

*Consolidated Financial Statements of*

**BRIDGEWATER SYSTEMS  
CORPORATION**

*For the three and nine months ended September 30, 2009 and  
2008  
(unaudited)*

**BRIDGEWATER SYSTEMS CORPORATION**  
**Consolidated Financial Statements**  
For the three and nine months ended September 30, 2009 and 2008  
(unaudited)

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# BRIDGEWATER SYSTEMS CORPORATION

## Consolidated Statements of Earnings and Comprehensive Earnings

(expressed in Canadian dollars)

(unaudited)

	Three months ended		Nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Revenue				
Product	\$ 11,550,556	\$ 5,963,509	\$ 33,967,118	\$ 19,667,267
Service and support	4,218,772	4,330,185	11,979,795	10,987,453
	<b>15,769,328</b>	10,293,694	<b>45,946,913</b>	30,654,720
Cost of sales	5,636,789	2,555,297	13,043,502	6,609,576
Gross margin	<b>10,132,539</b>	7,738,397	<b>32,903,411</b>	24,045,144
Expenses				
Sales and marketing	3,408,637	3,329,261	9,623,026	9,825,762
Research and development	3,863,831	3,215,931	11,045,295	11,599,745
General and administration	1,100,750	920,117	4,204,437	2,867,302
Bad debt (recovery) expense (Note 4)	-	(9,854)	(263,897)	57,612
Stock-based compensation	100,598	72,050	271,086	168,818
	<b>8,473,816</b>	7,527,505	<b>24,879,947</b>	24,519,239
Earnings (loss) before undernoted items	1,658,723	210,892	8,023,464	(474,095)
Foreign exchange (loss) gain	(225,009)	76,922	(130,401)	627,553
Interest and other income	74,095	275,595	472,989	987,097
Earnings before income taxes	1,507,809	563,409	8,366,052	1,140,555
Future income tax recovery (expense)	143,000	(80,000)	313,000	(80,000)
<b>NET EARNINGS AND COMPREHENSIVE EARNINGS</b>	<b>\$ 1,650,809</b>	\$ 483,409	<b>\$ 8,679,052</b>	\$ 1,060,555
Net earnings per share - basic	\$ 0.07	\$ 0.02	\$ 0.36	\$ 0.05
Net earnings per share - diluted	0.07	0.02	0.35	0.04
Weighted average number of shares outstanding - basic	24,359,491	22,758,098	23,940,792	22,546,214
Weighted average number of shares outstanding - diluted	25,237,721	24,208,862	24,909,273	24,216,263

See accompanying notes to the consolidated financial statements.

# BRIDGEWATER SYSTEMS CORPORATION

## Consolidated Balance Sheets

(expressed in Canadian dollars)

(unaudited)

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 43,326,794	\$ 50,363,771
Short-term investments (Note 4)	18,166,784	-
Accounts receivable (Note 4)	16,552,336	13,423,994
Unbilled receivables	8,336,658	968,363
Deferred cost of sales	8,334,939	3,518,085
Prepaid expenses and other assets	5,864,554	1,735,267
Future income tax asset	2,567,000	2,557,000
	<b>103,149,065</b>	<b>72,566,480</b>
DEFERRED COST OF SALES	-	5,525,354
FUTURE INCOME TAX ASSET	6,066,000	5,763,000
CAPITAL ASSETS	4,124,488	3,351,911
	<b>\$ 113,339,553</b>	<b>\$ 87,206,745</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 6,493,218	\$ 7,305,923
Deferred revenue	42,120,710	24,013,113
	<b>48,613,928</b>	<b>31,319,036</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 3)	69,596,430	68,444,332
Contributed surplus	838,006	834,041
Deficit	(5,708,811)	(13,390,664)
	<b>64,725,625</b>	<b>55,887,709</b>
	<b>\$ 113,339,553</b>	<b>\$ 87,206,745</b>

See accompanying notes to the consolidated financial statements.

