BRIDGEWATER SYSTEMS CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

DATED: October 30, 2008

The following discussion and analysis provides management's discussion and analysis ("MD&A") of Bridgewater Systems Corporation's consolidated results of operations and financial condition. This discussion should be read in conjunction with the Company's unaudited consolidated financial statements for the three and nine month periods ended September 30, 2008. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are reported in Canadian dollars. The information contained herein is dated as of October 30, 2008 and is current to that date, unless otherwise stated. Additional information relating to the Company may also be found on SEDAR at www.sedar.com

The Company's fiscal year commences January 1 of each year and ends on December 31.

FORWARD-LOOKING STATEMENTS

Certain statements in this document may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, such statements use such words as "may", "will", "expect", "continue", "believe", "plan", "intend", "would", "could", "should", "anticipate" and other similar terminology. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date of this document. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Risk Factors". Although the forward-looking statements contained in this document are based upon what we believe are reasonable assumptions, we cannot assure investors that our actual results will be consistent with these forward-looking statements. We assume no obligation to update or revise these forward-looking statements to reflect new events or circumstances, except as required by securities law.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Consolidated Statements of Operation Information

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
	(unaudited)		(unaudited)	
	(in thousands of dollars, except per share amounts and number of shares)			
Revenue				
Product revenue	$ 5,964	$ 6,899	$ 19,667	$ 21,100
Service and support revenue	4,330	2,099	10,988	6,323
	10,294	8,998	30,655	27,423
Cost of sales	2,556	1,297	6,610	4,036
Gross margin	7,738	7,701	24,045	23,387
Expenses				
Sales and marketing	3,329	3,078	9,826	10,125
Research and development	3,216	3,524	11,599	9,793
General and administration	910	526	2,925	1,825
Stock-based compensation expense	72	50	169	150
	7,527	7,178	24,519	21,893
Earnings (loss) before undernoted items	211	523	(474)	1,494
Foreign exchange gain (loss)	77	(441)	628	(1,081)
Interest and other income	275	168	987	461
Earnings before income taxes	563	250	1,141	874
Future income tax recovery (expense)	(80)	-	(80)	-
Net earnings for the period	$ 483	$ 250	$ 1,061	$ 874
Earnings per share - basic	$ 0.02	$ 0.01	$ 0.05	$ 0.05
Earnings per share - diluted	$ 0.02	$ 0.01	$ 0.04	$ 0.04
Weighted average number of shares outstanding - basic	22,758,098	18,473,560	22,546,214	18,449,727
Weighted average number of shares outstanding - diluted	24,208,862	20,953,134	24,216,263	20,813,315

Consolidated Balance Sheet Information

	As at September 30, 2008	As at December 31, 2007
	(unaudited)	
	(in thousands of dollars)	
Cash and cash equivalents	$ 38,910	$ 38,571 (1)
Accounts receivable	14,155	10,929
Working capital	43,088	41,694
Total assets	76,557	69,486
Deferred revenue	17,907	14,244
Shareholders' equity	54,114	52,018

(1) Cash and cash equivalents as at December 31, 2007 includes a note receivable of $10,000,000

(2) Working capital is calculated as current assets less current liabilities

Overview

Bridgewater Systems Corporation ("Bridgewater", "we" or the "Company") is a leading provider of real-time subscriber management and service control solutions for broadband network service providers. Our solutions are deployed in over 100 service-provider networks worldwide, including leading wireless, wireline and converged service providers. Service providers implement our solutions to ensure secure access to their networks and to increase revenue through the rapid deployment of new applications and charging arrangements. For example, service providers have deployed our solutions to manage access to wireless data services and third-party multi-media content, support data roaming, manage access to IPTV platforms and services, and provide on-demand and modular service offerings. Bridgewater solutions enable service providers to accelerate the convergence of their networks and service platforms; they also provide operational efficiencies through centralized subscriber-management and service-control.

The core of Bridgewater's solutions is real-time, high performance software. Our software provides a centralized data repository for critical subscriber information, including service entitlements, subscriber preferences and billing profiles. Based on this information, our software establishes policies to control how subscribers access networks and applications and ensure appropriate quality of service. Our software and solutions were first deployed in 1998. To help our service provider customers meet the growing consumer and enterprise demands for wireless data and broadband wireline services, we leverage our ten years of experience to include delivery of value-added integration and implementation services.

The Market

Bridgewater markets its products globally to service providers with a primary focus on operators of CDMA2000, GSM, WiMAX and wireline networks as well as operators pursuing fixed mobile convergence strategies. The Company benefits directly from growth in these core markets as the deployment of broadband access increases, the number of subscribers rises and as subscribers use advanced broadband applications and services such as streaming mobile video, ring-tone and music downloads and VoIP.

There are a number of trends driving demand for Bridgewater's solutions.

Service providers are moving to define new revenue streams with new data applications that leverage open access business models and the increased number of smart devices. Adopting Bridgewater solutions enables them to retain subscriber ownership while concurrently monetizing network assets such as subscriber location, device type or demographic profile by delivering this highly valuable information to off-network content or service partners in real-time.

Service providers are seeking solutions that better and more efficiently enable them to merchandise their network as they act to harness the increase in demand for broadband services and applications, while simultaneously investing to remain relevant in a highly competitive marketplace. Bridgewater products enable service providers to market innovative data services by consolidating their access control infrastructure, while at the same time allowing more targeted and personalized delivery of on and off-network content and services.

Globally, the evolution from 3G to 4G, such as WiMAX and LTE is creating demand for proven, carrier grade, subscriber data management, access control and policy solutions that individually and collectively are required functional components of the network. Bridgewater's current products and services address transition from 3G to 4G. Bridgewater is actively addressing the GSM market as a growth strategy for 2009 and our solutions have been selected by four regional GSM service providers. We are also well positioned in the WiMAX market with deployment in 15 service providers globally, including with two major Tier 1 service providers in North America.

Our Products and Solutions

Bridgewater delivers software products and solutions to address network access control, entitlement control and subscriber management for IP networks. Our software solutions are highly scalable, robust, carrier-grade and modular. The products address service provider needs to enable a single view of the subscriber and launch new data applications such as Video on Demand, IPTV, and wireless multi-media services.

