

Consolidated Financial Statements of

**BRIDGEWATER SYSTEMS
CORPORATION**

*Three months ended March 31, 2008 and 2007
(unaudited)*

BRIDGEWATER SYSTEMS CORPORATION
Consolidated Financial Statements
three months ended March 31, 2008 and 2007
(unaudited)

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BRIDGEWATER SYSTEMS CORPORATION
Consolidated Statements of (Loss) Earnings,
Comprehensive (Loss) Earnings and Deficit
three months ended March 31, 2008 and 2007
(Expressed in Canadian dollars)

	<u>2008</u>	<u>2007</u>
	unaudited	unaudited
Revenue	\$ 8,565,507	\$ 8,565,159
Cost of sales	<u>1,775,287</u>	<u>1,332,562</u>
Gross margin	<u>6,790,220</u>	<u>7,232,597</u>
Expenses		
Sales and marketing	3,288,832	3,563,614
Research and development	4,344,101	2,810,603
General and administration	997,032	570,406
Stock-based compensation	40,726	50,500
	<u>8,670,691</u>	<u>6,995,123</u>
(Loss) earnings before undernoted items	(1,880,471)	237,474
Foreign exchange gain (loss)	808,402	(122,842)
Interest income	389,535	158,582
NET (LOSS) EARNINGS AND COMPREHENSIVE (LOSS) EARNINGS	(682,535)	273,214
DEFICIT, BEGINNING OF PERIOD	(16,155,652)	(18,898,510)
DEFICIT, END OF PERIOD	<u>\$ (16,838,187)</u>	<u>\$ (18,625,296)</u>
Net (loss) earnings per common share - basic and diluted	\$ (0.03)	\$ 0.01
Weighted average number of common shares outstanding - basic	22,303,427	18,429,132
Weighted average number of common shares outstanding - diluted	22,303,427	20,687,196

See accompanying notes to consolidated financial statements.

BRIDGEWATER SYSTEMS CORPORATION
Consolidated Balance Sheets
as at March 31, 2008 and December 31, 2007
(Expressed in Canadian dollars)

	<u>2008</u> unaudited	<u>2007</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 42,224,742	\$ 28,571,239
Note receivable	-	10,000,000
Accounts receivable	7,512,259	10,929,411
Investment tax credits receivable	155,359	1,667,978
Unbilled receivables	5,130,933	5,321,664
Prepaid expenses and other assets	1,474,700	678,245
Future income tax asset	1,993,000	1,993,000
	58,490,993	59,161,537
FUTURE INCOME TAX ASSET	6,507,000	6,507,000
CAPITAL ASSETS	3,573,546	3,817,480
	\$ 68,571,539	\$ 69,486,017
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	3,732,185	3,223,544
Deferred revenue	13,254,859	14,244,055
	16,987,044	17,467,599
SHAREHOLDERS' EQUITY		
Share capital (Note 3)	67,709,927	67,477,616
Contributed surplus	712,755	696,454
Deficit	(16,838,187)	(16,155,652)
	51,584,495	52,018,418
	\$ 68,571,539	\$ 69,486,017

See accompanying notes to consolidated financial statements.

BRIDGEWATER SYSTEMS CORPORATION
Consolidated Statements of Cash Flows
three months ended March 31, 2008 and 2007
(Expressed in Canadian dollars)

	<u>2008</u>	<u>2007</u>
	unaudited	unaudited
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net (loss) earnings	\$ (682,535)	\$ 273,214
Items not affecting cash		
Stock-based compensation	40,726	50,500
Foreign exchange (gain) loss	(260,420)	86,886
Amortization of capital assets	297,275	253,524
	(604,954)	664,124
Changes in non-cash operating working capital items (Note 5)	3,843,492	(3,946,612)
	3,238,538	(3,282,488)
INVESTING		
Issuance of note receivable	-	(12,000,000)
Repayment of note receivable	10,000,000	-
Purchases of capital assets	(53,341)	(340,666)
	9,946,659	(12,340,666)
FINANCING		
Proceeds from issuance of common shares (Note 3)	274,444	44,556
Share issuance costs	(66,558)	-
	207,886	44,556
Foreign exchange gain (loss) on cash held in foreign currency	260,420	(86,886)
NET CASH INFLOW (OUTFLOW)	13,653,503	(15,665,484)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	28,571,239	21,194,258
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 42,224,742	\$ 5,528,774
Supplementary information:		
Cash on hand and bank balances	\$ 6,584,268	\$ 5,498,130
Short-term investments	35,640,474	30,644
Total cash and cash equivalents	\$ 42,224,742	\$ 5,528,774
Interest received	\$ 389,535	\$ 158,582

See accompanying notes to consolidated financial statements.

