PRELIMINARY PROSPECTUS

Initial Public Offering and Secondary Offering — November 5, 2007

bridgewater SYSTEMS

Bridgewater Systems Corporation

$ ●

● Common Shares

This prospectus qualifies the distribution (the "Offering") of ● Common Shares (the "Offered Shares") in the capital of Bridgewater Systems Corporation ("Bridgewater", "our company", "we", or "us"). The Offering consists of an initial public offering of ● Common Shares by us (the "Treasury Offering") and a secondary offering (the "Secondary Offering") of ● Common Shares by certain existing shareholders of Bridgewater (collectively, the "Selling Shareholders") referred to under "Principal and Selling Shareholders". See "Plan of Distribution". We will not receive any proceeds from the Secondary Offering. A large percentage of the Common Shares held after the Offering by the existing holders of our securities will be subject to contractual lock-up agreements with the Underwriters. See "Plan of Distribution — Lock-up Arrangements".

The Offering is being underwritten by CIBC World Markets Inc. and Genuity Capital Markets G.P. (collectively, the "Underwriters"). If the over-allotment option (the "Over-Allotment Option") described below is exercised in full, an aggregate of an additional ● Common Shares (the "Additional Shares") will be offered.

The offering price of the Offered Shares was determined by negotiation between us, the Selling Shareholders and the Underwriters. In connection with the Offering, the Underwriters may, subject to applicable laws, over-allot or effect transactions which stabilize or maintain the market price of the Common Shares at levels other than those which otherwise might prevail on the open market. **The Underwriters may offer the Offered Shares at a lower price than stated above. See "Plan of Distribution".**

Price: $ ● per Common Share

	Price to the Public	Underwriters' Fee(1)	Net Proceeds to Bridgewater(2)(3)	Net Proceeds to the Selling Shareholders(3)
Per Common Share	$ ●	$ ●	$ ●	$ ●
Total Offering	$ ●	$ ●	$ ●	$ ●

Notes:

(1) The Underwriters' fee relating to the Offering will be paid proportionally by us and the Selling Shareholders based on the respective number of Offered Shares sold by each.

(2) Before deducting expenses of the Offering estimated to be approximately $ ● . All of the expenses of the Offering will be paid by us from our share of the proceeds of the Treasury Offering. We have agreed to pay the Offering expenses on behalf of the Selling Shareholders participating in the Secondary Offering. See "Plan of Distribution".

(3) We and the Selling Shareholders have granted the Underwriters an Over-Allotment Option, exercisable for a period of 30 days following the closing of the Offering, to purchase up to an aggregate of ● Additional Shares, of which ● Additional Shares are to be issued and sold by us and ● Additional Shares are to be sold by the Selling Shareholders on the same terms as in the Offering. If the Over-Allotment Option is exercised in full, the total Price to the Public will be $ ● , the Underwriters' fee will be $ ● , the Net Proceeds to us will be $ ● and the Net Proceeds to the Selling Shareholders will be, in aggregate, $ ● . This prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Additional Shares to be issued and sold by us and the Selling Shareholders upon the exercise of the Over-Allotment Option. See "Plan of Distribution".

We are applying to list our Common Shares on the Toronto Stock Exchange ("TSX") under the symbol "BWC". Listing will be subject to our fulfillment of all of the requirements of the TSX. **There is currently no market through which these securities may be sold and purchasers may not be able to resell securities purchased under this prospectus.**

An investment in our Common Shares is subject to a number of risk factors that should be considered by any prospective purchaser of our Common Shares. Certain of these risk factors are described in the "Risk Factors" section of this prospectus.

The Underwriters have agreed, as principals, to conditionally offer the Offered Shares qualified under this prospectus, subject to prior sale, if, as and when issued and delivered by us and sold and delivered by the Selling Shareholders to, and accepted by the Underwriters in accordance with the conditions contained in the underwriting agreement referred to under "Plan of Distribution" and subject to the approval of certain legal matters on our behalf by Fraser Milner Casgrain LLP and on behalf of the Underwriters by Osler, Hoskin & Harcourt LLP.

Subscriptions for Offered Shares will be received subject to rejection or allotment in whole or in part and the Underwriters reserve the right to close the subscription books at any time without notice. It is expected that one or more certificates representing the Offered Shares will be issued in registered form to CDS Clearing and Depository Services Inc. ("CDS") or its nominee and deposited with CDS on the date of closing of the Offering, which is expected to occur on or about ● , 2007 or such later date as Bridgewater, the Selling Shareholders and the Underwriters may agree, but in any event not later than ● , 2007. A purchaser of Offered Shares will receive only a customer confirmation from the registered dealer through which such Offered Shares are purchased.

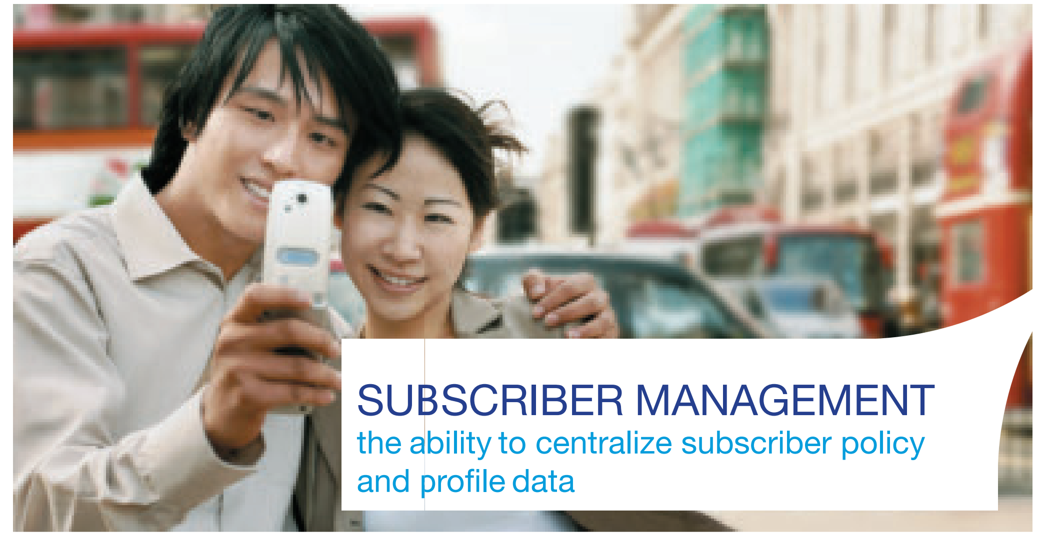
- OTTAWA-BASED SOFTWARE PROVIDER
- FOUNDED IN 1997; 200+ EMPLOYEES
- PRODUCTS INSTALLED IN 92 SERVICE PROVIDER NETWORKS
- $37 MILLION OF REVENUE (LTM) — 43% CAGR ('04 - LTM)
- 14 CONSECUTIVE QUARTERS OF PROFITABILITY

Bridgewater helps service providers manage the growing complexity of mobile and fixed IP networks and harness the tremendous opportunity of a dynamic marketplace driven by demand for any broadband or multimedia application, over any device, over any network.