Our solutions are focused on the subscriber experience, as opposed to other solutions that are device, application or network specific. Our subscriber-centric policy management solutions address the following elements:

- network access control — authenticates subscribers and gets them on the network quickly;
- entitlement control — ensures subscribers have access to the appropriate applications and content at the appropriate quality of service through policy management and control; and
- subscriber data management — centralizes subscriber identity, profile, policy and state.

For example, one of our Tier 1 customers has created a comprehensive mobile portal to deliver content, games and streaming media to millions of subscribers. Our products authenticate the subscriber's network access, verify that the content selected by the subscriber is appropriate to the subscriber's profile, ensure that the network and the subscriber's device are able to deliver and receive the content, and finally, check that the subscriber is able to pay for the content in pre- or post-paid billing models.

In addition to software products, our knowledge of our customers' networks and service requirements provides the opportunity to deliver comprehensive consulting, planning, implementation and management services to support specific customer features, integrate solutions to other hardware or software platforms in the network and provide training.

In the second quarter of 2008 we introduced the WideSpan integrated solution that includes hardware, software and services. This new product enables more rapid deployment of our software solutions in the network by providing a single integrated platform to our customers. We are building the internal infrastructure to support the deployment of this product to selected customers in 2008, with broad market deployments beginning in 2009.

Sales and Marketing

We sell and distribute our products and services through direct and indirect sales channels. Whether sales are direct or indirect, an important part of our strategy involves dealing directly with service providers to understand and identify their market and service requirements. Our direct sales force addresses Tier 1 and selected Tier 2 service providers, and is established geographically in the Americas, Europe, Middle East and Africa ("EMEA"), and Asia Pacific ("APAC"). We have organized our sales teams for both large account management and relationships, with dedicated sales management and sales engineering teams, and for geographic/regional support of service providers. Our global channel partners (Alcatel-Lucent, Nortel, Motorola, Alvarion) are focused on delivering turnkey networks or network subsystems in which our products are bundled and sold with complete network solutions. We also have established regional resellers to provide geographic coverage of specific network technologies.

Growth Strategy/Business Model

Bridgewater is expanding its solutions and services to customers by investing in marketing, pre-sales and sales capabilities, with a focus on extending the Company's professional services capacity and capabilities to drive increased adoption. In addition, we continue to invest in research and development to expand our product portfolio.

Extension of our product portfolio and solutions is a key element of our growth strategy. One element of our growth strategy is the WideSpan integrated solution that will optimize performance, scalability and ease of management. We received our first order for this new product from Verizon Wireless in the second quarter of 2008, with an initial order value of US$30 million and have received a subsequent order from another customer for the WideSpan integrated solution that is scheduled to be delivered in 2009. We expect our policy management and subscriber data management products to take on increasing importance to allow wireless service providers to personalize services.

With our success in the CDMA market, we are extending delivery of our product solutions and services to GSM providers. We penetrated this market in late 2007 and 2008, and have four regional GSM installations. We will be focusing our sales, marketing and partner management strategies to extend our products to support the broadband expansion in the GSM market.

We are also extending our product and professional service offerings into new and adjacent technologies to deliver solutions that enable service providers to migrate from 3G to 4G technologies, such as WiMAX and LTE, through additional sales capabilities and product and corporate marketing programs.

We are also continuing to expand outside North America by leveraging channel partners and system integrators, with a focus on expansion in Europe, Middle East, Africa and Asia.

Our business model involves maintaining a focus on expanding our products and services to our customers, growing our customer base and developing our channel model, while maintaining profitability. We have been successful with this strategy, and will continue to leverage our current investment in product development and sales and marketing to strive for incremental profitability.

OVERALL PERFORMANCE

Revenue and Expenses

We generate revenue from licensing our software products and providing related services, including maintenance, support and professional services. Licensed products are sold primarily under a perpetual license model or an annual right-to-use model. Additional revenue is realized through development of new features and applications on core products or other technical services such as capacity planning, interface and network planning which can be part of the initial engagement or as a follow-on sale. Customers generally enter into annual maintenance and support contracts which provide the customer with 24/7 support, product updates and release upgrades.

We sell our products and services through direct sales teams and through indirect global sales channels. Direct sales typically are with Tier 1 and Tier 2 service providers. Our indirect sales are through global reseller arrangements as well as regional resellers to support specific sales engagements.

We have focused our efforts on expanding our geographic diversity. For the three and nine month periods ended September 30, 2007, 10% of our revenue from customer deployments was derived from outside of the Americas. For the three and nine month periods ended September 30, 2008, 22% and 14% of our revenue (excluding revenue from Alcatel-Lucent source code agreement) was from outside of the Americas. Revenue from customer deployments and licensing outside of the Americas is a result of our channel sales activity as well as the development of our sales organization with specific geographic mandates. We will continue to develop our sales channels and sales organization to be positioned to grow revenue in both APAC and EMEA.

The majority of our revenue is denominated in U.S. dollars, whereas our expenses are predominately in Canadian dollars. As a result, our revenue and net income is impacted by the fluctuation in the exchange rate. We enter into foreign exchange contracts to minimize the impact of foreign exchange fluctuations.

Cost of sales consists of the cost of third party embedded licensed software and internal expenses attributed to installation, support and professional services to our customers. Costs for product and feature development are included in research and development expense.

Sales and marketing expenses include all personnel and related compensation expenses for direct and channel sales teams and marketing personnel, advertising, trade shows, communications expense and costs for regional offices. Research and development expenses include personnel and related costs for product management and development programs, technology infrastructure and product documentation. Periodically we will engage external contractors to support specific research and development programs. General and administrative expenses include all personnel and related compensation, professional fees, legal, accounting and insurance costs.

