

*Consolidated Financial Statements of*

**BRIDGEWATER SYSTEMS  
CORPORATION**

*Six months ended June 30, 2010 and 2009  
(unaudited)*

**BRIDGEWATER SYSTEMS CORPORATION**  
**Consolidated Financial Statements**  
For the six months ended June 30, 2010 and 2009  
(unaudited)

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# BRIDGEWATER SYSTEMS CORPORATION

## Consolidated Statements of Earnings and

### Comprehensive Earnings

For the three and six months ended June 30, 2010 and 2009

(expressed in Canadian dollars)

(unaudited)

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenue				
Product	\$ 17,144,414	\$ 11,679,272	\$ 35,996,393	\$ 22,416,562
Service and support	5,584,958	4,455,216	11,228,850	7,761,023
	<b>22,729,372</b>	16,134,488	<b>47,225,243</b>	30,177,585
Cost of sales	<b>7,732,280</b>	4,083,645	<b>15,912,319</b>	7,406,713
Gross margin	<b>14,997,092</b>	12,050,843	<b>31,312,924</b>	22,770,872
Expenses				
Sales and marketing	3,840,382	3,281,831	7,880,693	6,214,389
Research and development	6,053,970	3,753,494	11,238,052	7,181,464
General and administration	1,178,187	1,602,411	2,203,865	3,103,687
Investment tax credit carryforwards recognized	(600,000)	-	(1,000,000)	-
Bad debt recovery (Note 3)	-	(487,735)	(49,929)	(263,897)
Stock-based compensation	227,325	95,000	343,187	170,488
	<b>10,699,864</b>	8,245,001	<b>20,615,868</b>	16,406,131
Earnings before undernoted items	<b>4,297,228</b>	3,805,842	<b>10,697,056</b>	6,364,741
Foreign exchange gain (loss)	434,150	98,305	(306,169)	94,608
Interest and other income	85,281	168,871	157,441	398,894
Loss on disposal of property, equipment and intangible assets	(64,724)	-	(86,724)	-
Earnings before income taxes	<b>4,751,935</b>	4,073,018	<b>10,461,604</b>	6,858,243
Current income tax expense	600,000	-	1,000,000	-
Future income tax expense (recovery)	944,000	(70,000)	1,661,000	(170,000)
NET EARNINGS AND COMPREHENSIVE EARNINGS	<b>\$ 3,207,935</b>	\$ 4,143,018	<b>\$ 7,800,604</b>	\$ 7,028,243
Net earnings per share - basic	\$ 0.13	\$ 0.17	\$ 0.32	\$ 0.30
Net earnings per share - diluted	\$ 0.13	\$ 0.17	\$ 0.30	\$ 0.29
Weighted average number of shares outstanding - basic (Note 2)	24,619,914	24,483,296	24,531,389	23,653,629
Weighted average number of shares outstanding - diluted (Note 2)	25,591,709	25,033,020	25,580,342	24,615,850

See accompanying notes to the consolidated financial statements.

# BRIDGEWATER SYSTEMS CORPORATION

## Consolidated Balance Sheets

as at June 30, 2010 and December 31, 2009

(expressed in Canadian dollars)

(unaudited)

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 64,035,839	\$ 53,828,859
Short-term investments (Note 3)	13,612,070	13,459,190
Accounts receivable	11,345,383	24,879,197
Unbilled receivables	787,212	1,360,741
Deferred cost of sales	6,085,031	12,324,813
Prepaid expenses and other assets	4,302,699	3,229,227
Future income tax asset	2,021,000	5,113,000
	<b>102,189,234</b>	<b>114,195,027</b>
FUTURE INCOME TAX ASSET	5,134,000	3,703,000
PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS	3,019,155	3,604,811
	<b>\$ 110,342,389</b>	<b>\$ 121,502,838</b>
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 5,475,413	\$ 9,617,441
Deferred revenue	28,428,293	44,288,403
	<b>33,903,706</b>	<b>53,905,844</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 2)	70,667,939	69,872,842
Contributed surplus	1,154,182	908,194
Retained earnings (Deficit)	4,616,562	(3,184,042)
	<b>76,438,683</b>	<b>67,596,994</b>
	<b>\$ 110,342,389</b>	<b>\$ 121,502,838</b>

See accompanying notes to the consolidated financial statements.