BRIDGEWATER SYSTEMS CORPORATION

Consolidated Statements of Shareholders' Equity

three months ended March 31, 2008
 (Expressed in Canadian dollars)

	Common Shares		Contributed		Shareholders'
	<u>Number</u>	<u>Amount</u>	<u>Surplus</u>	<u>Deficit</u>	<u>Equity</u>
Balance at December 31, 2007	22,202,882	\$ 67,477,616	\$ 696,454	\$ (16,155,652)	\$ 52,018,418
Stock-based compensation	-	-	40,726	-	40,726
Exercise of stock options	214,982	298,869	(24,425)	-	274,444
Share issuance costs	-	(66,558)	-	-	(66,558)
Net loss	-	-	-	(682,535)	(682,535)
Balance at March 31, 2008 (unaudited)	22,417,864	\$ 67,709,927	\$ 712,755	\$ (16,838,187)	\$ 51,584,495

See accompanying notes to consolidated financial statements.

BRIDGEWATER SYSTEMS CORPORATION

Notes to the Consolidated Financial Statements

three months ended March 31, 2008 and 2007

(Expressed in Canadian dollars) (unaudited)

1. BASIS OF PRESENTATION

These unaudited interim consolidated financial statements are in accordance with Canadian generally accepted accounting principles applicable to interim consolidated financial statements. These unaudited interim consolidated financial statements and notes have been prepared using accounting policies consistent with the policies used in preparing the Company's December 31, 2007 annual consolidated financial statements, except as discussed in Note 2 regarding the adoption of new accounting standards. They do not include all of the disclosures required under generally accepted accounting principles for annual financial statements and should be read in conjunction with the December 31, 2007 annual consolidated financial statements.

The preparation of these unaudited interim consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. In the opinion of management, these unaudited interim consolidated financial statements reflect all adjustments necessary to state fairly the results for the periods presented. Actual results could differ from these estimates and the operating results for the interim periods presented are not necessarily indicative of the results expected for the full year.

Recently issued accounting standards

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets* which will replace Handbook Section 3062 *Goodwill and Other Intangible Assets* and Handbook Section 4350, *Research and Development Costs*, effective for interim and annual financial statements beginning on or after October 1, 2008. This revision aligns Canadian GAAP with International Financial Reporting Standards and establishes standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. Management is currently determining the impact of this standard on the Company's consolidated financial statements.

2. CHANGES IN ACCOUNTING POLICIES

Financial instruments

Effective January 1, 2008, the Company adopted two new CICA standards, Handbook Section 3862, *Financial Instruments Disclosures*, and Section 3863, *Financial Instruments Presentation*, which replaces Handbook Section 3861, *Financial Instruments Disclosure and Presentation*. The new presentation standards carry forward the former presentation requirements and increase the emphasis on the disclosure of risks associated with both recognized and unrecognized financial instruments and how those risks are managed. Refer to Note 4, "FINANCIAL INSTRUMENTS".

BRIDGEWATER SYSTEMS CORPORATION

Notes to the Consolidated Financial Statements

three months ended March 31, 2008 and 2007

(Expressed in Canadian dollars) (unaudited)

2. CHANGES IN ACCOUNTING POLICIES (Continued)

Capital disclosures

Effective January 1, 2008, the Company adopted the new CICA standard, Handbook 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. Refer to Note 3, "SHARE CAPITAL".

3. SHARE CAPITAL

On December 14, 2007, the Company completed an initial public offering. Pursuant to the offering, the Company issued 3,636,364 common shares for gross proceeds of \$20,000,000. The net proceeds from the initial public offering were \$17,317,620 after deducting share issue costs of \$2,682,380 reduced by the estimated realizable tax benefit of \$530,000, which has been netted against the value of the common shares.

Immediately before completion of the initial public offering, the Company underwent a capital reorganization. The Class B non-voting common shares were converted to Class A voting common shares on a one-for-one basis and deleted from the authorized capital. The Class A voting common shares were redesignated as common shares in connection with the initial public offering.