Prior to our initial public offering, we had historically qualified for refundable Canadian federal investment tax credits (ITCs) and Ontario Innovation Tax Credits (OTICs) for qualifying research and development activities. When we were a Canadian controlled private corporation (CCPC), we claimed and received cash refunds based on related research and development and service delivery programs. The cash refundable amount was estimated by management each year and reflected in the consolidated financial statements as a reduction to expenses. Following the completion of our public offering, we are no longer considered a CCPC, and thus the ITCs earned will no longer be available as cash refunds; however, we will continue to earn ITCs at a reduced rate which will reduce future cash taxes payable.

Critical Accounting Policies and Estimates

Revenue Recognition

Our revenue is derived from the sale of software product licenses, professional services and maintenance and support. Product revenue includes licensed product and feature development on standard products. Services revenue includes installation, training and integration services. Maintenance and support revenue includes software support, updates and the right to receive product upgrades on a when and if available basis.

Our software product licenses are sold on a perpetual basis and, in very limited cases, a subscription basis. We recognize the license fee revenue from the sale of perpetual licenses when: (1) we enter into a legally binding arrangement with a customer for the license of software; (2) we deliver the products; (3) customer payment is deemed fixed or determinable and free of contingencies or significant uncertainties; and (4) collection is probable. In the very limited cases where our software products are sold on a subscription basis, the license fee revenue is recognized on a ratable basis over the term of the subscription provided that: (1) there is a legally binding arrangement with a customer for the license of software; (2) the products have been delivered; (3) customer payment is deemed fixed or determinable and free of contingencies or significant uncertainties; and (4) collection is probable.

The majority of our software license arrangements include customer support and maintenance services. Customer support and maintenance services consist of tiered 24/7 help desk support to service providers and indirect channel partners, technical support and updates to our products only on a when and if available basis. Substantially all of our customers purchase product support and maintenance services when they acquire new software licenses. In addition, substantially all of our customers renew their product support and maintenance contracts annually. Revenue for customer support and maintenance services is deferred and recognized ratably over the service period. We annually review our renewal rate for customer support and maintenance services in multiple-element arrangements, by customer group, to ensure that the appropriate amount of revenue, based on vendor specific objective evidence of fair value, is unbundled and deferred. Our renewal rate depends on a number of factors including: whether the sale is to a reseller or end-user, customer size (volume of business that is being supported); customer location; customer network (decentralized or centralized affects the demand on support); the tier of support being purchased and finally, the number and type of solutions installed (the more robust the installation the higher the cost of support).

We also offer professional services consisting of network design and optimization, deployment planning, interoperability testing for customers and partners, and customer and partner training for network planners, engineers, system operators and solution sales engineers. Revenue from these services is included with service revenue and is recorded as the services are performed in the same manner as feature development, described below.

Our solutions are highly scalable, with each solution interconnecting with other solutions in our portfolio allowing service providers the ability to add features on an incremental, as-needed basis. As a result, many of our software arrangements include feature development either sold on a stand-alone basis or as a part of a multiple element arrangement. Revenue from feature development is classified as product revenue as we retain the intellectual property rights and typically offer the feature in our product portfolio. Development comprised of feature and functionality enhancements requested by a customer are treated as a separate element in a multiple element arrangement as they are not considered critical to the functionality of the software products and the total price would vary where these features are excluded or included. Revenue is recognized as effort is incurred. If the feature development is considered critical to the functionality of the delivered software, the development effort is considered together with the license revenue and recognized together upon delivery of the customized license, provided that all other revenue recognition requirements have been met.

If there is a significant uncertainty about the project completion or receipt of payment, revenue is deferred until the uncertainty is sufficiently resolved. We estimate 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 revenue, we accrue for the estimated losses immediately using cost estimates that are based upon an average fully burdened rate applicable to the individuals performing the development. The complexity of the estimation process results from assumptions, risks and uncertainties inherent with the application of the proportional performance method of accounting. A number of internal and external factors can affect our estimates, including labour rates, utilization and changes in estimates of hours required to complete the project. The fair value of development revenue is determined by estimated total number of hours of effort and our daily per diem rate that is applicable for development services sold on a stand-alone basis.

We recognize revenue when the product is delivered or over the period in which the service is performed, in accordance with our revenue recognition policy for each element. If we cannot objectively determine the fair value of any undelivered element included in multiple element arrangements, we defer revenue until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. When the fair value of a delivered element has not been established, we use the residual method to record revenue if the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered element is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

Our reseller arrangements do not provide for return rights with the exception of one reseller. We have had no returns from this reseller. As a result, we are able to recognize revenue upon delivery to the reseller network, provided that other conditions stipulated above have been met, and we estimate a return provision based on our historical experience.

We assess whether fees are fixed or determinable at the time of sale and recognize revenue if all other revenue recognition requirements are met. Our standard payment terms are generally net 30-45 days; however, terms may vary based on the country in which the agreement is executed. Where payment terms are considered not to be fixed or determinable, revenue is recognized as payments become due and when all conditions related to revenue recognition have been met.

Unbilled receivables arise when services are performed or products and features are delivered prior to our ability to invoice in accordance with contract terms.

Work in process

Our WideSpan integrated solution includes third party hardware and software costs recorded as work in process until the related revenues are recognized. Work in process is carried at the lower of cost and net realizable value.

Stock –Based Compensation

We have stock option plans for employees, officers and directors. As a result, we report a compensation expense based on CICA Handbook Section 3870 – *"Stock-Based Compensation and Other Stock-Based Payments"*, which establishes the standards for recognition, measurement and disclosure of stock-based compensation for all awards granted on or after January 1, 2003. The fair value of the stock options is determined using the Black-Scholes option pricing model and judgments to estimate the term of the stock options, the volatility of our stock and future dividends. In addition, judgment is required in estimating the amount of the stock option awards that are expected to be forfeited. If actual results differ significantly from these estimates, stock based compensation expense and our operating results could be materially impacted.

Impairment of Long-Lived Assets

We monitor events and change in circumstances that may require assessment of the recoverability of our long-lived assets. If required, the impairment loss is recognized when their carrying value exceeds the total undiscounted future operating cash flows. If the carrying value of the asset is not recoverable, an impairment loss is recognized comparing the carrying amount of the asset to its fair value.