# BRIDGEWATER SYSTEMS CORPORATION

## Consolidated Statements of Cash Flows

For the three and six months ended June 30, 2010 and 2009

(expressed in Canadian dollars)

(unaudited)

	Three months ended		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:				
OPERATING				
Net earnings	\$ 3,207,935	\$ 4,143,018	\$ 7,800,604	\$ 7,028,243
Items not affecting cash				
Bad debt expense	-	23,860	-	247,698
Stock-based compensation	227,325	95,000	343,187	170,488
Foreign exchange loss (gain) on cash held in foreign currency	(1,227,211)	2,088,394	414,557	1,651,250
Loss on disposal of assets	64,724	-	86,724	-
Future income tax expense (recovery)	944,000	(70,000)	1,661,000	(170,000)
Amortization of property, equipment and intangible assets	328,559	311,225	647,132	593,121
	3,545,332	6,591,497	10,953,204	9,520,800
Changes in non-cash operating working capital items (Note 5)	(11,956,863)	891,553	(628,441)	(54,864)
	(8,411,531)	7,483,050	10,324,763	9,465,936
INVESTING				
Purchase of short-term investments	(5,379,621)	-	(152,880)	-
Purchases of property, equipment and intangible assets	(89,987)	(585,272)	(248,244)	(959,139)
	(5,469,608)	(585,272)	(401,124)	(959,139)
FINANCING				
Proceeds from issuance of common shares (Note 2)	670,851	434,391	697,898	2,170,803
Repurchase of shares under normal course issuer bid (Note 2)	-	(1,580,051)	-	(1,788,342)
	670,851	(1,145,660)	697,898	382,461
Foreign exchange gain (loss) on cash held in foreign currency	1,227,211	(2,088,394)	(414,557)	(1,651,250)
NET CASH INFLOW (OUTFLOW)	(11,983,077)	3,663,724	10,206,980	7,238,008
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	76,018,916	53,938,055	53,828,859	50,363,771
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 64,035,839	\$ 57,601,779	\$ 64,035,839	\$ 57,601,779
Supplementary information:				
Cash on hand and bank balances	\$ 24,836,234	\$ 4,900,007	\$ 24,836,234	\$ 4,900,007
Cash equivalents	39,199,605	52,701,772	39,199,605	52,701,772
Total cash and cash equivalents	\$ 64,035,839	\$ 57,601,779	\$ 64,035,839	\$ 57,601,779
Interest received	\$ 70,571	\$ 168,871	\$ 122,667	\$ 395,501

See accompanying notes to the consolidated financial statements.

# BRIDGEWATER SYSTEMS CORPORATION

## Consolidated Statements of Shareholders' Equity

For the six months ended June 30, 2010

(expressed in Canadian dollars)

(unaudited)

	Common Shares Number	Common Shares Amount	Contributed Surplus	Retained Earnings (Deficit)	Shareholders' Equity
<b>Three months ended June 30, 2010</b>					
Balance at March 31, 2010	24,447,772	\$ 69,903,009	\$ 1,020,936	\$ 1,408,627	\$ 72,332,572
Stock-based compensation	-	-	227,325	-	227,325
Exercise of stock options (Note 2)	320,406	764,930	(94,079)	-	670,851
Net earnings	-	-	-	3,207,935	3,207,935
<b>Balance at June 30, 2010</b>	<b>24,768,178</b>	<b>\$ 70,667,939</b>	<b>\$ 1,154,182</b>	<b>\$ 4,616,562</b>	<b>\$ 76,438,683</b>
<b>Six months ended June 30, 2010</b>					
Balance at December 31, 2009	24,432,468	\$ 69,872,842	\$ 908,194	\$ (3,184,042)	\$ 67,596,994
Stock-based compensation	-	-	343,187	-	343,187
Exercise of stock options (Note 2)	335,710	795,097	(97,199)	-	697,898
Net earnings	-	-	-	7,800,604	7,800,604
<b>Balance at June 30, 2010</b>	<b>24,768,178</b>	<b>\$ 70,667,939</b>	<b>\$ 1,154,182</b>	<b>\$ 4,616,562</b>	<b>\$ 76,438,683</b>

# BRIDGEWATER SYSTEMS CORPORATION

## Notes to the Consolidated Financial Statements

For the six months ended June 30, 2010 and 2009

(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, 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 not the Company's intention to early adopt the standard and therefore the Company has not assessed the impact the standard may have on the Company's consolidated financial statements.

# BRIDGEWATER SYSTEMS CORPORATION

## Notes to the Consolidated Financial Statements

For the six months ended June 30, 2010 and 2009

(expressed in Canadian dollars)

(unaudited)

### 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: 1/48 during each of the 48 months immediately following the date of grant. All options expire on the fifth anniversary of grant or upon termination of employment.

The maximum number of options issued and available for issuance under the plan at June 30, 2010 is 3,715,227, 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 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.