MORE NETWORK TYPES	**Wireless, Wireline, Converged**
MORE SUBSCRIBERS	**483 Million** Broadband subscribers by 2011 up from 270 Million subscribers in 2006
MORE DEVICES	**1.40 Billion** Mobile device units shipped by 2011 up from 1.02 Billion units shipped in 2006
MORE APPLICATIONS	**Music, Video, Email, IPTV, IM, VoIP, WAP, MMS**

MORE COMPLEXITY leads to **MORE** OPPORTUNITY

NETWORK ACCESS
software to authenticate subscribers and get them on the network quickly



SUBSCRIBER MANAGEMENT
the ability to centralize subscriber policy and profile data

ENTITLEMENT CONTROL
policies to ensure subscribers have access to the right applications and content

Bridgewater is a recognized thought-leader and a leading provider of high performance, real-time software solutions that enable service providers to dynamically control how subscribers access networks, content and applications. **Service providers adopt our solutions to rapidly deploy content and applications, increase revenue, decrease 'subscriber churn' and lower operating costs.**

SUBSCRIBERS & DEVICES

A SINGLE VIEW OF CUSTOMERS ACROSS BUSINESS MODELS

- ENTERPRISE
- COMPUTER
- CONSUMER
- TELEVISION
- WHOLESALE/ RETAIL
- MOBILE DEVICE

ACCESS, ENTITLEMENT, MANAGEMENT

bridgewater SYSTEMS

> Does this subscriber belong on the network?

> Is this subscriber authorized to access this content?

> Has this subscriber paid for it?

> How much should we bill this subscriber?

> What additional services can we sell this subscriber?

CONTENT & APPLICATIONS

RAPID DEPLOYMENT AND EFFECTIVE MANAGEMENT OF DIFFERENTIATED SERVICES

- VoIP
- CRM
- IM
- VPN
- MUSIC
- ERP
- MMS
- PTT
- WAP
- VIDEO
- EMAIL
- IPTV

NETWORK ACCESS

TIGHT INTEGRATION WITH NETWORK INFRASTRUCTURE

CDMA DSL GSM CABLE WI-FI WiMAX

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GENERAL MATTERS

All references in this prospectus to "Bridgewater", "our company", "we", "us", and "our" refer to Bridgewater Systems Corporation and its subsidiaries, unless the context requires otherwise.

For reporting purposes, we prepare our consolidated financial statements in Canadian dollars and in conformity with accounting principles generally accepted in Canada ("GAAP"). Unless otherwise indicated, all references to $ amounts are to Canadian dollars. References to US$ are to United States dollars.

Certain trade-marks used in this prospectus, such as "Bridgewater", "Bridgewater Systems" and www.bridgewatersystems.com are trade-marks owned by Bridgewater or our subsidiaries. Other trade-marks or service marks appearing in this prospectus are trade-marks or service marks of the person that owns them.

Immediately before the completion of the Offering, we will give effect to a share capital reorganization pursuant to which our existing outstanding Class B Non-Voting Common Shares will be converted into Class A Voting Common Shares, and the Class A Voting Common Shares will then be re-designated as Common Shares. See "Reorganization" and "Description of Share Capital". Unless otherwise indicated, all information in this prospectus gives effect to the Reorganization but does not give effect to the exercise of the Over-Allotment Option or any other options granted by us as described in "Options to Purchase Securities".

Investors should rely only on the information contained in this prospectus. We have not, and the Underwriters and Selling Shareholders have not, authorized anyone to provide investors with additional or different information. We are not, and the Underwriters are not, offering to sell these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the Offered Shares. Our business, financial conditions, results of operations and prospects may have changed since the date of this prospectus.

Market and industry data used through this prospectus was obtained from various publicly available sources. Although we believe that these independent sources are generally reliable, the accuracy and completeness of such information are not guaranteed and have not been verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and the limitations and uncertainty inherent in any statistical survey of market size. We cannot and do not provide any assurance as to the accuracy or completeness of such information. Market forecasts, in particular, are likely to be inaccurate, especially over long periods of time. References in this prospectus to research reports, surveys or articles should not be construed as depicting the complete findings of the entire referenced report, survey or article.

Certain technical terms and phrases used in this prospectus are defined in the "Glossary of Technical Terms".

ELIGIBILITY FOR INVESTMENT

In the opinion of our counsel, Fraser Milner Casgrain LLP, and of Osler, Hoskin & Harcourt LLP, counsel to the Underwriters, on the date of issue, provided the Common Shares are listed on a prescribed stock exchange (which includes the TSX), the Common Shares will be qualified investments under the Income Tax Act (Canada) (the “Tax Act”) for trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans and registered education savings plans, each as defined in the Tax Act.

FORWARD-LOOKING STATEMENTS

Certain statements in this prospectus may constitute “forward-looking” statements which involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this prospectus, such statements use such words as “may”, “will”, “expect”, “continue”, “believe”, “plan”, “intend”, “would”, “could”, “should”, “anticipate” and other similar terminology. These statements reflect current assumptions and expectations regarding future events and operating performance and speak only as of the date of this prospectus. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to vary significantly from the results discussed in the forward-looking statements, including, but not limited to, the factors discussed under “Risk Factors”. Although the forward-looking statements contained in this prospectus are based upon what we believe are reasonable assumptions, neither we, nor the Underwriters, can assure investors our actual results will be consistent with these forward-looking statements. We assume no obligation to update or revise these forward-looking statements to reflect new events or circumstances, except as required by securities law.

PROSPECTUS SUMMARY

The following is a summary of the principal features of the Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Unless otherwise indicated, the disclosure contained in this prospectus assumes that (i) the steps under the heading "Reorganization" have been completed, and (ii) the Over-Allotment Option and other options described in "Options to Purchase Securities" have not been exercised. In this prospectus, unless otherwise indicated, all dollar amounts are expressed in Canadian dollars. All references to "$" are to Canadian dollars and all references to "US $" are to United States dollars. Please refer to the "Glossary of Technical Terms" for a list of certain defined terms used herein.

BRIDGEWATER SYSTEMS CORPORATION

Bridgewater is a leading provider of high performance, real-time software solutions that enable service providers to dynamically control how subscribers access networks, content and applications. Our products centralize, store and manage critical information that defines service entitlements, preferences and billing profiles for subscribers, ensure quality of service, and manage bandwidth utilization. Service providers adopt our solutions to rapidly deploy content and applications, increase the number of subscriber transactions that their networks can support, and improve revenue assurance. Our solutions enable service providers to increase average revenue per user ("ARPU"), decrease 'subscriber churn' and lower operating costs.