Valuation of Future Income Taxes and Income Tax Expense

We have accumulated significant non-capital tax losses at the end of fiscal 2007. In fiscal 2004 and subsequent periods, we have generated taxable income but have not paid income tax as we have had available significant historical tax losses and unclaimed research and development expenses to reduce our tax liability and offset any current tax liability. In preparing the consolidated financial statements, we are required to estimate our income tax obligations. The process involves estimating the actual tax exposure together with assessing the temporary differences resulting from differing treatment of items for tax and accounting purposes. The temporary differences plus the net operating loss carry forwards from operations, result in future income tax assets and liabilities, which are recorded on the balance sheet.

Judgment is required in determining the amounts of future income tax assets and liabilities and the related valuation allowance recorded against the net future income tax assets. In assessing the potential realization of future income tax assets, we have considered whether it is “more likely than not” that some portion or all of the future income tax assets will be realized. Management assesses the likelihood that future income tax assets will be recovered from future taxable income and whether a valuation allowance is required to reflect any uncertainty.

As of September 30, 2008, we have a future tax asset of $8.4 million representing a decrease of $0.1 million from June 30, 2008. The decrease is due to an increase in valuation allowance reflecting our current view of the Company’s anticipated tax position in future periods. We will continue to reassess our estimates and make a determination related to the recognition of any potential future income tax asset. This determination will require judgment and estimates and analysis of future events, which by their nature, may or may not occur.

As at September 30, 2008, the Company had approximately $25.5 million of unused research and development expenditures for Canadian income tax purposes, and $8.5 million of unrecognized investment tax credits which may be applied against future Canadian income taxes otherwise payable. The Company also had approximately US$3.5 million of losses for U.S. income tax purposes.

Impact of Recently Issued Accounting Standards

Effective January 1, 2008, we have adopted two new CICA standards, Sections 3862 *“Financial Instruments Disclosures”* and Section 3863 *“Financial Instruments Presentation”,* which will replace Section 3861 *“Financial Instruments Disclosure and Presentation*”. The new presentation standard carries forward the former presentation requirements and increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. These new standards do not have a material effect on our consolidated financial statements.

Effective January 1, 2008, we have adopted the new CICA standard, Section 1535 *“Capital Disclosures”*. This section establishes standards for disclosing information about a company’s capital and how it is managed in order that a user of the financial statements may evaluate the company’s objectives, policies and processes for managing capital. This new standard does not have a material effect on our consolidated financial statements.

Transition to International Financial Reporting Standards

In January 2006, the Accounting Standards Board (the “AcSB”) announced its decision to require all publicly accountable enterprises to report under International Financial Reporting Standards (“IFRS”) for years beginning on or after January 1, 2011. On February 13, 2008, the AcSB confirmed that publicly accountable enterprises will be required to use IFRS, as issued by the International Accounting Standards Board, unless modifications or additions to the requirements of IFRS are issued by the AcSB. IFRS must be adopted for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011, with restatement of comparative periods.

The Company is currently assessing the future impact of these new standards on its consolidated financial statements.

RESULTS OF OPERATIONS

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	(unaudited)		(unaudited)	
Revenue	$ 10,294	$ 8,998	$ 30,655	$ 27,423
Product revenue………………………	57.9%	76.7%	64.2%	76.9%
Service and support revenue…………	42.1%	23.3%	35.8%	23.1%
Gross margin……………………………	7,738	7,701	24,045	23,387
% of Revenue……………………………	*75.2%*	*85.6%*	*78.4%*	*85.3%*
Sales and marketing……………………	3,329	3,078	9,826	10,125
% of Revenue……………………………	*32.3%*	*34.2%*	*32.1%*	*36.9%*
Research and development……………	3,216	3,524	11,599	9,793
% of Revenue……………………………	*31.2%*	*39.2%*	*37.8%*	*35.7%*
General and administration……………	910	526	2,925	1,825
% of Revenue……………………………	*8.8%*	*5.8%*	*9.5%*	*6.7%*
Stock-based compensation expense…..	72	50	169	150
% of Revenue……………………………	*0.7%*	*0.6%*	*0.6%*	*0.5%*
Total operating expenses………………	$ 7,527	$ 7,178	$ 24,519	$ 21,893
% of Revenue……………………………	*73.1%*	*79.8%*	*80.0%*	*79.8%*
Earnings (loss) before undernoted items.	$ 211	$ 523	$ (474)	$ 1,494
% of Revenue……………………………	*2.0%*	*5.8%*	*-1.5%*	*5.4%*
Foreign exchange gain (loss)……………	77	(441)	628	(1,081)
% of Revenue……………………………	*0.7%*	*-4.9%*	*2.0%*	*-3.9%*
Interest and other income………………	275	168	987	461
% of Revenue……………………………	*2.7%*	*1.9%*	*3.2%*	*1.7%*
Earnings before income taxes…………	$ 563	$ 250	$ 1,141	$ 874
% of Revenue……………………………	*5.5%*	*2.8%*	*3.7%*	*3.2%*
Future income tax recovery (expense)…	(80)	-	(80)	-
% of Revenue……………………………	*-0.8%*	*0.0%*	*-0.3%*	*0.0%*
Net earnings for the period……………	$ 483	$ 250	$ 1,061	$ 874
% of Revenue……………………………	*4.7%*	*2.8%*	*3.5%*	*3.2%*

Revenue

For the third quarter and first three quarters of 2008, the Company's total revenue was $10.3 million and $30.7 million respectively, compared to $9.0 million and $27.4 million for the same periods last year. Our revenue is billed primarily in US dollars. Revenue growth when reported in US dollars for the three and nine month periods ended September 30, 2008 was US$1.4 million (16%) and US$5.7 million (23%) compared to the same periods for 2007. The increase in revenue is related to an increase in service revenue and professional service engagements. During the third quarter, we added five new customers, resulting in 20 new customers in 2008. Our top five customers in the third quarter of 2008 represented 85% of revenue compared to 83% of revenue for the third quarter of 2007. Our top five customers during the nine month ending September 30, 2008 represented 82% of revenue compared to 73% of revenue for the same period in 2007. The contribution from our top five customers is related to the increase in products and subscriber licenses associated with growth in our customers' networks and services.

