Consolidated Financial Statements of

BRIDGEWATER SYSTEMS CORPORATION

Three months ended March 31, 2010 and 2009
(unaudited)

BRIDGEWATER SYSTEMS CORPORATION
Consolidated Financial Statements
For the three months ended March 31, 2010 and 2009
(unaudited)

BRIDGEWATER SYSTEMS CORPORATION
Consolidated Statements of Earnings and Comprehensive Earnings
For the three months ended March 31, 2010 and 2009
(expressed in Canadian dollars)
(unaudited)

	Three months ended			
		March 31, 2010		March 31, 2009
Revenue				
Product	**$**	**18,851,979**	$	10,737,290
Service and support		**5,643,892**		3,305,807
		24,495,871		14,043,097
Cost of sales		**8,180,039**		3,323,068
Gross margin		**16,315,832**		10,720,029
Expenses				
Sales and marketing		**4,040,311**		2,932,558
Research and development		**5,184,082**		3,427,970
General and administration		**1,025,678**		1,501,276
Investment tax credit carryforwards recognized		**(400,000)**		-
Bad debt (recovery) expense (Note 3)		**(49,929)**		223,838
Stock-based compensation		**115,862**		75,488
		9,916,004		8,161,130
Earnings before undernoted items		**6,399,828**		2,558,899
Foreign exchange loss		**(740,319)**		(3,697)
Interest and other income		**72,160**		230,023
Loss on disposal of property, equipment and intangible assets		**(22,000)**		-
Earnings before income taxes		**5,709,669**		2,785,225
Current income tax expense		**400,000**		-
Future income tax expense (recovery)		**717,000**		(100,000)
NET EARNINGS AND COMPREHENSIVE EARNINGS	**$**	**4,592,669**	$	2,885,225
Net earnings per share - basic	**$**	**0.19**	$	0.12
Net earnings per share - diluted	**$**	**0.18**	$	0.12
Weighted average number of shares outstanding - basic (Note 2)		**24,441,881**		23,107,823
Weighted average number of shares outstanding - diluted (Note 2)		**25,558,286**		24,401,989

See accompanying notes to the consolidated financial statements.

BRIDGEWATER SYSTEMS CORPORATION

Consolidated Balance Sheets

as at March 31, 2010 and December 31, 2009
(expressed in Canadian dollars)
(unaudited)

	March 31, 2010	December 31, 2009
CURRENT ASSETS		
Cash and cash equivalents	**$ 76,018,916**	$ 53,828,859
Short-term investments (Note 3)	**8,232,449**	13,459,190
Accounts receivable	**9,831,353**	24,879,197
Unbilled receivables	**553,324**	1,360,741
Deferred cost of sales	**9,093,064**	12,324,813
Prepaid expenses and other assets	**3,923,485**	3,229,227
Future income tax asset	**3,662,000**	5,113,000
	111,314,591	114,195,027
FUTURE INCOME TAX ASSET	**4,437,000**	3,703,000
PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS	**3,337,404**	3,604,811
	$ 119,088,995	$ 121,502,838
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 5,557,413**	$ 9,617,441
Deferred revenue	**41,199,010**	44,288,403
	46,756,423	53,905,844
SHAREHOLDERS' EQUITY		
Share capital (Note 2)	**69,903,009**	69,872,842
Contributed surplus	**1,020,936**	908,194
Retained Earnings (Deficit)	**1,408,627**	(3,184,042)
	72,332,572	67,596,994
	$ 119,088,995	$ 121,502,838

See accompanying notes to the consolidated financial statements.