Growth in the telecommunications services industry has been driven largely by the mass adoption of wireless devices and widespread availability of broadband networks. This growth has fuelled significant advances in the sophistication and diversity of applications and services delivered to subscribers, challenging both legacy architectures and traditional operational approaches. Specifically, service providers are faced with increased complexity owing to customer information silos, disparate network infrastructures and a wide range of third party content and applications, exacerbated by the growth in the number of subscribers and subscriber transactions. Our highly scalable software solutions enable service providers to efficiently manage these challenges in high transaction rate, carrier-grade networks, including wireless, wireline and converged networks.

Our solutions are focused on the subscriber experience, as opposed to other solutions that are device, application or network specific. Our subscriber-centric policy management solutions address the following elements:

- network access control — authenticates subscribers and gets them on the network quickly;
- entitlement control — ensures subscribers have access to the appropriate applications and content; and
- subscriber management — centralizes subscriber policy and profile data.

For example, one of our Tier 1 customers, Verizon Wireless, has created a comprehensive mobile portal to deliver content, games and streaming media to millions of subscribers. Our products authenticate the subscriber's network access, verify that the content selected by the subscriber is appropriate to the subscriber's profile, ensure that the network and the subscriber's device are able to deliver and receive the content, and finally, check that the subscriber is able to pay for the content in pre- or post-paid billing models.

We generate revenue primarily by licensing our software products, typically on a perpetual basis and, in limited circumstances, on a subscription basis. Additional revenue sources include maintenance, support and professional services. Our products have been installed in 92 service provider networks, including Tier 1 and Tier 2 wireless, wireline and converged networks, up from 19 at the beginning of the first quarter of fiscal 2004. Key customers include Verizon Wireless, Sprint Nextel Corp., Metro PCS Wireless Inc., Leap Wireless Inc. and Alcatel-Lucent Canada Inc. ("Alcatel-Lucent Canada").

Our success has been predominantly driven by the adoption of data services on wireless networks. As service providers deployed high-speed wireless data networks to complement their voice offerings, their need for products to control access to their networks and applications increased. The first wave of demand for access solutions commenced with the deployment of 2.5G wireless networks in 2002 (as exemplified by GSM/GPRS and CDMA 1X data networks), with early adoption of wireless data services occurring first in CDMA 1X networks. This drove demand for our solutions by CDMA service providers such as Verizon Wireless, Bell Mobility and Sprint PCS, and today we estimate that 65% of CDMA subscribers globally are authorized on our AAA ("authentication, authorization and accounting") software solutions. In 2005, trends underlying demand for our products accelerated with the introduction of 3G services, such as CDMA EV-DO and UMTS/HSDPA. We expect continued growth in the wireless data market as large scale 4G networks, such as WiMAX-based networks, are deployed. As a related development, subscribers now expect to be able to roam between service provider networks featuring different technology standards, including wide area and local area wireless networks. Our products also address this consumer trend by enabling subscriber roaming between technologies and service providers.

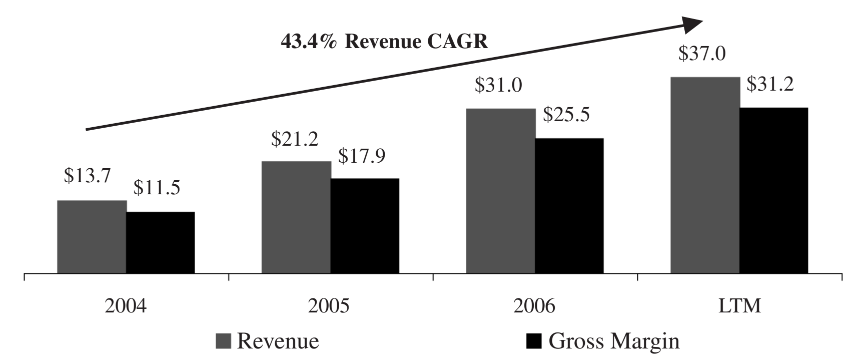
We market and sell our products through both direct and indirect channels. Our direct sales force is focused primarily on Tier 1 and selected Tier 2 service providers. Our indirect sales channel consists of a network of resellers and systems integrators in the Americas; Europe, the Middle East and Africa ("EMEA"); and Asia-Pacific ("APAC"). Our resellers include Alcatel-Lucent Canada, Alvarion Ltd., Motorola Inc., Nortel Networks Ltd., Starent Networks, Corp. and Syniverse Technologies Inc.

We believe that our customers have adopted our solutions for a number of reasons, including our:

- robust and modular technology platform that is vendor neutral and works with all principal access technologies;
- long track record, strong domain expertise, and credibility with carrier-grade service providers;
- key strategic relationships with industry-leading vendors and channel partners; and
- solutions that are highly scalable and can be seamlessly optimized to accommodate changing service provider needs.

Our revenues have grown year-over-year for the past four years, and we have been profitable for the last fourteen consecutive quarters. From fiscal 2004 to the twelve months ended September 30, 2007, our revenues grew from $13.7 million to $37.0 million, representing a compound annual growth rate ("CAGR") of 43.4%. Over the same period, gross margin percentage remained strong, averaging 83.7% over the past three fiscal years and 84.5% for the twelve months ended September 30, 2007 ("LTM").

Annual Revenue and Gross Margin *($ millions)*



The key elements of our growth strategy include:

- increasing the penetration of our solutions within our existing customer base;
- expanding our solution set as service providers roll out broadband services and launch new applications such as voice over Internet Protocol ("VoIP"), video on demand ("VoD") and IPTV;
- increasing adoption of our products across wireless, wireline and converged networks; and
- expanding our solutions to additional geographic markets.

In addition to our core organic strategic initiatives, we may consider selective acquisitions of complementary technologies, products or businesses to accelerate our development in one or more of the aforementioned areas.

The Offering

Issuer: Bridgewater Systems Corporation

Offering Size: $ ● (● Common Shares from Bridgewater and ● from the Selling Shareholders).

If the Over-Allotment Option is exercised in full, Bridgewater and the Selling Shareholders will sell an additional ● Common Shares. See "Plan of Distribution".

Offering Price: $ ● per Offered Share.

Over-Allotment Option: We and the Selling Shareholders have granted to the Underwriters, for a period of 30 days following the Closing, an Over-Allotment Option to purchase up to an additional ● Common Shares at the price of $ ● per Common Share. See "Plan of Distribution".

Shares Outstanding: Prior to the Offering, 18,481,201 Common Shares.

- Assuming completion of the Offering: ● Common Shares (● Common Shares assuming full exercise of the Over-Allotment Option).
- The above number of Common Shares outstanding does not include a total of 4,109,034 Common Shares issuable or available for issuance under outstanding options under our Amended Plan (as defined in "Options to Purchase Securities"). See "Options to Purchase Securities".

Use of Proceeds: We intend to use the net proceeds from the Offering as follows:

- approximately 10-15% to expand our professional services capability, which includes consulting services, custom solution design and development, configuration and deployment services;
- approximately 20-25% to extend our product portfolio by accelerating the development of new products and services, including a turnkey product offering, and targeted licensing of third party solutions; and
- approximately 15-20% to expand our sales and marketing activities into new markets.