**BRIDGEWATER SYSTEMS CORPORATION**  
**Consolidated Statements of Cash Flows**  
(expressed in Canadian dollars)  
(unaudited)

	Three months ended		Nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
NET (OUTFLOW) INFLOW OF CASH RELATED TO THE FOLLOWING ACTIVITIES:				
<b>OPERATING</b>				
Net earnings	\$ 1,650,809	\$ 483,409	\$ 8,679,052	\$ 1,060,555
Items not affecting cash				
Bad debt expense	-	-	223,838	67,466
Stock-based compensation	100,598	72,050	271,086	168,818
Foreign exchange loss (gain) on cash held in foreign currency	1,541,372	(311,360)	3,192,622	(322,264)
Future income tax (recovery) expense	(143,000)	80,000	(313,000)	80,000
Amortization of capital assets	419,057	385,226	1,012,178	997,811
	<b>3,568,836</b>	<b>709,325</b>	<b>13,065,776</b>	<b>2,052,386</b>
Changes in non-cash operating working capital items (Note 6)	<b>2,833,209</b>	<b>(1,654,967)</b>	<b>2,802,205</b>	<b>(1,905,827)</b>
	<b>6,402,045</b>	<b>(945,642)</b>	<b>15,867,981</b>	<b>146,559</b>
<b>INVESTING</b>				
Repayment of note receivable	-	-	-	10,000,000
Purchase of short-term investments	(18,166,784)	-	(18,166,784)	-
Purchases of capital assets	(474,191)	(90,516)	(1,433,330)	(995,842)
	<b>(18,640,975)</b>	<b>(90,516)</b>	<b>(19,600,114)</b>	<b>9,004,158</b>
<b>FINANCING</b>				
Proceeds from issuance of common shares (Note 3)	204,124	363,179	2,374,927	932,534
Repurchase of shares under normal course issuer bid (Note 3)	(698,807)	-	(2,487,149)	-
Share issuance costs	-	-	-	(66,558)
	<b>(494,683)</b>	<b>363,179</b>	<b>(112,222)</b>	<b>865,976</b>
Foreign exchange (loss) gain on cash held in foreign currency	(1,541,372)	311,360	(3,192,622)	322,264
NET CASH (OUTFLOW) INFLOW	<b>(14,274,985)</b>	<b>(361,619)</b>	<b>(7,036,977)</b>	<b>10,338,957</b>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<b>57,601,779</b>	<b>39,271,815</b>	<b>50,363,771</b>	<b>28,571,239</b>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<b>\$ 43,326,794</b>	<b>\$ 38,910,196</b>	<b>\$ 43,326,794</b>	<b>\$ 38,910,196</b>
Supplementary information:				
Cash on hand and bank balances	\$ 12,514,071	\$ 11,485,740	\$ 12,514,071	\$ 11,485,740
Cash equivalents	30,812,723	27,424,456	30,812,723	27,424,456
Total cash and cash equivalents	<b>\$ 43,326,794</b>	<b>\$ 38,910,196</b>	<b>\$ 43,326,794</b>	<b>\$ 38,910,196</b>
Interest received	\$ 74,095	\$ 275,595	\$ 469,596	\$ 987,097

See accompanying notes to the consolidated financial statements.

**BRIDGEWATER SYSTEMS CORPORATION**  
**Consolidated Statements of Shareholders' Equity**  
(expressed in Canadian dollars)  
(unaudited)