Activity in the stock option plan is summarized below:

	Number of <u>Options</u>	Weighted Average Exercise <u>Price</u>
Options outstanding, December 31, 2009	1,799,650	\$ 3.04
Granted	200,000	9.52
Exercised	(15,304)	1.77
Forfeited	(130)	4.00
	<hr/>	
Options outstanding, March 31, 2010	<b>1,984,216</b>	<b>\$ 3.70</b>
	<hr/>	
Granted	496,500	9.40
Exercised	(320,406)	2.09
Forfeited	(296)	4.00
	<hr/>	
Options outstanding, June 30, 2010	<b>2,160,014</b>	<b>\$ 5.25</b>

# BRIDGEWATER SYSTEMS CORPORATION

## Notes to the Consolidated Financial Statements

For the six months ended June 30, 2010 and 2009

(expressed in Canadian dollars)

(unaudited)

### 2. SHARE CAPITAL (Continued)

*Stock options (Continued)*

The following table summarizes information about stock options outstanding at June 30, 2010:

<u>Exercise Price</u>	<u>Number Outstanding</u>	<u>Weighted Average Remaining Life (Years)</u>	<u>Number Exercisable</u>
\$ 1.50	77,855	0.26	77,855
\$ 1.85	146,672	3.45	9,166
\$ 2.00	74,814	0.99	71,903
\$ 2.76	296,147	2.84	142,847
\$ 3.09	11,250	3.33	4,680
\$ 3.62	38,847	2.66	17,142
\$ 3.76	327,250	3.70	96,015
\$ 4.00	361,173	1.88	258,516
\$ 4.08	100,256	3.84	25,734
\$ 4.98	10,000	3.95	2,496
\$ 5.50	19,250	2.17	13,272
\$ 8.33	102,500	4.91	2,135
\$ 9.52	200,000	4.66	16,664
\$ 9.68	394,000	4.83	16,380
<b>\$ 5.25</b>	<b>2,160,014</b>	<b>3.37</b>	<b>754,805</b>

The weighted average exercise price of all options exercisable at June 30, 2010 was \$3.54.

The weighted average fair value of all options granted during the three and six month periods ended June 30, 2010 and 2009 was estimated as of the date of grant using the Black-Scholes option pricing model with the following assumptions:

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Expected option life (years)	<b>4.0</b>	4.0	<b>4.0</b>	4.0
Volatility	<b>59.21%</b>	51.52%	<b>59.16%</b>	48.98%
Risk-free interest rate	<b>2.68%</b>	1.96%	<b>2.50%</b>	1.87%
Dividend Yield	-	-	-	-

The weighted average fair value of stock options granted in the three and six month periods ended June 30, 2010 were \$4.48 and \$4.47 respectively (June 30, 2009 - \$1.73 and \$1.53, respectively).

# BRIDGEWATER SYSTEMS CORPORATION

## Notes to the Consolidated Financial Statements

For the six months ended June 30, 2010 and 2009

(expressed in Canadian dollars)

(unaudited)

### 2. SHARE CAPITAL (Continued)

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 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 six months ended June 30, 2010 prior to the expiry of the NCIB.

During the first six months of 2009, the Company acquired 400,140 common shares pursuant to the NCIB through an automatic share purchase plan at the prevailing market price. These shares were purchased for cancellation at an aggregate cost of \$1,788,342 of which \$1,125,176 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 \$663,166 was charged to retained earnings. Included in the 400,140 common shares repurchased by the Company are 23,300 shares which were cancelled subsequent to June 30, 2009. These shares had an aggregate cost of \$112,060 of which \$66,231 was charged to share capital and \$45,829 was charged to retained earnings.

#### *Earnings per share*

For the three and six months ended June 30, 2010, 512,192 and 295,060 respectively (June 30, 2009 – 432,692 and 793,491, respectively) weighted average stock options outstanding had an exercise price greater than the average market value of the shares and were excluded from the computation of earnings per share because they were anti-dilutive.

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30, 2010</b>	June 30, 2009	<b>June 30, 2010</b>	June 30, 2009
Weighted average common shares outstanding – basic	<b>24,619,914</b>	24,483,296	<b>24,531,389</b>	23,653,629
Dilutive effect of stock options	<b>971,795</b>	549,724	<b>1,048,953</b>	962,221
Weighted average common shares outstanding - diluted	<b>25,591,709</b>	25,033,020	<b>25,580,342</b>	24,615,850

# BRIDGEWATER SYSTEMS CORPORATION

## Notes to the Consolidated Financial Statements

For the six months ended June 30, 2010 and 2009

(expressed in Canadian dollars)

(unaudited)

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### 2. SHARE CAPITAL (Continued)

#### *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 changes in the Company's approach to capital management during the period.