The remaining net proceeds are expected to be used for working capital, general corporate purposes and for selective acquisitions of, or investments in, new products, technologies and businesses that expand, complement or are otherwise related to our current business. Any such acquisitions or investments will be made in accordance with our growth strategy. See "Business of the Company — Growth Strategy".

See "Use of Proceeds".

Listing: We are applying to list our Common Shares on the TSX under the symbol "BWC". Listing will be subject to our fulfillment of all of the listing requirements of the TSX.

Selling Shareholders: Certain shareholders are offering, in the aggregate, ● Common Shares in the Secondary Offering. After giving effect to the Offering, the existing shareholders will hold, in aggregate, ● % (● % assuming full exercise of the Over-Allotment Option) of the outstanding Common Shares, including the Selling Shareholders who will own ● % (● % assuming full exercise of the Over-Allotment Option) of the outstanding Common Shares. See "Principal and Selling Shareholders".

Lock-Up Agreement:	Shareholders holding in aggregate approximately 76.3% of our Common Shares outstanding prior to the Offering, including the Selling Shareholders, substantially all shareholders holding greater than 1.5% of our Common Shares (fully diluted) and our executive officers and directors, have entered into a contractual lock-up agreement with the Underwriters with respect to all Common Shares currently held by them (including any options to acquire Common Shares and Common Shares subsequently purchased on the exercise of options) for a period of up to twelve months following the closing of the Offering. One-half of the securities subject to this lock-up will be released on the six-month and twelve-month anniversary dates of the closing of the Offering. Following the closing of the Offering, such shareholders will beneficially own, directly or indirectly, ● % of the outstanding Common Shares, fully diluted (● % of the outstanding Common Shares if the Over-Allotment Option is exercised in full). See "Plan of Distribution — Lock-up Arrangements". We have agreed not to sell or issue, or negotiate or enter into any agreements to sell or issue, any additional Common Shares or securities convertible into Common Shares, other than under our Amended Plan and the Over-Allotment Option, for a period of 180 days following the closing of the Offering, without the prior consent of CIBC World Markets Inc. and Genuity Capital Markets G.P. on behalf of the Underwriters, not to be unreasonably withheld. See "Plan of Distribution — Lock-up Arrangements".
Risk Factors:	An investment in our Common Shares is subject to a number of risk factors. Prospective purchasers should carefully consider the information set out under "Risk Factors" and the other information in this prospectus before purchasing Common Shares.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

The following summary financial information should be read in conjunction with "Management's Discussion and Analysis" and our consolidated financial statements and related notes included elsewhere in this prospectus. The following tables set out the selected financial information for the periods or as of the dates indicated and are derived from our audited consolidated financial statements for each of the three most recently completed financial years and from our unaudited consolidated financial statements for the nine-month periods ended September 30, 2007 and 2006 and the twelve-month period ended September 30, 2007. Historical results do not necessarily indicate results for any future period.

Consolidated Statements of Operations Information

	Nine Months Ended September 30		Twelve Months Ended September 30	Years Ended December 31		
	2007	2006	2007	2006	2005	2004
	(in thousands of dollars, except per share amounts and number of shares)					
Revenue						
Product	$ 19,518	$ 16,033	$ 27,291	$ 23,807	$ 16,407	$ 9,919
Services and support	7,905	5,394	9,666	7,155	4,748	3,772
	27,423	21,427	36,957	30,962	21,155	13,691
Cost of sales	4,036	3,796	5,740	5,500	3,277	2,154
Gross margin	23,387	17,631	31,217	25,462	17,878	11,537
Expenses						
Sales and marketing	10,125	8,264	13,460	11,598	7,605	3,821
Research and development	9,793	6,242	12,579	9,029	5,328	4,183
General and administrative	1,825	1,511	2,727	2,414	1,746	1,523
Stock-based compensation	150	141	202	193	167	135
	21,893	16,158	28,968	23,234	14,846	9,662
Earnings before undernoted items	1,494	1,473	2,249	2,228	3,032	1,875
Foreign exchange (loss) gain	(1,081)	(128)	(341)	612	(277)	(108)
Interest income	453	319	634	500	375	303
Loss on disposal of capital assets	—	(33)	—	(33)	(158)	(58)
Other income (loss)	8	(6)	8	(6)	11	9
Earnings before income taxes	874	1,625	2,550	3,301	2,983	2,021
Future income taxes recovery	—	—	7,500	7,500	—	—
Net earnings for the period	$ 874	$ 1,625	$ 10,050	$ 10,801	$ 2,983	$ 2,021
Earnings per share — basic	$ 0.05	$ 0.09	$ 0.55	$ 0.59	$ 0.16	$ 0.11
Earnings per share — diluted	$ 0.04	$ 0.08	$ 0.48	$ 0.55	$ 0.16	$ 0.11
Weighted average number of shares — basic	18,449,727	18,352,738	18,436,384	18,363,980	18,286,821	18,208,978
Weighted average number of shares — diluted	20,813,315	19,424,683	20,783,057	19,748,737	18,816,596	18,214,665

Consolidated Balance Sheet Information

	As at September 30	As at December 31	
	2007	2006	2005
	(in thousands of dollars)		
Cash and cash equivalents	$16,821	$21,194	$15,302(1)
Accounts receivable	5,302	4,263	3,617
Working capital	22,093	21,292	18,015
Total assets	42,058	42,587	25,578
Deferred revenue	7,189	7,773	4,287
Shareholders' equity	32,117	30,995	19,869

(1) Cash and cash equivalents as at December 31, 2005 includes a note receivable of $12,500,000.

BRIDGEWATER SYSTEMS CORPORATION

We were incorporated under the *Canada Business Corporations Act* on April 3, 1997.

Our registered and head office is located at 303 Terry Fox Drive, Suite 500, Ottawa, Ontario, K2K 3J1. We also have offices in the United States, the United Kingdom and Singapore. Our website address is www.bridgewatersystems.com. Our website and the information contained on it, or referred to in it, is not incorporated in this prospectus.

Immediately before the closing of the Offering, all Class B Non-Voting Common Shares will be converted into Class A Voting Common Shares, and all Class A Voting Common Shares will then be redesignated as Common Shares. See "Reorganization" and "Description of Share Capital".

We have two subsidiaries, Bridgewater Systems Inc., a corporation wholly-owned by us and incorporated under the laws of Delaware, and Bridgewater Systems (UK) Limited, a corporation wholly-owned by us and incorporated under the laws of England and Wales. Unless the context requires otherwise, references in this prospectus to "Bridgewater", "our company", "we", "us" and "our" include Bridgewater Systems Corporation, Bridgewater Systems Inc. and Bridgewater Systems (UK) Limited.