Product revenue for the third quarter of 2008 was $6.0 million, or 58% of total revenue, compared to $6.9 million, or 77% of total revenue, for same period in 2007. The decrease is due to timing of new product deployments and capacity expansion of existing customers and increase in professional services engagements in support of our product installations.

For the nine month period ending September 30, 2008, product revenue was $19.7 million, or 64% of total revenue, compared to $21.1 million, or 77% of total revenue, for same period in 2007. The decrease is due to timing of new product deployments and capacity expansion of existing customers and additional value added professional services engagements.

Third quarter 2008 revenues from professional services and maintenance and support contracts was $4.3 million, or 42% of total revenue, compared to $2.1 million, or 23% of total revenue, for the same period in 2007. For the nine month period ended September 30, 2008, revenue from professional services and maintenance and support contracts totaled $11.0 million, or 36%, compared to $6.3 million, or 23% of total revenue, for the same period in 2007.

Growth in professional services revenue is attributed to growth in the number of customers, an increase in the number of maintenance and support contract renewals, as well as growth in requirements for value-added professional services. As we further develop our services offering, this component of revenue is expected to increase.

The development of channel partner relationships is a key growth strategy and provides opportunities for deployment of our products to a broader set of customers. For the third quarter of 2008, indirect revenue contributed 16% of total revenue compared to 13% for the third quarter of 2007 and 13% of revenue for the nine month period ended September 30, 2008 compared to 22% for the same period in 2007. The increase in indirect revenue for the third quarter is primarily due to an increase in channel deployments. The decrease in the proportion of revenue for the nine month period ended from channel partners is due to transition of the Alcatel-Lucent relationship from an indirect/OEM relationship in 2007 to a direct relationship in 2008. Bridgewater continues to have active channel engagements for CDMA, WiMAX and GSM networks through channel partners operating in various geographies.

	Three months ended				Nine months ended			
	September 30, 2008		September 30, 2007		September 30, 2008		September 30, 2007	
	$	%	$	%	$	%	$	%
Direct	8,671	84%	7,821	87%	26,633	87%	21,432	78%
Indirect	1,623	16%	1,177	13%	4,022	13%	5,991	22%
Total	10,294	100%	8,998	100%	30,655	100%	27,423	100%

Historically, our customers have been predominantly CDMA service providers; however, in fiscal 2007, we began providing products and services to GSM customers and WiMAX customers in the Americas and several providers in EMEA and APAC. These developments will contribute to both revenue and customer diversification in 2008.

Although revenue from CDMA continues to represent the majority of our revenue, revenue derived from the migration of 3G to 4G networks contributed 31% of revenue in the third quarter of 2008, and 22% of revenue in the first nine months of 2008, as a result of sales of products to support WiMAX and GSM policy deployments in the Americas and through channel partners in the rest of the world. Wireline revenue of $2.8 million, or 27% of revenue in the third quarter of 2008, was primarily derived from revenue recognized from the Alcatel-Lucent Source Code License Agreement ("Alcatel Agreement"). Total wireline revenue for the nine month period totaled $8.5 million or 28% of revenue.

	Three months ended				Nine months ended			
	September 30, 2008		September 30, 2007		September 30, 2008		September 30, 2007	
	$	%	$	%	$	%	$	%
3G to 4G	3,152	31%	265	3%	6,616	22%	272	1%
Wireline	2,780	27%	485	5%	8,514	28%	3,890	14%
CDMA	4,362	42%	8,248	92%	15,525	51%	23,261	85%
Direct	10,294	100%	8,998	100%	30,655	100%	27,423	100%

Gross Margin

Gross margin for the third quarter of 2008 was 75%, compared to 86% for the third quarter of 2007, and 78% for the nine month period ended September 30, 2008 compared to 85% during the same period in 2007. Cost of goods sold consists of direct product costs, operations support expenses to support installed customer deployments and professional services engagements. Cost of goods sold was $2.6 million for third quarter 2008 and $6.6 million for the first nine months, an increase of $1.3 million and $2.6 million respectively compared to the same period in 2007. The increase is due to an increase in direct costs and support personnel to address professional service opportunities and the rise in customer deployments. In addition, we have incurred costs associated with additional resources to support the services associated with the introduction of the WideSpan integrated solution. This investment is in advance of revenue recognition which we expect will commence in the first quarter of 2009.

We have extended our professional services offering in 2008 to provide value added services, such as network and capacity management in support of product deployments. The cost of the professional services practice, both internal and subcontracting costs, is carried in cost of sales. With the expansion of professional services and the delivery of the WideSpan integrated solution comprised of both hardware and services, we expect our gross margin will be lower in future periods as we ramp-up these activities in support of new customer deployments.

Operating Expenses

Sales and Marketing

Sales and marketing expenses were $3.3 million for the third quarter of 2008, an increase of $0.3 million or 8% over the third quarter of 2007. For the nine month period ended September 30, 2008, sales and marketing expenses were $9.8 million, a decrease of $0.3 million or 3% from the same period in 2007. The increase during the third quarter of 2008 is due to higher commission expenses. The decrease during the nine month period is due to lower direct marketing costs and lower salaries and related staff costs resulting from headcount reassignment from sales engineering to professional services.

Research and Development

Research and development ("R&D") expenses, excluding the refundable R&D tax credits ("ITCs") decreased 9% or $0.3 million to $3.2 million from $3.5 million for the third quarter of 2007. For the nine month period ended September 30, 2008, R&D expenses, excluding ITCs, increased 13% or $1.3 million to $11.6 million from $10.3 million for the same period in 2007. Expenses were lower in the third quarter of 2008 due to lower headcount and compensation costs. The rise in R&D expense for the nine month period was driven by the increase in compensation expenses and higher contract costs, primarily incurred in the first quarter, to accelerate new product introduction, and incremental patent submissions. Our R&D headcount was 106 in the third quarter of 2008 compared to 112 in the third quarter of 2007.

There were no refundable ITCs recorded in the third quarter of 2008 and 2007.