	Common Shares		Contributed		Shareholders'
	<u>Number</u>	<u>Amount</u>	<u>Surplus</u>	<u>Deficit</u>	<u>Equity</u>
<b>Three months ended September 30, 2009</b>					
Balance at June 30, 2009	24,361,445	\$ 69,732,077	\$ 762,411	\$ (7,025,587)	\$ 63,468,901
Stock-based compensation	-	-	100,598	-	100,598
Repurchase of shares under normal course issuer bid	(128,345)	(364,774)	-	(334,033)	(698,807)
Exercise of stock options	96,895	229,127	(25,003)	-	204,124
Net earnings	-	-	-	1,650,809	1,650,809
<b>Balance at September 30, 2009</b>	<b>24,329,995</b>	<b>\$ 69,596,430</b>	<b>\$ 838,006</b>	<b>\$ (5,708,811)</b>	<b>\$ 64,725,625</b>
<b>Nine months ended September 30, 2009</b>					
Balance at December 31, 2008	22,969,701	\$ 68,444,332	\$ 834,041	\$ (13,390,664)	\$ 55,887,709
Stock-based compensation	-	-	271,086	-	271,086
Repurchase of shares under normal course issuer bid	(528,485)	(1,489,950)	-	(997,199)	(2,487,149)
Exercise of stock options	1,888,779	2,642,048	(267,121)	-	2,374,927
Net earnings	-	-	-	8,679,052	8,679,052
<b>Balance at September 30, 2009</b>	<b>24,329,995</b>	<b>\$ 69,596,430</b>	<b>\$ 838,006</b>	<b>\$ (5,708,811)</b>	<b>\$ 64,725,625</b>

See accompanying notes to the consolidated financial statements.

# BRIDGEWATER SYSTEMS CORPORATION

## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2009 and 2008

(expressed in Canadian dollars)

(unaudited)

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### 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. Adoption of this 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 and nine months ended September 30, 2009 and 2008

(expressed in Canadian dollars)

(unaudited)

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### 3. SHARE CAPITAL

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

#### *Stock options*

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

All existing options granted include the following terms:

- The initial maximum number of options issuable under the plan is 4,109,034 common shares.
- As options are exercised, forfeited or expire, 50% of the number of common shares previously issuable under such options will be available for future grant and the other 50% will no longer be available.
- 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 31<sup>st</sup> of the original year of expiry or no later than the 15<sup>th</sup> of the third month following the original month of expiry.
- The exercise price of all new options granted will be equal to the fair value of the common shares deemed to be the volume weighted average for the five trading days prior to the date of grant.
- The maximum number of options issuable under the plan at September 30, 2009 is 3,649,499.

# BRIDGEWATER SYSTEMS CORPORATION

## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 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	451,250	\$ 3.86
Exercised	(1,791,884)	\$ 1.21
Forfeited	(55,212)	\$ 3.54
Expired	–	\$ –
	<b>2,015,854</b>	<b>\$ 2.96</b>
Options outstanding, June 30, 2009	–	\$ –
Granted	–	\$ –
Exercised	(96,895)	\$ 2.10
Forfeited	(8,438)	\$ 3.01
Expired	(86)	\$ 1.15
	<b>1,910,435</b>	<b>\$ 3.01</b>

The following tables summarize information about stock options outstanding at September 30, 2009:

Exercise Price	Number Outstanding	Weighted Average Remaining Life (Years)	Number Exercisable
\$ 1.15	13,450	0.29	13,450
\$ 1.50	289,249	0.80	283,607
\$ 1.85	206,251	4.19	27,498
\$ 2.00	107,171	1.71	79,691
\$ 2.76	328,872	3.58	113,022
\$ 3.09	21,250	4.08	4,862
\$ 3.62	48,000	3.41	16,556
\$ 3.76	336,250	4.45	42,006
\$ 4.00	426,143	2.62	240,235
\$ 4.08	104,549	4.58	10,434
\$ 4.98	10,000	4.69	624
\$ 5.50	19,250	2.92	9,708
<b>\$ 3.01</b>	<b>1,910,435</b>	<b>3.09</b>	<b>841,693</b>

The weighted average exercise price of all options exercisable at September 30, 2009 was \$2.68.

# BRIDGEWATER SYSTEMS CORPORATION

## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 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:

	Three months ended		Nine months ended	
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
Number of options granted	-	-	451,250	398,000
Weighted average Black - Scholes value of each option granted in the period	-	-	\$ 1.53	\$ 1.11
Assumptions				
Risk-free interest rate	-	-	1.87%	3.12%
Expected life in years	-	-	4	4
Expected dividend yield	-	-	-	-
Volatility	-	-	48.98%	45.40%

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.