BUSINESS OF THE COMPANY

Overview

Bridgewater is a leading provider of high performance, real-time software solutions that enable service providers to dynamically control how subscribers access networks, content and applications. Our products centralize, store and manage critical information that defines service entitlements, preferences and billing profiles for subscribers, ensure quality of service, and manage bandwidth utilization. Service providers adopt our solutions to rapidly deploy content and applications, increase the number of subscriber transactions that their networks can support, and improve revenue assurance. Our solutions enable service providers to increase average revenue per user ("ARPU"), decrease 'subscriber churn' and lower operating costs.

Growth in the telecommunications services industry has been driven largely by the mass adoption of wireless devices and widespread availability of broadband networks. This growth has fuelled significant advances in the sophistication and diversity of applications and services delivered to subscribers, challenging both legacy architectures and traditional operational approaches. Specifically, service providers are faced with increased complexity owing to customer information silos, disparate network infrastructures and a wide range of third party content and applications, exacerbated by the growth in the number of subscribers and subscriber transactions. Our highly scalable software solutions enable service providers to efficiently manage these challenges in high transaction rate, carrier-grade networks, including wireless, wireline and converged networks.

For example, one of our Tier 1 customers, Verizon Wireless, has created a comprehensive mobile portal to deliver content, games and streaming media to millions of subscribers. Our products authenticate the subscriber's network access, verify that the content selected by the subscriber is age appropriate to the subscriber's profile, ensure that the network and the subscriber's device are able to deliver and receive the content, and finally, check that the subscriber is able to pay for the content in pre- or post-paid billing models.

We generate revenue primarily by licensing our software products typically on a perpetual basis and, in limited circumstances, on a subscription basis. Additional revenue sources include maintenance, support and professional services. Our products have been installed in 92 service provider networks, including Tier 1 and Tier 2 wireless, wireline and converged networks, up from 19 at the beginning of the first quarter of fiscal 2004. Key customers include Verizon Wireless, Sprint Nextel Corp., Metro PCS Wireless Inc., Leap Wireless Inc. and Alcatel-Lucent Canada Inc. ("Alcatel-Lucent Canada").

Our success has been predominantly driven by the adoption of data services on wireless networks. As service providers deployed high-speed wireless data networks to complement their voice offerings, their need for products to control access to their networks and applications increased. The first wave of demand for access solutions commenced with the deployment of 2.5G wireless networks in 2002 (as exemplified by GSM/GPRS and CDMA 1X data networks), with early adoption of wireless data services occurring first in CDMA 1X networks. This drove demand for our solutions by CDMA service providers such as Verizon Wireless, Bell Mobility and Sprint PCS, and today we estimate that 65% of CDMA subscribers globally are authorized on our AAA ("authentication, authorization and accounting") software solutions. In 2005, trends underlying demand for our products accelerated with the introduction of 3G services, such as CDMA EV-DO and UMTS/HSDPA. We expect continued growth in the wireless data market as large scale 4G networks, such as WiMAX-based networks, are deployed. As a related development, subscribers now expect to be able to roam between service provider networks featuring different technology standards, including wide area and local area wireless networks. Our products also address this consumer trend by enabling subscriber roaming between technologies and service providers.

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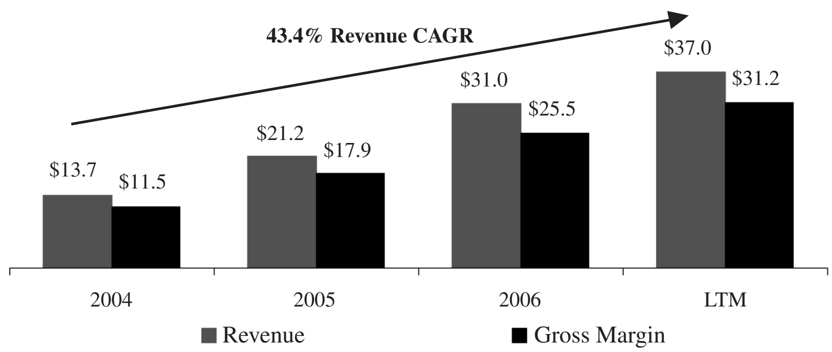
We believe that our customers have adopted our solutions for a number of reasons, including our:

- robust and modular technology platform that is vendor neutral and works with all principal access technologies;
- long track record, strong domain expertise, and credibility with carrier-grade service providers;
- key strategic relationships with industry-leading vendors and channel partners; and
- solutions that are highly scalable and can be seamlessly optimized to accommodate changing service provider needs.

Our revenues have grown year-over-year for the past four years, and we have been profitable for the last fourteen consecutive quarters. From fiscal 2004 to the twelve months ended September 30, 2007, our revenues grew from $13.7 million to $37.0 million, representing a compound annual growth rate ("CAGR") of 43.4%. Over the same period, gross margin percentage remained strong, averaging 83.7% over the past three fiscal years and 84.5% for the twelve months ended September 30, 2007.

Annual Revenue and Gross Margin *($ millions)*



We have been profitable since the second quarter of fiscal 2004 and, for the twelve months ended September 30, 2007, we generated net earnings of $2.6 million (excluding future income tax recovery).

Our company was founded in 1997, and our corporate headquarters are located in Ottawa, Ontario. As of September 30, 2007, we had 201 employees, primarily working out of our Ottawa location in research and development, quality assurance, support, business development, marketing, product management and administrative teams. We have sales personnel in the Americas, Europe and APAC to support our direct and indirect sales channels. We have established pre- and post-sale engineering teams responsible for installing, configuring and supporting our products on a global basis, with our core support team located in Ottawa.

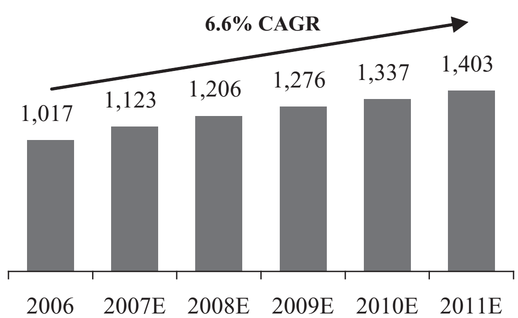
We have received numerous business, community and industry honours and awards, including the following:

- named on the Deloitte Wireless Fast 50, which recognizes the 50 fastest growing wireless companies in North America (October 2007);
- named one of Canada's Fastest Growing Technology Companies in Deloitte's Canadian Technology Fast 50 Program (September 2007 and September 2005);
- ranked fourth in Light Reading's Top Ten Private Companies (July 2005); and
- Russell Freen, our Chief Technology Officer and one of our directors, was named Ernst & Young Entrepreneur of the Year® (Ontario Region) in the Information Technology Category (October 2006).

