

Consolidated Financial Statements of

**BRIDGEWATER SYSTEMS
CORPORATION**

*Three months ended March 31, 2009 and 2008
(unaudited)*

BRIDGEWATER SYSTEMS CORPORATION
Consolidated Financial Statements
Three months ended March 31, 2009 and 2008
(unaudited)

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BRIDGEWATER SYSTEMS CORPORATION

Consolidated Statements of Earnings (Loss) and Comprehensive Earnings (Loss)

For the three months ended March 31, 2009 and 2008

(expressed in Canadian dollars)

(unaudited)

	Three months ended	
	March 31, 2009	March 31, 2008
Revenue		
Product	\$ 10,737,290	\$ 6,546,994
Service and support	3,305,807	2,018,513
	14,043,097	8,565,507
Cost of sales	3,323,068	1,775,287
Gross margin	10,720,029	6,790,220
Expenses		
Sales and marketing	2,932,558	3,288,832
Research and development	3,427,970	4,344,101
General and administration	1,501,276	958,962
Bad debt expense (Note 4)	223,838	38,070
Stock-based compensation	75,488	40,726
	8,161,130	8,670,691
Earnings (loss) before undernoted items	2,558,899	(1,880,471)
Foreign exchange (loss) gain	(3,697)	808,401
Interest and other income	230,023	389,535
Earnings (loss) before income taxes	2,785,225	(682,535)
Future income tax recovery	100,000	-
NET EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)	\$ 2,885,225	\$ (682,535)
Net earnings per share - basic	\$ 0.12	\$ (0.03)
Net earnings per share - diluted	0.12	(0.03)
Weighted average number of shares outstanding - basic	23,107,823	22,303,427
Weighted average number of shares outstanding - diluted	24,401,989	22,303,427

See accompanying notes to the consolidated financial statements.

BRIDGEWATER SYSTEMS CORPORATION

Consolidated Balance Sheets

as at March 31, 2009 and December 31, 2008

(expressed in Canadian dollars)

(unaudited)

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 53,938,055	\$ 50,363,771
Accounts receivable	19,818,555	13,423,994
Unbilled receivables	4,886,758	968,363
Deferred cost of sales	3,718,158	3,518,085
Prepaid expenses and other assets	2,653,235	1,735,267
Future income tax asset	2,810,000	2,557,000
	87,824,761	72,566,480
DEFERRED COST OF SALES	4,784,006	5,525,354
FUTURE INCOME TAX ASSET	5,610,000	5,763,000
CAPITAL ASSETS	3,443,882	3,351,911
	\$ 101,662,649	\$ 87,206,745
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 4,522,726	\$ 7,305,923
Deferred revenue	36,763,380	24,013,113
	41,286,106	31,319,036
SHAREHOLDERS' EQUITY		
Share capital (Note 3)	70,222,830	68,444,332
Contributed surplus	713,912	834,041
Deficit	(10,560,199)	(13,390,664)
	60,376,543	55,887,709
	\$ 101,662,649	\$ 87,206,745

See accompanying notes to the consolidated financial statements.

BRIDGEWATER SYSTEMS CORPORATION

Consolidated Statements of Cash Flows

For the three months ended March 31, 2009 and 2008

(expressed in Canadian dollars)

(unaudited)

	Three months ended	
	March 31, 2009	March 31, 2008
NET INFLOW OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings (loss)	\$ 2,885,225	\$ (682,535)
Items not affecting cash		
Bad debt expense	223,838	38,070
Stock-based compensation	75,488	40,726
Foreign exchange (gain) on cash held in foreign currency	(437,144)	(260,420)
Future income tax (recovery)	(100,000)	-
Amortization of capital assets	281,896	297,275
	2,929,303	(566,884)
Changes in non-cash operating working capital items (Note 6)	(1,687,765)	3,805,422
	1,241,538	3,238,538
INVESTING		
Repayment of note receivable	-	10,000,000
Deferred cost of sales	741,348	-
Purchases of capital assets	(373,867)	(53,341)
	367,481	9,946,659
FINANCING		
Proceeds from issuance of common shares (Note 3)	1,736,412	274,444
Repurchase of shares under normal course issuer bid (Note 3)	(208,291)	-
Share issuance costs	-	(66,558)
	1,528,121	207,886
Foreign exchange gain on cash held in foreign currency	437,144	260,420
NET CASH INFLOW	3,574,284	13,653,503
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	50,363,771	28,571,239
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 53,938,055	\$ 42,224,742
Supplementary information:		
Cash on hand and bank balances	\$ 9,375,368	\$ 6,584,268
Short-term investments	44,562,687	35,640,474
Total cash and cash equivalents	\$ 53,938,055	\$ 42,224,742
Interest received	\$ 226,630	\$ 389,535

See accompanying notes to the consolidated financial statements.