BRIDGEWATER SYSTEMS CORPORATION
Consolidated Statements of Cash Flows
For the three months ended March 31, 2010 and 2009
(expressed in Canadian dollars)
(unaudited)

	Three months ended	
	March 31, 2010	March 31, 2009
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings	**$ 4,592,669**	$ 2,885,225
Items not affecting cash		
Bad debt expense	**-**	223,838
Stock-based compensation	**115,862**	75,488
Foreign exchange loss (gain) on cash held in foreign currency	**1,641,768**	(437,144)
Loss on disposal of assets	**22,000**	-
Future income tax expense (recovery)	**717,000**	(100,000)
Amortization of property, equipment and intangible assets	**318,572**	281,896
	7,407,871	2,929,303
Changes in non-cash operating working capital items (Note 5)	**11,328,422**	(1,687,765)
	18,736,293	1,241,538
INVESTING		
Receipt of short-term investments	**5,226,741**	-
Purchases of property, equipment and intangible assets	**(158,256)**	(373,867)
Deferred cost of sales	**-**	741,348
	5,068,485	367,481
FINANCING		
Proceeds from issuance of common shares (Note 2)	**27,047**	1,736,412
Repurchase of shares under normal course issuer bid (Note 2)	**-**	(208,291)
	27,047	1,528,121
Foreign exchange (loss) gain on cash held in foreign currency	**(1,641,768)**	437,144
NET CASH INFLOW	**22,190,057**	3,574,284
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	**53,828,859**	50,363,771
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 76,018,916**	$ 53,938,055
Supplementary information:		
Cash on hand and bank balances	**$ 36,819,311**	$ 9,375,368
Cash equivalents	**39,199,605**	44,562,687
Total cash and cash equivalents	**$ 76,018,916**	$ 53,938,055
Interest received	**$ 52,095**	$ 226,630

See accompanying notes to the consolidated financial statements.

BRIDGEWATER SYSTEMS CORPORATION

Consolidated Statements of Shareholders' Equity

For the three months ended March 31, 2010
(expressed in Canadian dollars)
(unaudited)

	Common Shares Number	Common Shares Amount	Contributed Surplus	Retained Earnings (Deficit)	Shareholders' Equity
Balance at December 31, 2009	24,432,468	$ 69,872,842	$ 908,194	$ (3,184,042)	$ 67,596,994
Stock-based compensation	-	-	115,862	-	115,862
Repurchase of shares under normal course issuer bid	-	-	-	-	-
Exercise of stock options (Note 2)	15,304	30,167	(3,120)	-	27,047
Net earnings	-	-	-	4,592,669	4,592,669
Balance at March 31, 2010	**24,447,772**	**$ 69,903,009**	**$ 1,020,936**	**$ 1,408,627**	**$ 72,332,572**

See accompanying notes to the consolidated financial statements.

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, 2009 annual consolidated financial statements. 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, 2009 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 Canadian Institute of Chartered Accountants ("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 Standards ("IFRS") 3, *Business Combinations*. The new standard is not expected to have a material effect on the Company's consolidated financial statements.

Consolidated financial statements

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

Revenue recognition

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

(expressed in Canadian dollars)

2. 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. They may be exercised as follows: up to 25% following the first anniversary date and up to 1/36 of 75% during each of the 36 months immediately following the first anniversary. All options expire on the fifth anniversary of grant or upon termination of employment.

The maximum number of options available for issuance under the plan at March 31, 2010 is 3,667,166, reflecting 15% of the Company's issued and outstanding common shares.

The terms of the plan include:

- If an option expires within or immediately following a black-out period, an option holder may elect to extend the expiry date of the option to ten days beyond the end of the black-out period providing it is no later than December 31st of the original year of expiry or no later than the 15th of the third month following the original month of expiry.
- The exercise price of all new options granted will be equal to the fair value of the common shares deemed to be the volume weighted average for the five trading days prior to the date of grant.

Activity in the stock option plan is summarized below:

	Number of Options	Weighted Average Exercise Price
Options outstanding, December 31, 2009	1,799,650	$ 3.04
Granted	200,000	$ 9.52
Exercised	(15,304)	$ 1.77
Forfeited	(130)	$ 4.00
Options outstanding, March 31, 2010	**1,984,216**	**$ 3.70**

(expressed in Canadian dollars)

2. SHARE CAPITAL (Continued)

Stock options (Continued)

The following table summarizes information about stock options outstanding at March 31, 2010:

Exercise Price	Number Outstanding	Weighted Average Remaining Life (Years)	Number Exercisable
$ 1.50	237,951	0.31	237,951
$ 1.85	206,251	3.70	54,996
$ 2.00	95,550	1.22	85,193
$ 2.76	326,845	3.08	152,695
$ 3.09	11,250	3.58	3,978
$ 3.62	41,265	2.91	16,312
$ 3.76	336,250	3.95	84,012
$ 4.00	397,116	2.13	266,956
$ 4.08	102,488	4.08	21,409
$ 4.98	10,000	4.19	1,872
$ 5.50	19,250	2.42	12,084
$ 9.52	200,000	4.91	4,166
$ 3.70	**1,984,216**	**2.91**	**941,624**

The weighted average exercise price of all options exercisable at March 31, 2010 was $2.88.

The weighted average fair value of all options granted during the three months ended March 31, 2010 and 2009 was estimated as of the date of grant using the Black-Scholes option pricing model with the following assumptions:

	March 31, 2010	March 31, 2009
Expected option life (years)	**4.0**	4.0
Volatility	**59.02%**	48.11%
Risk-free interest rate	**2.05%**	1.68%
Dividend yield	–	–

The weighted average fair value of stock options granted in the three months ended March 31, 2010 and 2009 were $4.45 and $1.47, respectively.

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

(expressed in Canadian dollars)

2. SHARE CAPITAL (Continued)

Share repurchase

On March 12, 2009, the Toronto Stock Exchange (the "TSX") accepted the Company's notice of intention to repurchase up to 1,148,962 common shares (5 percent of the Company's issued and outstanding common shares) through a normal course issuer bid ("NCIB"). The NCIB was effective March 17, 2009 and expired on March 16, 2010. Daily purchases over the facilities of the TSX were 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 would pay for the common shares purchased would be the market price of the shares at the time of acquisition.

No shares were repurchased during the three months ended March 31, 2010 prior to the expiry of the NCIB.

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.

Earnings per share

For the three months ended March 31, 2010, 124,444 (March 31, 2009 – 971,833) 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.

	March 31, 2010	March 31, 2009
Weighted average shares outstanding – basic	**24,441,881**	23,107,823
Dilutive effect of stock options	**1,116,405**	1,294,166
Weighted average shares outstanding – diluted	**25,558,286**	24,401,989

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 4), 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.

3. FINANCIAL INSTRUMENTS (Continued)

Comprehensive earnings

The Company had no other comprehensive earnings or loss transactions during the three months ended March 31, 2010 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:

	March 31, 2010	December 31, 2009
Held-for-trading [(1)]	**$ 76,018,916**	$ 53,828,859
Held-to-maturity [(2)]	**$ 8,232,449**	$ 13,459,190
Loans and receivables [(3)]	**$ 9,831,353**	$ 24,879,197
Other financial liabilities [(4)]	**$ 5,557,413**	$ 9,617,441

[(1)] Includes cash and cash equivalents

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

[(3)] Includes accounts receivable

[(4)] Includes accounts payable and accrued liabilities

Currency risk

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

(expressed in Canadian dollars)

3. 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 March 31, 2010 and 2009, the Company had no forward exchange contracts outstanding.

If the Canadian dollar had depreciated 2.5 percent against the US dollar at March 31, 2010, with all other variables held constant, the impact of the foreign currency change on our US dollar denominated financial instruments would lead to an increase in earnings before income taxes of $1,426,000. If the Canadian dollar had appreciated 2.5 percent against the US dollar at March 31, 2010, with all other variables held constant, the impact of the foreign currency change on our US dollar denominated financial instruments would lead to a decrease in earnings before income taxes of $1,426,000.