Post-reorganization, the Company has authorized an unlimited number of voting common shares entitled to dividends when and if declared.

Stock options

Prior to the initial public offering, the Company had a Key Employee Stock Option Plan and a Key Management Stock Option Plan (collectively, the "Predecessor Plans") applicable to full-time employees and members of the Board of Directors effective June 1, 1999. The option exercise price was the Company's estimate of the fair market value of the common shares of the Company at the date of granting the option. Options granted effective June 1, 1999 or later were generally exercisable up to a 25% maximum during the year following the first anniversary date and up to 1/36 of 75% during each of the 36 months immediately following the first anniversary date, and expired on the fifth anniversary or upon termination of employment.

Immediately before completion of the public offering, the Predecessor Plans were amended, restated and consolidated into a single Amended and Restated Stock Option Plan (the "Amended Plan"). All existing options granted under the Predecessor Plans and all new options granted under the Amended Plan are governed by the terms of the Amended Plan which include the following:

BRIDGEWATER SYSTEMS CORPORATION

Notes to the Consolidated Financial Statements

three months ended March 31, 2008 and 2007

(Expressed in Canadian dollars) (unaudited)

3. SHARE CAPITAL (Continued)

Stock options

- The initial maximum number of options issuable under the Amended Plan is 4,109,034 common shares.
- As options are exercised 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.
- At such time as the number of shares issuable under granted options plus 450,000 is less than 15% of the common shares outstanding, 100% of the common shares previously issuable under options that are exercised or expire will be available for future grants.
- 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.
- For option holders subject to a lock-up agreement, the expiry date of options that would normally expire within the lock-up period or within six months of the end of the lock-up period will be extended for a period of nine months if the option holder enters into a programmed exercise arrangement.
- The exercise price of all new options granted under the Amended Plan will be equal to the fair value of the common shares deemed to be the volume weighted average trading price for the five trading days prior to the date of grant.

Activity in the stock option plan is summarized below:

	Number of <u>Options</u>	Weighted Average Exercise <u>Price</u>
Options outstanding, December 31, 2007	3,823,767	\$ 1.75
Granted	60,000	\$ 3.62
Exercised	(214,982)	\$ 1.28
Forfeited	(73,798)	\$ 1.77
Expired	-	-
	<hr/>	
Options outstanding, March 31, 2008	3,594,987	\$ 1.81

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Notes to the Consolidated Financial Statements

three months ended March 31, 2008 and 2007

(Expressed in Canadian dollars) (unaudited)

3. SHARE CAPITAL (Continued)

Stock options (Continued)

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

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Weighted Average Remaining Life (Years)</u>	<u>Number Exercisable</u>
\$ 1.15	2,119,885	0.74	2,057,280
\$ 1.50	591,381	2.11	386,005
\$ 2.00	198,711	2.89	89,690
\$ 3.62	60,000	4.91	1,246
\$ 4.00	587,410	3.84	122,707
\$ 5.50	37,600	4.46	4,691
\$ 1.81	3,594,987	1.70	2,661,619

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:

	<u>March 31, 2008</u>	<u>March 31, 2007</u>
Expected option life (years)	4.0	4.0
Volatility	40.0%	1.0%
Risk-free interest rate	3.3%	4.5%
Dividend yield	-	-

The weighted average fair value for stock options granted in the three months ending March 31, 2008 and 2007 were \$1.29 and \$0.66 respectively.

The Black-Scholes model used by the Company to calculate option values, as well as other currently accepted option valuation models, were 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. The minimum value method applicable to non-public entities was applied to options granted prior to the initial public offering at the date of grant using a nominal volatility.

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3. SHARE CAPITAL (Continued)

Earnings per share

At March 31, 2008, 650,560 (March 31, 2007 – 69,637) weighted average stock options outstanding had an exercise price greater than the average fair value of the common shares and were excluded from the computation of earnings per common share because they were anti-dilutive. Due to the net loss incurred for the three months ending March 31, 2008, the dilutive effect of 2,005,655 stock options have been excluded from the computation of earnings per common share.