#### *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.

# BRIDGEWATER SYSTEMS CORPORATION

## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2009 and 2008

(expressed in Canadian dollars)

(unaudited)

### 3. SHARE CAPITAL (Continued)

#### *Share repurchase (Continued)*

During the third quarter of 2009, the Company acquired 128,345 common shares pursuant to the NCIB through an automatic share purchase plan at prevailing market prices. These shares were purchased for cancellation at an aggregate cost of \$698,807 of which \$364,774 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 \$334,033 was charged to deficit.

During the first nine months of 2009, the Company acquired 528,485 common shares at an aggregate cost of \$2,487,149 of which \$1,489,950 was charged to share capital, and the balance of \$997,199 was charged to deficit.

#### *Earnings per share*

For the three month period ended September 30, 2009, 10,000 (September 30, 2008 – 1,005,450) 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.

For the nine month period ended September 30, 2009, 337,158 (September 30, 2008 – 856,410) weighted average stock options outstanding were anti-dilutive and excluded from the computation of earnings per share.

	Three months ended		Nine months ended	
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
Weighted average common shares outstanding – basic	<b>24,359,491</b>	22,758,098	<b>23,940,792</b>	22,546,214
Dilutive effect of stock options	<b>878,230</b>	1,450,764	<b>968,481</b>	1,670,049
Weighted average common shares outstanding - diluted	<b>25,237,721</b>	24,208,862	<b>24,909,273</b>	24,216,263

#### *Capital management*

The Company's capital is composed of its shareholders' equity. The Company manages its capital to ensure financial stability to increase shareholder value through organic growth, as well as allow the Company to respond to changes in economic and/or commercial conditions. In order to maintain or adjust its capital structure, the Company could issue new shares, purchase shares for cancellation, approve special dividends or raise debt. At this time, the Company has not utilized debt facilities as part of its capital management program nor paid dividends to its shareholders. With the exception of a letter of credit issued in conjunction with a supply agreement (see Note 5), 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.

# BRIDGEWATER SYSTEMS CORPORATION

## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2009 and 2008

(expressed in Canadian dollars)

(unaudited)

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### 4. FINANCIAL INSTRUMENTS

#### *Comprehensive earnings*

The Company had no other comprehensive earnings or loss transactions during the three or nine month periods ended September 30, 2009 and no opening or closing balances for accumulated other comprehensive earnings or loss.

#### *Financial assets and financial liabilities*

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

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
Held-for-trading <sup>(1)</sup>	\$ 43,326,794	\$ 50,377,946
Held-to-maturity <sup>(2)</sup>	\$ 18,166,784	–
Loans and receivables <sup>(3)</sup>	\$ 16,552,336	\$ 13,423,994
Other financial liabilities <sup>(4)</sup>	\$ 6,493,218	\$ 7,305,923

<sup>(1)</sup> Includes cash and cash equivalents and foreign exchange derivatives

<sup>(2)</sup> Includes investments with a fixed term to maturity greater than 3 months

<sup>(3)</sup> Includes accounts receivable

<sup>(4)</sup> Includes accounts payable and accrued liabilities

#### *Currency risk*

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

# BRIDGEWATER SYSTEMS CORPORATION

## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2009 and 2008

(expressed in Canadian dollars)

(unaudited)

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#### 4. FINANCIAL INSTRUMENTS (Continued)

##### *Currency risk (Continued)*

The Company's foreign exchange contracts mature within one to four months from the date of inception. As at September 30, 2009, the Company had no foreign exchange contracts outstanding.

If the Canadian dollar had depreciated 2.5 percent against the US dollar at September 30, 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 \$27,000. If the Canadian dollar had appreciated 2.5 percent against the US dollar at September 30, 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 \$27,000.