Credit risk

The Company is exposed to credit risk through its cash and cash equivalents, short-term investments, accounts receivable, unbilled receivables and to the credit risk of its derivative financial instrument counterparties if they do not meet their obligations. The Company does not use credit derivatives or similar instruments to mitigate this risk and, as such, the maximum exposure is the full carrying value or face value of the financial instrument. The Company minimizes credit risk on cash and cash equivalents, short-term investments and derivative instruments by transacting with only reputable financial institutions. The Company minimizes its credit risk of its accounts receivables by establishing a process for credit reviews for each of its new customer engagements. Additionally, the Company continues to monitor credit risk and collectability within its customer base and the impact of current economic conditions on the liquidity of its customers and their ability to meet their financial obligations. At March 31, 2010, two customers accounted for 31.0% and 11.9% of total accounts receivable, respectively (March 31, 2009 - three customers accounted for 65.9%, 13.5% and 11.9% of total accounts receivable, respectively).

Amounts past due, net of the allowance for doubtful accounts, totalled $3,460,880 at March 31, 2010, of which $416,180 were collected within 3 weeks of the end of the period. The overdue balances net of allowance at March 31, 2010 are as follows:

	Amounts past due, net of allowance	Collected within 3 weeks of period-end	Remaining overdue balance
0 – 30 days past due	$ 254,064	$ 121,858	$ 132,206
31 – 60 days past due	1,850,958	–	1,850,958
61 – 90 days past due	713,574	70,090	643,484
Greater than 91 days past due	642,284	224,232	418,052
	$ 3,460,880	**$ 416,180**	**$ 3,044,700**

(expressed in Canadian dollars)

3. FINANCIAL INSTRUMENTS (Continued)

Credit risk (Continued)

As at March 31, 2010, the balance in allowance for doubtful accounts was $779,246 (December 31, 2009 - $856,152). The allowance is an estimate of the March 31, 2010 accounts receivable balances that are at risk of non-collection. The allowance includes $583,182 (December 31, 2009 - $604,998) related to one customer engaged as a reseller who filed for creditor protection in 2009. During the three month period ended March 31, 2010, the Company collected $49,929 of accounts receivable which were previously recorded as doubtful.

Interest rate risk

The Company is exposed to interest rate risk on its cash and cash equivalents and short-term investments, all of which have a maturity of less than one year. Management believes that interest rate risk is not significant as interest rates earned on short-term investments range from 0.6% to 1.8% and fluctuations in interest rates would not have a material impact on the results of the Company.

Fair values

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

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

	March 31, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**$ 54,910,916**	**$ 21,108,000**	–	**$ 76,018,916**

Liquidity risk

Liquidity risk is the risk the Company will not be able to meet its financial obligations as they come due. The Company currently settles all of its financial obligations out of cash and cash equivalents. The ability to do so relies on the Company collecting its accounts receivable in a timely manner and maintaining sufficient cash and cash equivalents in excess of anticipated needs. Despite the current volatility in the economic environment, the Company's liquidity and ability to meet its financial obligations have not been negatively impacted. All financial obligations are due not later than one year as at March 31, 2010.

(expressed in Canadian dollars)

4. 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.

5. CHANGES IN NON-CASH OPERATING WORKING CAPITAL ITEMS

	Three months ended March 31, 2010	Three months ended March 31, 2009
Accounts receivable, net of provision for bad debts	**$ 15,047,844**	$ (6,618,399)
Unbilled receivables	**807,417**	(3,918,395)
Deferred cost of sales	**3,231,749**	(200,073)
Prepaid expenses and other assets	**(694,258)**	(917,968)
Accounts payable and accrued liabilities [1]	**(3,974,937)**	(2,783,197)
Deferred revenue	**(3,089,393)**	12,750,267
	$ 11,328,422	$ (1,687,765)

[1] Accounts payable and accrued liabilities have been adjusted to include $100,044 in property, equipment and intangible additions not paid for at December 31, 2009 and exclude $14,953 not paid for as at March 31, 2010.

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, 2010	Three months ended March 31, 2009
Canada	**$ 2,683,505**	$ 3,630,420
United States	**20,629,116**	10,087,689
Other foreign	**1,183,250**	324,988
	$ 24,495,871	$ 14,043,097

Assets are primarily located in Canada.

For the three months ended March 31, 2010, two customers represented 62.1%, and 10.3% of total revenue, respectively (March 31, 2009 - two customers represented 44.1% and 25.2%, respectively).