### 3. FINANCIAL INSTRUMENTS

#### *Comprehensive earnings*

The Company had no other comprehensive earnings or loss transactions during the six months ended June 30, 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:

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Held-for-trading <sup>(1)</sup>	\$ 64,035,839	\$ 53,828,859
Held-to-maturity <sup>(2)</sup>	\$ 13,612,070	\$ 13,459,190
Loans and receivables <sup>(3)</sup>	\$ 11,345,383	\$ 24,879,197
Other financial liabilities <sup>(4)</sup>	\$ 5,475,413	\$ 9,617,441

<sup>(1)</sup> Includes cash and cash equivalents

<sup>(2)</sup> Includes short-term investments with a fixed term to maturity greater than 3 months but less than one year

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

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

# BRIDGEWATER SYSTEMS CORPORATION

## Notes to the Consolidated Financial Statements

For the six months ended June 30, 2010 and 2009

(expressed in Canadian dollars)

(unaudited)

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### 3. FINANCIAL INSTRUMENTS (Continued)

#### *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 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 statements 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 June 30, 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 June 30, 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 \$913,400. If the Canadian dollar had appreciated 2.5 percent against the US dollar at June 30, 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 \$913,400.

#### *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 June 30, 2010, three customers accounted for 26.9%, 17.7%, and 14.2% of total accounts receivable, respectively (June 30, 2009 - two customers accounted for 35.3%, and 30.5% of total accounts receivable, respectively).

# BRIDGEWATER SYSTEMS CORPORATION

## Notes to the Consolidated Financial Statements

For the six months ended June 30, 2010 and 2009

(expressed in Canadian dollars)

(unaudited)

### 3. FINANCIAL INSTRUMENTS (Continued)

#### *Credit risk (Continued)*

Amounts past due, net of the allowance for doubtful accounts, totalled \$3,236,302 at June 30, 2010, of which \$461,044 were collected within 3 weeks of the end of the period. The overdue balances net of allowance at June 30, 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	\$ 289,238	\$ -	\$ 289,238
31 – 60 days past due	880,398	419,453	460,945
61 – 90 days past due	174,904	17,105	157,799
Greater than 91 days past due	1,891,762	24,486	1,867,276
	<b>\$ 3,236,302</b>	<b>\$ 461,044</b>	<b>\$ 2,775,258</b>

As at June 30, 2010, the balance in allowance for doubtful accounts was \$816,682 (December 31, 2009 - \$856,152). The allowance is an estimate of the June 30, 2010 accounts receivable balances that are at risk of non-collection. The allowance includes \$611,319 (December 31, 2009 - \$604,998) related to one customer engaged as a reseller who filed for creditor protection in 2009. During the six month period ended June 30, 2010, the Company collected \$50,549 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.

	June 30, 2010			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	<b>\$ 42,927,839</b>	<b>\$ 21,108,000</b>	–	<b>\$ 64,035,839</b>

# BRIDGEWATER SYSTEMS CORPORATION

## Notes to the Consolidated Financial Statements

For the six months ended June 30, 2010 and 2009

(expressed in Canadian dollars)

(unaudited)

### 3. 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. All financial obligations are due not later than one year as at June 30, 2010.

### 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		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Accounts receivable	\$ (1,514,030)	\$ 10,828,499	\$ 13,533,814	\$ 4,210,100
Unbilled receivables	(233,888)	(1,717,391)	573,529	(5,635,786)
Deferred cost of sales	3,008,033	(234,040)	6,239,782	307,235
Prepaid expenses and other assets	(379,214)	(3,010,371)	(1,073,472)	(3,928,339)
Accounts payable and accrued liabilities <sup>(1)</sup>	(67,047)	2,855,961	(4,041,984)	72,764
Deferred revenue	(12,770,717)	(7,831,105)	(15,860,110)	4,919,162
	<b>\$ (11,956,863)</b>	<b>\$ 891,553</b>	<b>\$ (628,441)</b>	<b>\$ (54,864)</b>

<sup>(1)</sup> Accounts payable and accrued liabilities have been adjusted for \$100,044 in property, equipment and intangible additions not paid for at December 31, 2009, \$14,953 not paid for as at March 31, 2010 and \$nil not paid for as at June 30, 2010.

# BRIDGEWATER SYSTEMS CORPORATION

## Notes to the Consolidated Financial Statements

For the six months ended June 30, 2010 and 2009

(expressed in Canadian dollars)

(unaudited)

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### 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		Six months ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Canada	\$ 2,550,413	\$ 3,773,465	\$ 5,233,925	\$ 7,403,886
United States	19,408,320	11,693,845	40,037,435	21,781,534
Other foreign	770,638	667,178	1,953,887	992,165
	<u>\$ 22,729,371</u>	<u>\$ 16,134,488</u>	<u>\$ 47,225,243</u>	<u>\$ 30,177,585</u>

Assets are primarily located in Canada.

For the three months ended June 30, 2010, two customers represented 58.9%, and 10.6% of total revenue, respectively (June 30, 2009 - two customers represented 49.4% and 18.2%, respectively).

For the six months ended June 30, 2010, two customers represented 60.6%, and 10.5% of total revenue, respectively (June 30, 2009 - two customers represented 47.0% and 21.5%, respectively).