##### *Credit risk*

The Company is exposed to credit risk through its cash and cash equivalents, short-term investments, accounts receivable, unbilled receivables and to the credit risk of its derivative financial instrument counterparties if they do not meet their obligations. The Company does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or face value of the financial instrument. The Company minimizes credit risk on cash and cash equivalents, short-term investments and derivative instruments by transacting with only reputable financial institutions. The Company minimizes its credit risk of its accounts receivable by performing credit evaluation, approval and monitoring processes. At September 30, 2009, three customers accounted for 48.2%, 14.6% and 13.8% of total accounts receivable, respectively.

Amounts past due, net of the allowance for doubtful accounts, totalled \$1,978,500 at September 30, 2009. Amounts totalling \$1,196,316 were collected within 30 days of the end of the period. The remaining overdue balances net of allowance at September 30, 2009 are as follows:

	<b>September 30, 2009</b>
0 – 30 days past due	\$ 246,207
31 – 60 days past due	130,440
61 – 90 days past due	66,383
Greater than 91 days past due	339,154
	<b>\$ 782,184</b>

As at September 30, 2009, the balance in allowance for doubtful accounts was \$764,996 (December 31, 2008 - \$1,189,921). The allowance is an estimate of the September 30, 2009 accounts receivable balances that are at risk of non-collection. The allowance includes \$619,310 (December 31, 2008 - \$1,165,562) related to one customer engaged as a reseller who filed for creditor protection. During the nine month period ended September 30, 2009, the Company collected \$487,735 of accounts receivable which were previously recorded as doubtful.

# BRIDGEWATER SYSTEMS CORPORATION

## Notes to the Consolidated Financial Statements

For the three and nine months ended September 30, 2009 and 2008

(expressed in Canadian dollars)

(unaudited)

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#### 4. FINANCIAL INSTRUMENTS (Continued)

##### *Credit risk (Continued)*

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*

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

##### *Fair values*

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

##### *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 renewed on an annual basis.

# BRIDGEWATER SYSTEMS CORPORATION

## Notes to the Consolidated Financial Statements

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(expressed in Canadian dollars)

(unaudited)

### 6. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	Three months ended		Nine months ended	
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
Accounts receivable	\$ (7,586,140)	\$ (6,370,939)	\$ (3,352,180)	\$ (3,292,990)
Investment tax credits receivable	–	–	–	1,667,978
Unbilled receivables	(1,732,509)	1,780,039	(7,368,295)	1,943,741
Deferred cost of sales	401,265	(107,127)	708,500	(5,897,853)
Prepaid expenses and other assets	(200,948)	(252,738)	(4,129,287)	(1,302,059)
Accounts payable and accrued liabilities	(1,236,894)	(5,656,561)	(1,164,130)	1,312,102
Deferred revenue	13,188,435	8,952,359	18,107,597	3,663,254
	<b>\$ 2,833,209</b>	<b>\$ (1,654,967)</b>	<b>\$ 2,802,205</b>	<b>\$ (1,905,827)</b>

Accounts receivable are net of allowance for doubtful accounts.

### 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		Nine months ended	
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2009	Sept. 30, 2008
Canada	\$ 3,152,054	\$ 2,866,328	\$ 10,555,941	\$ 8,703,053
United States	11,925,516	6,740,068	33,707,049	20,371,750
Other foreign	691,758	687,298	1,683,923	1,579,917
	<b>\$ 15,769,328</b>	<b>\$ 10,293,694</b>	<b>\$ 45,946,913</b>	<b>\$ 30,654,720</b>

# **BRIDGEWATER SYSTEMS CORPORATION**

## **Notes to the Consolidated Financial Statements**

**For the three and nine months ended September 30, 2009 and 2008**

**(expressed in Canadian dollars)**

**(unaudited)**

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### **7. SEGMENTED INFORMATION (Continued)**

Assets are primarily located in Canada.

For the three month period ended September 30, 2009, two customers represented 49.4%, and 15.9% of total revenue, respectively (September 30, 2008 - three customers represented 28.5%, 26.6% and 18.5%, respectively).

For the nine month period ended September 30, 2009, two customers represented 47.8%, and 19.5% of total revenue, respectively (September 30, 2008 - three customers represented 29.4%, 27.3% and 16.5%, respectively).