General and Administrative

For the third quarter of 2008, general and administrative expenses were $0.9 million compared to $0.5 million for same period for 2007. For the nine month period ended September, 30, 2008, general and administrative expenses were $2.9 million compared to $1.8 million for the same period for 2007. The increase is attributed to a rise in professional fees associated with the increase in the number of commercial contracts, public company compliance costs, and an increase in audit fees.

Foreign Exchange

We conduct a significant portion of our business activities in U.S. dollars. We translate our accounts for our U.S. subsidiary into Canadian dollars using the temporal method of foreign exchange translation, which translates monetary assets and liabilities at the rate of exchange in effect at period end. Non-monetary items are translated at the 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 the net earnings.

The Company realized a $0.1 million foreign exchange gain for the third quarter of 2008, compared to a $0.4 million foreign exchange loss for the same period in 2007. For the first nine months of 2008, a foreign exchange gain of $0.6 million was realized in comparison to a $1.1 million foreign exchange loss during the same period in 2007. The foreign exchange gain for the three and nine month periods ended September 30, 2008 was due to the impact of a decline in the Canadian dollar relative to the U.S. dollar on our working capital balances. At the end of the third quarter of 2008 we had no forward contracts outstanding. We continue to assess our foreign exchange exposure and will book additional forward contracts over fourth quarter based on an assessment of foreign exchange impact on our business.

Interest and Other Income

In the third quarter of 2008, we earned interest income of $0.3 million compared to $0.2 million for same period in 2007. Interest income for the nine month period ended September 30, 2008 increased to $1.0 million from $0.5 million during the same period last year. The increase in interest income is due to higher cash and cash equivalent balances resulting from increased cash from our initial public offering and from operations.

Future Income Tax Recovery (Expense)

As at September 30, 2008, the Company has accumulated $25.5 million of unused R&D expenditures for income tax purposes, and $8.5 million of unrecognized investment tax credits which may be applied against future Canadian income taxes otherwise payable. The Company also had US$3.5 million of losses for U.S. income tax purposes.

Judgment is required in determining the amounts of future income tax assets and liabilities and the related valuation allowance recorded against the net future income tax assets. In assessing the potential realization of future income tax assets, we have considered whether it is "more likely than not" that some portion or all of the future income tax assets will be realized. Management assesses the likelihood that future income tax assets will be recovered from future taxable income, and whether a valuation allowance is required to reflect any uncertainty. Based on this review, we determined that an increase in the valuation allowance of $80,000 was required for the third quarter of 2008. As of September 30, 2008, our future tax asset was $8.4 million. We will continue to evaluate our tax position quarterly and record any adjustment necessary in that period.

Net Earnings

Net earnings before income taxes for the third quarter of 2008 was $0.6 million, or 5% of revenue compared to $0.3 million, or 3% of revenue, in the third quarter of 2007. Net earnings before income taxes year-to-date was $1.1 million, or 4% of revenue, compared to net earnings of $0.9 million, or 3% of revenue for the same period last year.

Net earnings for the third quarter of 2008 was $0.5 million, or 5% of revenue, compared to net earnings of $0.3 million, or 3% of revenue for the same period last year. Net earnings year-to-date was $1.1 million, or 3% of revenue, compared to net earnings of $0.9 million, or 3% of revenue for the same period last year.

Basic earnings per share was $0.02 for the third quarter of 2008 compared to earnings per share of $0.01 for same period in 2007. The earnings per share for the nine month periods ended September 30, 2008 and 2007 was $0.05.

Diluted earnings per share was $0.02 for the third quarter of 2008 and $0.04 for the nine month period ended September 30, 2008. Diluted earnings per share was $0.01 for the third quarter of 2007 and $0.04 for the nine month period ended September 30, 2007. The increase in net earnings was offset by increase in the number of shares, resulting in no change in diluted earnings per share for the nine month period.

LIQUIDITY and CAPITAL RESOURCES

We have funded our operations from the placement of equity securities and profits from operations since our inception in 1997. While we expect to continue to execute the business profitably, we do expect from time to time to use cash to fund our operating working capital needs. Our future liquidity is primarily dependent on cash flows generated from our operations.

The table below outlines selected balance sheet accounts, key ratios and a summary of cash inflows and outflows by activity.

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
	(unaudited)		(unaudited)	
	(in thousands of dollars, except ratios)			
Cash inflows and (outflows) by activity				
Operating activities	$ (946)	$ 3,919	$ 147	$ (2,576)
Investing activities	(91)	(668)	9,004	(1,215)
Financing activities	363	28	866	98
Foreign exchange gain (loss)	311	(342)	322	(680)
Net cash (outflows) inflows	$ (362)	$ 2,936	$ 10,339	$ (4,373)
Key balance sheet accounts and ratios				
Cash and cash equivalents	$ 38,910	$ 16,821		
Working capital (1)	4,178	5,272		
Long term assets	11,026	10,024		
Long term liabilities	-	-		
Working capital ratio (2)	1.2	1.5		
Current ratio (3)	2.9	3.2		

(1) Working capital is calculated as current assets less cash and cash equivalents less current liabilities
(2) Working capital ratio is calculated as the ratio of current assets less cash and cash equivalents to current liabilities
(3) Current ratio is calculated as the ratio of current assets to current liabilities

Cash and Cash Equivalents

Operating Activities

There was a net cash outflow from operations of $0.9 million for the three months ended September 30, 2008 primarily due to an increase in working capital of $1.7 million, which was partially offset by net earnings of $0.5 million. The increase in working capital is primarily due to settlement of amounts payable for hardware and third party software related to the WideSpan integrated solution for Verizon Wireless in advance of billing milestones.

For the nine month period ended September 30, 2008, there was a net cash inflow of $0.1 million, primarily due to net earnings of $1.1 million and non-cash amortization of capital assets of $1.0 million, offset by an increase in working capital of $1.8 million.