Industry Overview

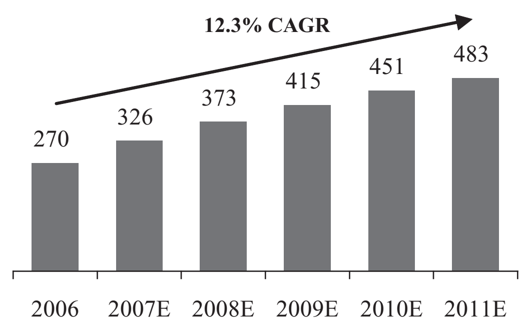
The market for wireless, broadband wireline and triple-play services continues to grow rapidly. The growth of the wireless industry has largely been driven by the increasing functionality and lower cost of mobile devices. We believe that the mobile device market, including converged devices, will experience continued growth. According to IDC, worldwide shipments of mobile devices amounted to 1.02 billion units in 2006 and are expected to grow to 1.40 billion units by 2011, representing a CAGR of 6.6%. These devices are expected to offer subscribers the ability to access new video and data applications. The demand for broadband wireline access is also expected to experience strong growth as consumers continue to seek out faster connections to the Internet. Further, new subscriber additions have been driven by increased competition from alternative providers entering the market, as well as more affordable monthly broadband pricing and expanded end-user choice of broadband packages tailored to fit the needs of a diverse user base. According to IDC, the number of worldwide broadband services subscriptions is forecast to grow from 270 million in 2006 to 483 million by 2011, a CAGR of 12.3%. With greater broadband access, service providers will be able to offer customers an increasingly wide array of video, voice and data applications, including IPTV and VoIP.

Worldwide Mobile Device Shipments[1]
(millions)



Source: IDC.
[1]Mobile phones include converged devices.

Worldwide Broadband Services Subscriptions
(millions)



Source: IDC, Worldwide Broadband Services 2007 - 2011 Forecast (IDC Document #207314, June 2007)

Service Provider Challenges

Our subscriber-centric control and management solutions address challenges that are specific to wireless, wireline and converged networks. Regardless of network type, network access control and entitlement control are growing more complex as a result of greater absolute numbers of subscribers and the increasing number and complexity of applications and services. Taken together, these factors are driving significant growth in the volume of subscriber transactions. Service providers have traditionally constructed their networks in application and service compartments or 'silos'. This compartmentalization, usually manifested as a vendor-specific end-to-end solution, can provide a low risk approach to deploying new and untested wireless data or IP services. Under these conditions, each application or service silo can contain its own subscriber database, network access control, and policy subsystems, with all of these subsystems scaled independently of other service and application silos. However, as the volume of applications, services, subscribers and transactions increases, legacy silo architectures and their underlying subsystems cannot be scaled to meet demand. Service providers faced with these challenges can respond by implementing short-term solutions sourced from network equipment providers or independent software vendors ("ISVs"), purchasing replacement policy management solutions, acquiring subscriber management and network access control solutions and/or evolving their network architectures toward IP multimedia ("IMS") or service delivery platform ("SDP") environments. Each of these strategies represents a point of entry for our solutions.

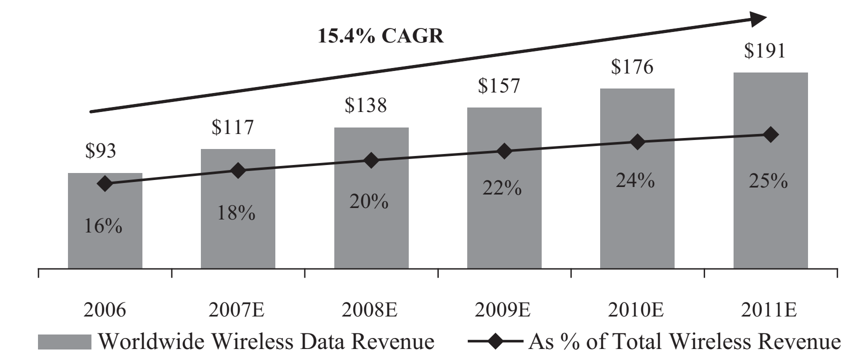
Wireless Networks

Voice services once represented the core service and revenue driver for mobile service providers. According to IDC, revenue from voice services is expected to decline from 84% of total global wireless revenue in 2006 to 75% in 2011, as a result of several factors including commoditization, fierce competition and the disruptive impact of VoIP. To offset declines in their traditional voice businesses, service providers have invested aggressively in wireless data infrastructure, handsets and services. Mobile data applications and services, such as SMS, mobile email, gaming, ringtones, ringbacks, music downloads and mobile TV, have become increasingly meaningful revenue growth drivers for wireless service providers.

New applications and service plans introduced by wireless service providers have significantly increased the complexity of the subscriber relationship, making it more difficult to deploy new services and ensure a rich subscriber experience. Wireless service providers employ our solutions to address these challenges by managing and controlling how subscribers interact with networks, applications and services.

With the shift toward higher margin data and video applications, service providers are forecasting strong growth in data revenue. According to IDC, worldwide wireless data revenue is forecast to increase from US$93 billion in 2006 to US$191 billion in 2011, representing a 15.4% CAGR.

Worldwide Wireless Data Revenue
(US$ billions)



Source: IDC.

The wireless marketplace is dominated today by two key competing standards, GSM and CDMA. In most countries, market-leading service providers have deployed what is known as the 3G standard. 3G, or the third generation of mobile phone standards, was deployed to enable service providers to offer subscribers a wider range of more advanced services while achieving greater network capacity through improved spectral efficiency. These services include wide-area wireless voice telephony and broadband wireless data, all in a mobile environment.

According to Strategy Analytics, the number of 3G CDMA subscribers worldwide is expected to reach 480 million in 2011, an increase of 178 million from 302 million at the end of 2006. In addition to CDMA, GSM operators have invested significantly to increase the broadband capacity of their networks. According to Strategy Analytics, the number of 3G GSM users globally has grown from none at the end of 2000 to approximately 96 million at the end of 2006. Further, Strategy Analytics expects the number of 3G GSM subscribers to reach 972 million globally in 2011.

The next evolution of the 3G wireless communication standard is 4G, which is able to provide a comprehensive IP solution where voice, data and streamed multimedia can be delivered to subscribers on an ‘anytime, anywhere’ basis, at higher data rates compared to previous generations. This capability is also referred to as broadband wireless. According to the Global Mobile Suppliers Association, there are 134 commercially deployed networks globally, supporting 131 million subscribers and operating in 59 countries.