BRIDGEWATER SYSTEMS CORPORATION
Consolidated Statements of Shareholders' Equity
For the three months ended March 31, 2009
(expressed in Canadian dollars)
(unaudited)

	Common Shares		Contributed		Shareholders'
	<u>Number</u>	<u>Amount</u>	<u>Surplus</u>	<u>Deficit</u>	<u>Equity</u>
Balance at December 31, 2008	22,969,701	\$ 68,444,332	\$ 834,041	\$ (13,390,664)	\$ 55,887,709
Stock-based compensation	-	-	75,488	-	75,488
Repurchase of shares under normal course issuer bid	(53,235)	(153,531)	-	(54,760)	(208,291)
Exercise of stock options	1,485,679	1,932,029	(195,617)	-	1,736,412
Net earnings	-	-	-	2,885,225	2,885,225
Balance at March 31, 2009	24,402,145	\$ 70,222,830	\$ 713,912	\$ (10,560,199)	\$ 60,376,543

See accompanying notes to the consolidated financial statements.

BRIDGEWATER SYSTEMS CORPORATION

Notes to the Consolidated Financial Statements

For the three month period ended March 31, 2009 and 2008

(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, 2008 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, 2008 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

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 International Financial Reporting Standard 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 International Financial Reporting Standard 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.

2. CHANGES IN ACCOUNTING POLICIES

Goodwill and other 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 and establishes standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard did not have a material effect on the Company's consolidated financial statements.

BRIDGEWATER SYSTEMS CORPORATION

Notes to the Consolidated Financial Statements

For the three month period ended March 31, 2009 and 2008

(expressed in Canadian dollars)

(unaudited)

3. SHARE CAPITAL

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

Stock options

Prior to the Company's initial public offering, which was completed December 14, 2007, 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 initial 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:

- 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 for the five trading days prior to the date of grant.
- The maximum number of options issuable under the Amended Plan at March 31, 2009 is 3,604,421.

BRIDGEWATER SYSTEMS CORPORATION

Notes to the Consolidated Financial Statements

For the three month period ended March 31, 2009 and 2008

(expressed in Canadian dollars)

(unaudited)

3. 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, 2008	3,411,700	\$ 1.93
Granted	336,250	\$ 3.76
Exercised	(1,485,679)	\$ 1.17
Forfeited	(44,521)	\$ 3.48
Expired	—	\$ —
	<hr/>	
Options outstanding, March 31, 2009	2,217,750	\$ 2.69

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

Exercise Price	Number Outstanding	Weighted Average Remaining Life (Years)	Number Exercisable
\$ 1.15	168,354	0.50	168,354
\$ 1.50	461,684	1.11	415,549
\$ 1.85	220,000	4.69	13,749
\$ 2.00	147,945	1.93	99,353
\$ 2.76	334,000	4.08	76,450
\$ 3.09	21,250	4.58	2,210
\$ 3.62	52,000	3.91	14,064
\$ 3.76	336,250	4.95	—
\$ 4.00	452,517	2.86	206,586
\$ 5.50	23,750	3.72	8,913
	<hr/>		
\$ 2.69	2,217,750	2.99	1,005,228

The weighted average exercise price of total options exercisable at March 31, 2009 was \$2.10.

BRIDGEWATER SYSTEMS CORPORATION

Notes to the Consolidated Financial Statements

For the three month period ended March 31, 2009 and 2008

(expressed in Canadian dollars)

(unaudited)

3. SHARE CAPITAL (Continued)

Stock options (Continued)

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, 2009</u>	<u>March 31, 2008</u>
Expected option life (years)	4.0	4.0
Volatility	48.1%	40.0%
Risk-free interest rate	1.7%	3.3%
Dividend yield	–	–

The weighted average fair value for stock options granted in the three months ending March 31, 2009 and 2008 were \$1.47 and \$1.29, 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. 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.

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 March 2009, the Company acquired 53,235 common shares pursuant to the NCIB through an automatic share purchase plan. These shares were purchased for cancellation at an aggregate cost of \$208,291, of which \$153,531 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 \$54,760 was charged to retained earnings. Included in the 53,235 common shares repurchased by the Company are 21,090 shares which had not been cancelled at March 31, 2009. These shares had an aggregate cost of \$83,413 of which \$60,580 was charged to share capital and \$22,833 was charged to retained earnings. These shares were cancelled subsequent to March 31, 2009.

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Notes to the Consolidated Financial Statements

For the three month period ended March 31, 2009 and 2008

(expressed in Canadian dollars)

(unaudited)

3. SHARE CAPITAL (Continued)

Earnings per share

For the three month period ended March 31, 2009, 971,833 (March 31, 2008 – 650,560) 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.