	Three months ended September 30, 2008	Nine months ended September 30, 2008
	(unaudited) (in thousands of dollars)	
Net change in non-cash operating working capital		
Accounts receivable	$ (6,371)	$ (3,225)
Investment tax credits receivable	-	1,668
Unbilled receivables	1,780	1,944
Work in process	(107)	(5,898)
Prepaid expenses and other assets	(253)	(1,302)
Accounts payable and accrued liabilities	(5,656)	1,312
Deferred revenue	8,952	3,663
Net (increase) decrease in working capital	$ (1,655)	$ (1,838)

During the third quarter of 2008, milestone billings for hardware delivered to Verizon Wireless related to WideSpan integrated solution and billings on other major contracts yet to be recognized into revenue resulted in an increase of $9.0 million in deferred revenue. This increase was partially offset by an increase in accounts receivable totaling $6.4 million. Accounts payable decreased by $5.7 million while unbilled revenue decreased by $1.8 million. Prepaid expenses and other assets increased by $0.3 million from the second quarter of 2008 due to annual renewals of third party support contracts.

	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007
		(unaudited) (in thousands of dollars)		
Deferred revenue				
Product and Services revenue	$ 15,967	$ 6,690	$ 10,487	$ 11,939
Maintenance and support	1,940	2,265	2,768	2,305
	$ 17,907	$ 8,955	$ 13,255	$ 14,244

Investing Activities

Capital asset purchases for the three and nine month periods ended September 30, 2008 amounted to $0.1 million and $1.0 million, respectively, compared to $0.7 million and $1.2 million for the same period in 2007. Capital purchases are comprised of desktop equipment, IT infrastructure, research and development lab equipment, computer equipment and servers, and leasehold improvements.

Financing Activities

During the third quarter of 2008, we issued 302,891 common shares related to the exercise of stock options, with net proceeds from the exercise of options of $0.4 million. For the nine month period ended September 30, 2008, the Company received net proceeds of $0.9 million from issuance of common shares and incurred $0.1 million in share issuance costs.

As of September 30, 2008, we have 22,966,901 common shares outstanding and 3,249,776 common share options issued under our Stock Option Plan.

Lease Obligations

We rent premises in Canada, Singapore and Australia under operating leases which expire at varying dates up to February 2011. We also lease certain office equipment.

The following table sets forth our contractual obligations and commitments to make future payments under leases for office space and office equipment as at September 30, 2008.

Remainder 2008	$ 234,015
2009 to 2011	2,024,709

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements other than those disclosed under “Lease Obligations” and “Financial Instruments”.

Related Party Transactions and Material Contracts

Our office in Kanata, Canada is leased from KRPC, a related party that is controlled by Terry Matthews, the Chairman of our Board of Directors. Terms of this lease were negotiated on normal commercial terms. The lease expires in February 2011. For the third quarter of 2008 we incurred rent expenses of $0.2 million versus $0.2 million for same period in 2007. For the nine month period ending September 30, 2008 we incurred rent expenses of $0.7 million versus $0.7 million for the same period in 2007.

In October, 2007, we entered into a license agreement with Alcatel-Lucent (the “License Agreement”). Pursuant to the License Agreement, Alcatel-Lucent was granted a perpetual, royalty-free license to use, copy, modify, and create derivative works based on version 3.1 (and earlier versions) of the Subscriber Service Controller (SSC), and to distribute and grant sublicenses for such versions and derivative works in object code format. Alcatel-Lucent was also granted a three-year, royalty-free license to reproduce, distribute and grant sublicense to use copies of version 1.0 of our Radius Engine software, a policy and profile engine based on our AAA Service Controller product, in object code format only. At September 30, 2008, we had recognized US$7.3 million of revenue from all elements of this agreement on amounts invoiced to date of US$11.1 million.

Financial Instruments

On September 8, 2008, we issued a letter of credit to Verizon Wireless for US$3.0 million to secure certain performance obligations made within the supply agreement for support services for our WideSpan product. The letter of credit is renewable on an annual basis for the term of the agreement.

Outlook

Bridgewater’s business is driven by key market trends which continue to be strong. Smart devices are leading to significant growth in the use of wireless data applications. In order to facilitate the deployment of new applications, telecom providers are expanding bandwidth with the roll-out of broadband 3G networks and the introduction of 4G networks. All of this translates into substantial growth in data services evidenced by the increase in data revenue from leading wireless providers.

Our existing customers and new service providers in emerging markets may be facing financial challenges in the next 12 to 24 months and we acknowledge that this may have impact on our business. However due to several key aspects of our business model, we believe we have a strong foundation to manage this uncertainty.

- Strong cash position
- Long term contracts that provide a base of predictable and constant revenue streams for the next 2 years.
- Large installed base of customers in existing and emerging markets addressing high growth markets for data services.

Bridgewater expects revenue growth to be driven by the following:

- Continued growth in our core market, CDMA, due to the expansion of broadband services such as “open access” and 4G deployments;
- Delivery of software products through the WideSpan integrated solution that provides hardware, software and value-added services;
- Expansion into policy management which is anticipated to take on increasing importance;
- Revenue from the initial deployment of 4G technologies and the conversion from 3G to 4G as infrastructure networks such as broadband 3G-GSM, WiMAX and LTE are deployed; and
- Extending Bridgewater’s footprint into the GSM market with an insertion point through its Fixed Mobile Convergence solution.

Taking into account the uncertainty around the macroeconomic climate, as well as an assumption that revenue from the Verizon integrated solution contract will commence in the first quarter of 2009, Bridgewater is currently forecasting revenue of approximately $42 million for fiscal 2008, specifically as result of:

- significant long-term contracts with Tier 1 customers;
- sales of existing and new products in wireless, wireline and converged networks; and
- increased license and maintenance fees from existing deployments as our customers grow and continue to add new subscribers and devices to their networks.

During the second quarter of 2008, Bridgewater announced a three-year contract with Verizon Wireless and secured an initial order to provide the WideSpan integrated solution valued at approximately US$30 million. Revenue is scheduled to start in the first quarter of 2009 and will continue through 2010. This new offering is expected to be a key growth driver over the long-term. As a result of incremental costs associated with the expansion of the WideSpan integrated solution and professional services engagements, the Company anticipates gross margins to decrease in future periods. Based on the revenue forecast, the operating margin is expected to be approximately 2%.