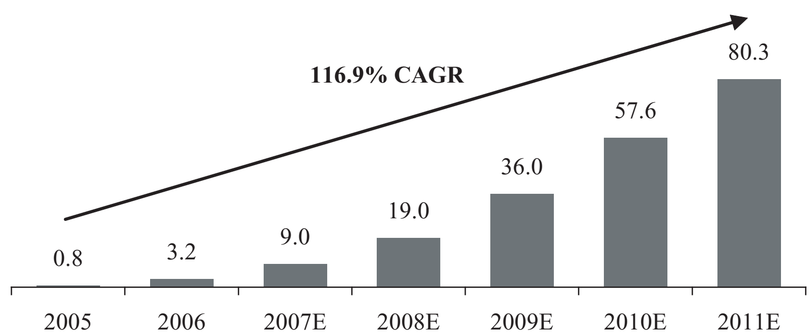
Arguably, the most disruptive broadband technology is WiMAX, which is intended to reduce the barriers to widespread broadband access deployment with standards-compliant wireless solutions engineered to deliver ubiquitous fixed and mobile services such as VoIP, messaging, video, streaming media, and other IP traffic. WiMAX enables delivery of last-mile broadband access without the need for direct line of sight. Its ease of installation, wide coverage, low cost and flexibility make it suitable for a range of deployments, including widespread geographical regions and rural, urban or underdeveloped areas where wired and other wireless solutions are not easily deployed and line of sight coverage is not possible. Several recent WiMAX deployments have been announced, including deployments by Sprint Nextel Corp., Clearwire Corporation, FarEasTone Telecom and Pipex Communications plc.

Our solutions enable wireless network operators to deploy advanced services delivered by both 3G and 4G networks quickly and efficiently, while ensuring quality of service.

Wireline Networks

Service providers are increasingly migrating to IP infrastructures to launch new services and applications faster and more efficiently. Many service providers expect to generate increased revenues from their new IP infrastructure by introducing applications such as IPTV and VoD. While today's IPTV business model is primarily based on on-demand movies and pay-per-view sporting events, we expect new business models and delivery technologies to facilitate the emergence of 'true' IPTV, in which TV viewers can choose exactly which program they want to watch, when they want to watch it, on the network and device of their choice. Our solutions provide a single logical decision point in the IP network, around which the subscriber experience can be shaped. As a result of the advantages provided by delivery of video over an IP network, IPTV is expected to experience significant growth. iSuppli forecasts the number of worldwide IPTV subscribers to reach 80.3 million in 2011, a 116.9% CAGR from 2005.

Worldwide IPTV Video Subscriber Forecast
(millions of subscribers)



Source: iSuppli

Converged Networks

A converged network is capable of carrying a mixture of triple-play and quad-play applications. On a business level, convergence results from mergers and alliances between, and special offers by, wireless, wireline and cable TV service providers. On an operational level, convergence requires the integration of multiple technologies, operators, services and subscribers, driving the need for service portability, a consistent experience for the subscriber, and utilization of the most appropriate network (for example, in fixed-mobile converged networks). Our solutions enable a unified subscriber view for converged networks, allowing service providers to manage subscribers across multiple access networks and applications. Using our products, converged service providers can differentiate service offerings with bundled solutions, achieve management efficiencies with common policy management infrastructure, and support multiple business models (such as wholesale and retail services). While other solutions require converged network service providers to use separate subscriber policy management systems for each of their networks, our solution enables them to deploy a single platform across their network, regardless of network type and access technology.

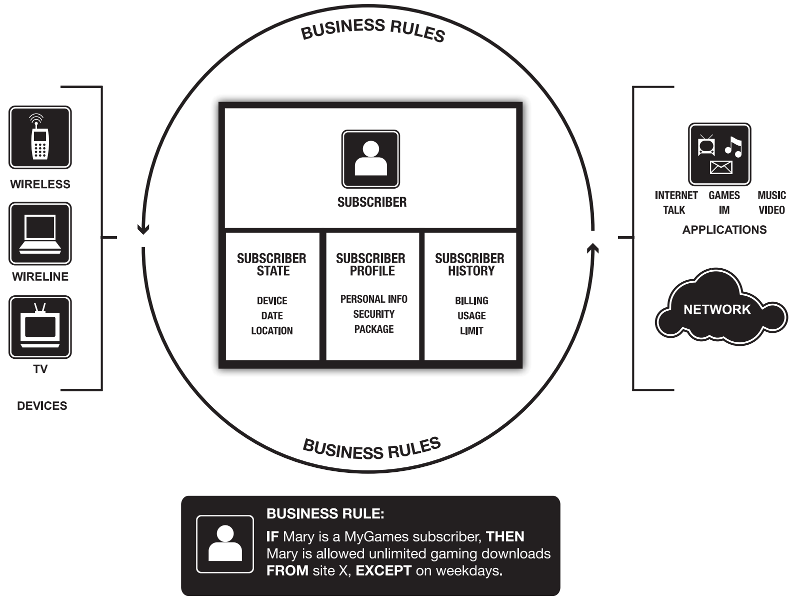
Our Solutions

We provide high performance, real-time software solutions that enable service providers to dynamically control how subscribers access networks, content and applications, ensure quality of service, and manage bandwidth utilization. Our solutions are focused on the subscriber experience, as opposed to other solutions that are device, application or network specific. Our subscriber-centric policy management solutions address the following elements:

- network access control — authenticates subscribers and gets them on the network quickly;
- entitlement control — ensures subscribers have access to the appropriate applications and content; and
- subscriber management — centralizes subscriber policy and profile data.

Our solutions create an intelligent decision point that controls subscriber access to networks, resources and applications from any device. Our solutions manage critical information about the subscriber, including dynamic and static profile information related to entitlements and subscriber history, to build a unified view of the subscriber in real-time. By placing subscriber and policy information as close in the network as possible to subscriber access points, our solutions deliver a more efficient and higher standard for network control and service delivery compared to traditional approaches. As a result, service providers can create highly flexible policies that are tightly aligned to business needs and subscriber entitlements. This helps to ensure a positive subscriber experience that improves retention, lowers operating costs and drives up ARPU. Our solutions can be deployed either as stand-alone products, or within a SDP or IMS architecture.

Subscriber-Centric Policy Decision Point



The following are examples of how our products are deployed to meet the needs of CDMA, GSM, WiMAX and wireline service providers.

- Verizon Wireless ("Verizon"), a major North American CDMA2000 service provider, introduced multimedia messaging service and push to talk service to complement its existing services offering. Verizon needed to select an AAA platform to accommodate network growth and increased load, as well as to establish a more flexible platform to evolve critical network standards and Verizon-specific enhancements. Verizon tested a number of alternative AAA products and ultimately selected us to design and implement a solution based on our AAA Service Controller product. Our solution was selected because it leveraged Verizon's existing infrastructure and minimized implementation time and changes to Verizon's network. As a result, Verizon was able to improve service delivery and revenue retention, and lower operating costs. Verizon has expanded its deployment of our AAA Service Controller product suite to include our Application Authorization Server product in order to support the launch of one of the most popular and comprehensive mobile portals to deliver content, games and streaming media. As a subscriber first attempts to access Verizon's data network from the subscriber's mobile device, our products authenticate the subscriber, permitting the subscriber to access the network. As the subscriber selects a streaming video service, our products verify that the content is appropriate to the subscriber's profile, ensure that the network and the subscriber's device are able to deliver and receive the content, and finally, check that the subscriber is able to pay for the content in pre- or post-paid billing models. As a result of our successful AAA implementation, Verizon has been a customer for the past seven years utilizing a broad range of our products and services.
- SmarTone Mobile Communications Ltd. ("SmarTone-Vodafone"), a premium mobile operator in Hong Kong, required a solution to target its services to specific subscriber segments and manage and control network resources in real time. SmarTone-Vodafone also needed to ensure that appropriate resources such as bandwidth could be applied to subscriber sessions while the subscriber was roaming. SmarTone-Vodafone selected our Network Policy Controller and AAA Service Controller products to address these requirements. By using our Network Policy Controller, SmarTone-Vodafone gained the ability to manage network policies in real time over its HSDPA network on a per-subscriber, per-session basis. This allowed it to create customized service tiers, limit bandwidth consumption by applications such as peer-to-peer traffic, and impose time and other controls on subscribers. Our AAA Service Controller product was deployed by SmarTone-Vodafone to enable it to apply network resource policy based on time of day, and subscriber information such as device type and location.