	<u>March 31, 2009</u>	<u>March 31, 2008</u>
Weighted average shares outstanding – basic	23,107,823	22,303,427
Dilutive effect of stock options	1,294,166	–
Weighted average shares outstanding – diluted	<u>24,401,989</u>	<u>22,303,427</u>

Capital management

The Company's capital is composed of its shareholders' equity. The Company manages its capital to ensure financial flexibility 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, 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 to a customer, 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 period.

4. FINANCIAL INSTRUMENTS

Comprehensive earnings

The Company had no other comprehensive earnings or loss transactions during the three month period ended March 31, 2009 and no opening or closing balances for accumulated other comprehensive earnings or loss.

BRIDGEWATER SYSTEMS CORPORATION

Notes to the Consolidated Financial Statements

For the three month period ended March 31, 2009 and 2008

(expressed in Canadian dollars)

(unaudited)

4. FINANCIAL INSTRUMENTS (Continued)

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, 2009</u>	<u>December 31, 2008</u>
Held-for-trading ⁽¹⁾	\$ 53,938,055	\$ 50,377,946
Loans and receivables ⁽²⁾	\$ 19,818,555	\$ 13,423,994
Other financial liabilities ⁽³⁾	\$ 4,522,726	\$ 7,305,923

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

⁽²⁾ Includes accounts and notes receivable

⁽³⁾ 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 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 pay 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 statement of earnings as a foreign exchange gain (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 (loss).

The Company's foreign exchange contracts mature within one to four months from the date of inception. As at March 31, 2009, 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, 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 net earnings of \$104,000. If the Canadian dollar had appreciated 2.5 percent against the US dollar at March 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 net earnings of \$104,000.

BRIDGEWATER SYSTEMS CORPORATION

Notes to the Consolidated Financial Statements

For the three month period ended March 31, 2009 and 2008

(expressed in Canadian dollars)

(unaudited)

4. FINANCIAL INSTRUMENTS (Continued)

Credit risk

The Company is exposed to credit risk in its cash and cash equivalents, 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 and derivative instruments by transacting 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, 2009, three customers accounted for 65.9%, 13.5%, and 11.9% of total accounts receivable. Amounts past due excluding the allowance for doubtful accounts totalled \$16,970,541 at March 31, 2009, of which amounts totalling \$15,800,160 have been collected within 30 days of the end of the period. The remaining overdue balances excluding allowance at March 31, 2009 are as follows:

	March 31, 2009
0 – 30 days past due	\$ 565,377
31 – 60 days past due	512,193
61 – 90 days past due	50,260
Greater than 91 days past due	42,551
	\$ 1,170,381

As at March 31, 2009, the Company has recorded an allowance for doubtful accounts of \$1,433,427 (December 31, 2008 - \$1,189,921). The allowance is an estimate of the March 31, 2009 accounts receivable balances that are at risk of non-collection. The allowance includes \$1,236,581 (December 31, 2008 - \$1,165,562) related to one customer engaged as a reseller who filed for credit protection.

Management has no reason to believe that the remaining accounts receivable are not fully collectible. 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.

Interest rate risk

At March 31, 2009, the Company does not hold any financial instruments with fixed interest rates and is not exposed to interest rate risk.

Fair values

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

BRIDGEWATER SYSTEMS CORPORATION

Notes to the Consolidated Financial Statements

For the three month period ended March 31, 2009 and 2008

(expressed in Canadian dollars)

(unaudited)

4. 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.

5. 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 renewable on an annual basis for the term of the agreement.

6. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	Three months ended March 31, 2009	Three months ended March 31, 2008
Accounts receivable, net of provision for bad debts	\$ (6,618,399)	\$ 3,379,082
Investment tax credits receivable	–	1,512,619
Unbilled receivables	(3,918,395)	190,731
Deferred cost of sales	(200,073)	–
Prepaid expenses and other assets	(917,968)	(796,455)
Accounts payable and accrued liabilities	(2,783,197)	508,641
Deferred revenue	12,750,267	(989,196)
	\$ (1,687,765)	\$ 3,805,422

BRIDGEWATER SYSTEMS CORPORATION

Notes to the Consolidated Financial Statements

For the three month period ended March 31, 2009 and 2008

(expressed in Canadian dollars)

(unaudited)

7. 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, 2009	Three months ended March 31, 2008
Canada	\$ 3,630,420	\$ 2,783,006
United States	10,087,689	5,395,289
Other foreign	324,988	387,212
	\$ 14,043,097	\$ 8,565,507

Assets are primarily located in Canada.

For the three month period ended March 31, 2009, two customers represented 44.1%, and 25.2% of total revenue, respectively (March 31, 2008 - two customers represented 31.4%, and 30.0%, respectively).