In terms of operating expenses, R&D expenses are expected to continue to be an important focus as we invest in new product development. Accordingly, we expect R&D expenses to increase slightly but to decline as a percentage of revenue in future periods. We anticipate that additional resources will be committed to sales and marketing with particular emphasis on further developing our distribution channels and our channel partners to support growth in WiMAX and GSM networks in EMEA, APAC and Americas. General and administrative expenses are expected to increase over 2007 as a result of additional costs associated with operating as a public company. We expect to continue to finance our operations internally.

Risks

Risks and uncertainties affecting the Company are described in more detail in Bridgewater's Annual Information Form for the year ended December 31, 2007 dated March 27, 2008 which can be found at www.sedar.com. Additional risks and uncertainties not presently known to us or those we currently consider immaterial also may impair our business and operations and cause the price of the common shares to decline. If any of the noted risks actually occur, our business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the common shares could decline, and shareholders may lose all or part of their investment.

The Company's business performance, achievements and results may be impacted by risks and uncertainties related to our business. These risks and uncertainties include, but are not limited to the following:

Our quarterly revenues and operating results may fluctuate, which may harm our results of operations.

Access to capital for new operators to expand services may be limited, which could result in delay in sale of our products to support expanded data services.

Slow down in consumer spending on new devices could reduce service providers revenue and as a result could impact decision to implement new products and services

We depend on a limited number of customers for a substantial portion of our revenue in any fiscal period, and the loss of, or a significant shortfall in orders from, key customers could significantly reduce our revenue.

Our current and future sales depend on our success in generating indirect sales to a limited number of channel partners, and any failure to do so would have a significant detrimental effect on our business.

We derive a large portion of our revenue from a single market, specifically the CDMA market.

We derive a large portion of our revenue from our network access control products and related products and services. Our future revenue growth will in part depend on the introduction of new products and services which have not yet been proven.

The introduction of our WideSpan products may have an impact on our business model and may require additional investment impacting operating margin in future periods.

We have a lengthy and variable sales cycle.

The loss of key personnel or an inability to attract and retain additional personnel may impair our ability to grow our business.

Our products are highly technical and may contain undetected software or hardware errors, which could cause harm to our reputation and adversely affect our business.

Product liability claims could negatively impact sales and have a material adverse effect on our business, results of operation and financial condition.

Our ability to compete and the success of our business could be jeopardized if we are unable to protect our intellectual property adequately.

Claims by other parties that we infringe their proprietary technology could force us to redesign our products or to incur significant costs.

We use open source software in connection with our products which exposes us to uncertainty and potential liability.

We depend on sole sources for certain third party intellectual property embedded or used in our products, and our business would be harmed if the supply from our sole sources were disrupted.

Foreign exchange fluctuations could adversely impact our revenue and net income.

Our international sales and operations subject us to additional risks that can adversely affect our operating results.

Our engagements with our customers involve complex arrangements which may require interpretation of GAAP and may result in deferral of revenue recognition.

Because our business depends on the continued strength of the telecommunications industry, our operating results will suffer if that industry experiences an economic downturn.

Our growth is dependent in part on the rate of adoption of new services.

Our growth may be impacted by new market uncertainty and timing of deployment in new services.

We will require GSM partners to drive growth plans for 3G GSM market.

As we expand our product and service offerings we may encounter increased competition from large Network Equipment Providers and System Integrators.

Mergers or other strategic transactions by our existing and prospective customers could negatively impact sales and have a material adverse effect on our business, results of operation and financial condition.

Economic and geopolitical uncertainty may affect decisions by our customers to purchase our products resulting in impact to our results of operations.

Compliance with industry standards applicable to our products may be time consuming, difficult and costly, and if we fail to comply, our product sales will decrease.

If our products do not interoperate with our customers' existing networks and applications, the demand for our products will decrease and our operating results will be harmed.

We may require additional capital in the future and no assurance can be given that such capital will be available at all or available on terms acceptable to us and if it is available, may dilute your ownership of our Common Shares.

Controls and Procedures

Evaluation of Disclosure Controls and Internal Controls over Financial Reporting:

The Company's CEO and CFO are responsible for establishing and evaluating disclosure and internal controls and procedures over financial reporting for the Company. As of September 30, 2008, they have determined that such controls and procedures are in place.

Selected Consolidated Quarterly Financial Information

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

	Quarters Ended							
	Sept 30, 2008	June 30, 2008	March 31, 2008	Dec. 31, 2007	Sept. 30, 2007	June 30, 2007	March 31, 2007	Dec. 31, 2006
	(in thousands of dollars, except for percentages, per share amounts and number of shares) (unaudited)							
Revenue	$ 10,294	$ 11,796	$ 8,565	$ 11,794	$ 8,998	$ 9,859	$ 8,565	$ 9,535
Gross margin	$ 7,738	$ 9,517	$ 6,790	$ 9,754	$ 7,702	$ 8,453	$ 7,232	$ 7,830
Gross margin %	75%	81%	79%	83%	86%	86%	84%	82%
Expenses	$ 7,527	$ 8,321	$ 8,671	$ 8,481	$ 7,178	$ 7,720	$ 6,995	$ 7,076
Net earnings (loss)	$ 483	$ 1,260	$ (683)	$ 1,869	$ 250	$ 351	$ 273	$ 9,176
Earnings (loss) per share - basic	0.02	0.06	(0.03)	0.10	0.01	0.02	0.01	0.50
Earnings (loss) per share - diluted	0.02	0.05	(0.03)	0.09	0.01	0.02	0.01	0.45
Weighted average number of shares outstanding - basic	22,758,098	22,574,790	22,303,427	19,214,956	18,473,560	18,445,252	18,429,132	18,397,531
Weighted average number of shares outstanding - diluted	24,208,862	24,093,597	22,303,427	21,788,915	20,953,134	20,679,734	20,687,196	20,183,016

Historically, our operating results will fluctuate on a quarterly basis and it is expected that they will continue to fluctuate in future periods. Fluctuations will be related to timing of revenue recognition associated with growth in our revenue and new customer contracts and timing of staffing and infrastructure expansion to support growth.