maturity, available-for-sale, loans and receivables and other financial liabilities. The following table summarizes information regarding the carrying values of the Company's financial instruments:

	December 31, 2009	December 31, 2008
Held-for-trading [1]	**$ 53,828,859**	$ 50,377,946
Held-to-maturity [2]	**$ 13,459,190**	–
Loans and receivables [3]	**$ 24,879,197**	$ 13,423,994
Other financial liabilities [4]	**$ 9,617,441**	$ 7,305,923

[1] Includes cash and cash equivalents and foreign exchange derivatives

[2] Includes short-term investments with a fixed term to maturity greater than 3 months but less than one year

[3] Includes accounts receivable

[4] Includes accounts payable and accrued liabilities

Currency risk

The Company's financial results are reported in Canadian dollars. The Company is exposed to foreign currency risk primarily from fluctuations in the value of the Canadian dollar relative to that of the US dollar. The Company's revenues are generally denominated in US dollars as are a portion of cost of sales and operating expenses. The Company uses foreign currency forward contracts to minimize the short-term impact of currency fluctuations on foreign currency receivables and payables. Foreign currency contracts are recorded at their fair market value at each reporting date reflecting the estimated amount required to be paid if forced to settle all outstanding contracts at period end. Unrealized gains or losses are recorded on the consolidated balance sheets as prepaid expenses and other assets or accrued liabilities and on the consolidated statements of earnings as a foreign exchange (loss) gain. Foreign exchange gains or losses from the revaluation of accounts receivable and accounts payable denominated in currencies other than the measurement currency of the reporting entity are also recorded on the consolidated statements of earnings as a foreign exchange (loss) gain.

(expressed in Canadian dollars)

8. FINANCIAL INSTRUMENTS (Continued)

Currency risk (Continued)

The Company's foreign exchange contracts mature within one to four months from the date of inception. As at December 31, 2009, the Company had no forward exchange contracts outstanding. As at December 31, 2008, the Company had forward contracts outstanding to sell US$5,000,000 and an unrealized foreign exchange gain of $14,175.

If the Canadian dollar had depreciated 2.5 percent against the US dollar at December 31, 2009, with all other variables held constant, the impact of the foreign currency change on our US dollar denominated financial instruments would lead to an increase in earnings before income taxes of $1,141,000. If the Canadian dollar had appreciated 2.5 percent against the US dollar at December 31, 2009, with all other variables held constant, the impact of the foreign currency change on our US dollar denominated financial instruments would lead to a decrease in earnings before income taxes of $1,141,000.

Credit risk

The Company is exposed to credit risk through its cash and cash equivalents, short-term investments, accounts receivable, unbilled receivables and to the credit risk of its derivative financial instrument counterparties if they do not meet their obligations. The Company does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or face value of the financial instrument. The Company minimizes credit risk on cash and cash equivalents, short-term investments and derivative instruments by transacting with only reputable financial institutions. The Company minimizes its credit risk of its accounts receivables by establishing a process for credit reviews for each of its new customer engagements. Additionally, the Company continues to monitor credit risk and collectability within its customer base and the impact of current economic conditions on the liquidity of its customers and their ability to meet their financial obligations. At December 31, 2009, three customers accounted for 44.8%, 20.9% and 12.8% of total accounts receivable, respectively (2008 - three customers accounted for 27.2%, 25.1% and 17.2% of total accounts receivable, respectively).

Amounts past due, net of the allowance for doubtful accounts, totalled $1,468,419 at December 31, 2009, of which $802,692 were collected within 30 days of the end of the year. The remaining overdue balances net of allowance at December 31, 2009 are as follows:

	Amounts past due, net of allowance	Collected within 30 days of year-end	Remaining overdue balance
0 – 30 days past due	$ 689,511	$ 408,631	$ 280,880
31 – 60 days past due	136,102	22,859	113,243
61 – 90 days past due	204,934	12,864	192,070
Greater than 91 days past due	437,872	358,338	79,534
	$ 1,468,419	**$ 802,692**	**$ 665,727**

(expressed in Canadian dollars)

8. FINANCIAL INSTRUMENTS (Continued)

Credit risk (Continued)

As at December 31, 2009, the balance in allowance for doubtful accounts was $856,152 (2008 - $1,189,921). The allowance is an estimate of the December 31, 2009 accounts receivable balances that are at risk of non-collection. The allowance includes $604,998 (2008 - $1,165,562) related to one customer engaged as a reseller who filed for creditor protection. During the year ended December 31, 2009, the Company collected $490,738 of accounts receivable which were previously recorded as doubtful.

Interest rate risk

The Company is exposed to interest rate risk on its cash and cash equivalents and short-term investments, all of which have a maturity of less than one year. Management believes that interest rate risk is not significant as interest rates earned on short-term investments range from 0.2% to 1.8% and fluctuations in interest rates would not have a material impact on the results of the Company.

Fair values

Cash and cash equivalents which include cash and investments with original maturities of three months or less are measured at fair value with changes in fair value recorded in net earnings. Short-term investments consist of fixed term instruments with original maturities greater than three months and less than one year and are measured at amortized cost. All other financial assets and liabilities are measured at amortized cost. Due to the short-term nature of these financial assets and liabilities, their fair value approximates amortized cost.

All financial instruments measured at fair value are determined based on Level 1 and Level 2 inputs.

	2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**$ 37,733,209**	**$ 16,095,650**	–	**$ 53,828,859**

	2008			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 50,363,771	–	–	$ 50,363,771

(expressed in Canadian dollars)

8. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they come due. The Company currently settles all of its financial obligations out of cash and cash equivalents. The ability to do so relies on the Company collecting its accounts receivable in a timely manner and maintaining sufficient cash and cash equivalents in excess of anticipated needs. Despite the current volatility in the economic environment, the Company's liquidity and ability to meet its financial obligations have not been negatively impacted. All financial obligations are due not later than one year as at December 31, 2009.

9. LETTER OF CREDIT

On September 8, 2008, the Company issued a letter of credit for US$3,000,000 to secure certain performance obligations made within a supply agreement with a customer. The letter of credit is renewed on an annual basis.

10. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	2009	2008
Accounts receivable, net of provision for bad debts	**$ (11,787,664)**	$ (3,677,660)
Investment tax credits receivable	–	1,667,978
Unbilled receivables	**(392,378)**	4,353,301
Deferred cost of sales	**(3,281,374)**	(3,518,085)
Prepaid expenses and other assets	**(1,493,960)**	(1,057,022)
Accounts payable and accrued liabilities	**2,211,474**	4,082,379
Deferred revenue	**20,275,290**	9,769,058
	$ 5,531,388	$ 11,619,949

11. SEGMENTED INFORMATION

The Company operates in one operating segment. Revenue from external customers is attributed to geographic areas based on the location of the contracting customers.

Revenue by geographic area:

	2009	2008
Canada	**$ 13,308,060**	$ 11,784,767
United States	**51,056,176**	30,155,762
Other foreign	**2,312,073**	2,237,660
	$ 66,676,309	$ 44,178,189

11. SEGMENTED INFORMATION (Continued)

Assets are primarily located in Canada.

For the year ended December 31, 2009, two customers represented 46.2%, and 17.3% of total revenue, respectively (2008 - three customers represented 33.1%, 25.8% and 15.6%, respectively).