	<u>March 31, 2008</u>	<u>March 31, 2007</u>
Weighted average common shares Outstanding - basic	22,303,427	18,429,132
Dilutive effect of stock options	—	2,258,064
Weighted average common shares Outstanding - diluted	22,303,427	20,687,196

Capital management

The Company's capital is composed of its shareholders' equity. The Company manages its capital to ensure the financial flexibility is present to increase shareholder value through organic growth and selective acquisitions, as well as allow the Company to respond to changes in economic and/or marketplace conditions. In order to maintain or adjust its capital structure, the Company could issue new shares, purchase shares for cancellation pursuant to normal course issuer bids 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. The Company is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the period.

4. FINANCIAL INSTRUMENTS

Comprehensive income

The Company had no other comprehensive income or loss transactions during the three months ended March 31, 2008 and no opening or closing balances for accumulated other comprehensive income or loss.

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(Expressed in Canadian dollars) (unaudited)

4. FINANCIAL INSTRUMENTS

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:

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
Held-for-trading (1)	42,224,742	28,571,239
Loans and receivables (2)	7,667,618	22,597,389
Other financial liabilities (3)	3,732,185	3,223,544

(1) Includes cash and cash equivalents and foreign exchange derivatives

(2) Includes accounts, notes and investment tax credits receivable

(3) Includes accounts payable and accrued liabilities

Fair value

Cash and cash equivalents and foreign exchange derivatives are measured at fair value with changes in fair value recorded in net income. 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.

Credit risk

The Company is exposed to credit risk in its cash and cash equivalents, accounts receivable 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 and derivative instruments by depositing or engaging in derivative instruments with only reputable financial institutions. The Company minimizes its credit risk of its accounts receivable by performing credit evaluation, approval and monitoring processes. At March 31, 2008, three customers accounted for 31.4%, 13.9% and 12.1% of total accounts receivable. Amounts past due totalled \$2,767,000 at March 31, 2008, and amounts totalling \$1,377,000 have been subsequently collected. None of the amounts outstanding have been challenged and the Company continues to conduct business with these customers on an ongoing basis. The Company's allowance for doubtful accounts is not significant and management has no reason to believe that accounts receivable are not fully collectible.

BRIDGEWATER SYSTEMS CORPORATION

Notes to the Consolidated Financial Statements

three months ended March 31, 2008 and 2007

(Expressed in Canadian dollars) (unaudited)

4. FINANCIAL INSTRUMENTS (Continued)

Interest rate risk

At March 31, 2008, the Company does not hold any financial instruments with fixed interest rates and is not exposed to interest rate risk.

Foreign 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 certain direct and operating costs. 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 balance sheet as other assets or liabilities and on the consolidated statement of earnings as a foreign exchange gain or loss. 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 statement of earnings as a foreign exchange gain or loss.

The Company's foreign exchange contracts mature within one to four months from the date of inception. As at March 31, 2008, the Company had no foreign exchange contracts outstanding and no unrealized foreign exchange gains or losses.

If the Canadian dollar had depreciated 2.5 percent against the US dollar at March 31, 2008, 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 net income and other comprehensive income of \$240,000. If the Canadian dollar had appreciated 2.5 percent against the US dollar at March 31, 2008, 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 net income and other comprehensive income of \$240,000.

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 by maintaining sufficient cash and cash equivalents in excess of anticipated needs.

BRIDGEWATER SYSTEMS CORPORATION

Notes to the Consolidated Financial Statements

three months ended March 31, 2008 and 2007

(Expressed in Canadian dollars) (unaudited)

5. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	Three months ended March 31, 2008	Three months ended March 31, 2007
Accounts receivable	\$ 3,417,152	\$ 142,744
Investment tax credits receivable	1,512,619	(300,000)
Unbilled receivables	190,731	64,154
Prepaid expenses and other assets	(796,455)	(883,775)
Accounts payable and accrued liabilities	508,641	(1,597,393)
Deferred revenue	(989,196)	(1,372,342)
	\$ 3,843,492	\$ (3,946,612)

6. 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:

	Three months ended March 31, 2008	Three months ended March 31, 2007
Canada	\$ 2,783,006	\$ 1,652,784
United States	5,395,289	6,767,352
Other foreign	387,212	145,023
	\$ 8,565,507	\$ 8,565,159

Assets are primarily located in Canada.

As of March 31, 2008, two customers represented 31.4% and 30.0% of total revenue respectively (March 31, 2007 - three customers represented 28.4%, 24.5% and 17.5% respectively).