- A leading WiMAX service provider selected our AAA Service Controller product as its core platform for subscriber authentication to network resources as part of its commercialization of WiMAX-based mobility services and interconnection with roaming partners. For WiMAX providers, we offer solutions that are critical to the operation and initial turn-up of their networks and that are engineered to scale rapidly to support tens of millions of subscribers in both fixed and mobile environments. Our solution has been selected based on our depth of support for WiMAX requirements, our industry reputation, the interoperability of our products, and our ability to efficiently scale our solutions as the service provider's network and services grow.
- Alcatel-Lucent Canada partnered with us for the development of the 5750 Subscriber Services Controller or "SSC" as the network policy and subscriber management middleware for its market leading Triple Play Service Delivery Architecture offering. The 5750 SSC works to co-ordinate critical network elements to match the subscriber's entitlements, provision bandwidth, secure that bandwidth for the duration of the event, trigger the appropriate content for delivery and ensure the subscriber is billed for the service and content received.

In order to provide Alcatel-Lucent Canada with a secure source of supply and us with greater revenue assurance in relation to the SSC product, we have entered into a license agreement with Alcatel-Lucent Canada. See "Intellectual Property" and "Interests of Management and Others in Material Transactions — Alcatel-Lucent Canada Inc."

Our subscriber-centric policy management solutions offer service providers key benefits, including the ability to:

Increase Revenue Assurance

- increase speed to market with new applications and services;
- significantly reduce revenue leakage with tighter control over access to network content and applications;
- target different market segments by creating a range of service bundles; and
- optimize networks to direct network resources to areas with the greatest revenue opportunities.

Improve the Subscriber Experience

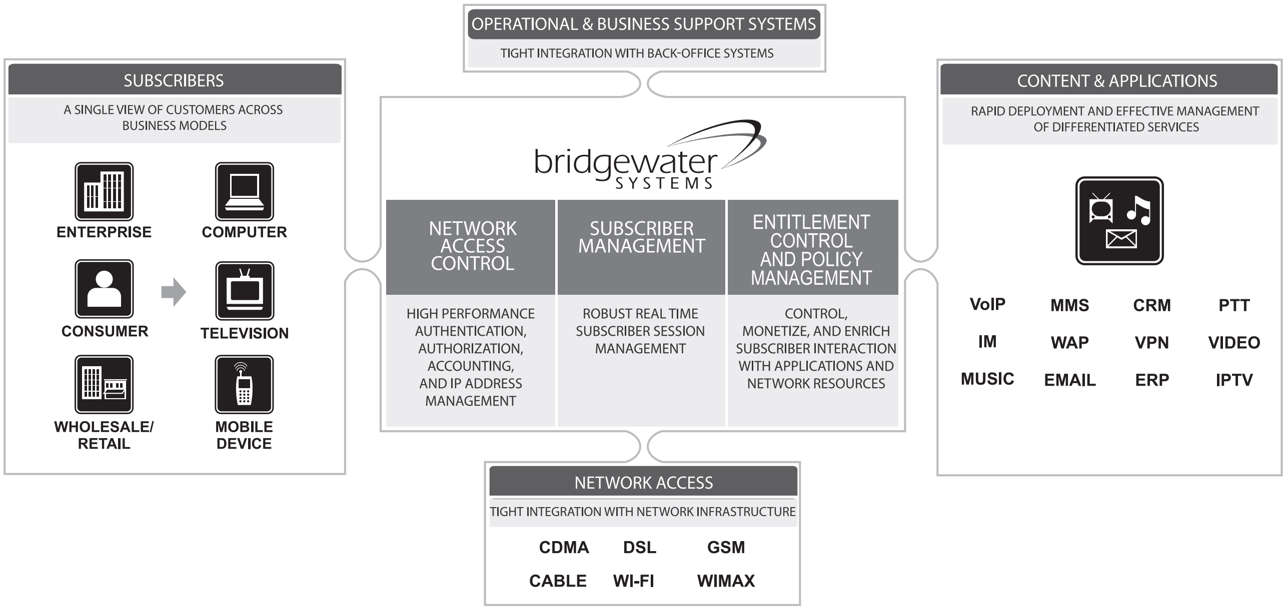
- offer subscribers more options by responding to network changes more easily (for example, by provisioning bandwidth for additional application usage when extra network capacity is available);
- monitor usage to ensure appropriate allocation of bandwidth (that is, subscribers pay for the quantity and level of network resources they use);
- extend subscribers' control over their experience and provide a more flexible and user-friendly environment; and
- personalize marketing based on the subscriber's profile (including network capabilities, service tier and access technology).

Reduce Operating and Capital Expenses

- run networks with a smaller IT infrastructure footprint, a smaller CPU, and less storage;
- reduce operational costs with subscriber self-care, centralized management, and flow-through provisioning of subscriber service level changes; and
- support multiple networks with a single infrastructure.

Our Products

Our products are highly scalable, robust, carrier-grade software solutions. Since our products are modular in nature, with each product interconnecting with other products in our portfolio, customers have the ability to add features on an incremental, as-needed basis.



Network Access Control Products

Our network access control products enable service providers to deploy centralized AAA functions and IP address management across multiple access networks. We have two primary products in this category, the AAA Service Controller and our DHCP Server.

AAA Service Controller

We believe that our AAA Service Controller is the leading high-performance AAA solution currently deployed in CDMA networks. AAA Service Controller allows service providers to offer and control access to advanced and differentiated services and data roaming across a wide range of access technologies and infrastructures.

DHCP Server

Our DHCP Server enables broadband service providers to efficiently manage IP addresses, including rapid address allocation and subscriber activation, and track subscriber state persistence in real time. This product is also a component of our policy management products.

Entitlement Control and Policy Management Products

Our entitlement control products enable service providers to control and monetize the dynamic entitlement relationship between subscribers, applications and network resources. This category includes application policy and network policy products.

Application Policy

Our Application Authorization Server has been deployed to provide a single repository for subscriber profiles relating to applications and network access, delivering a single point of user management and provisioning.

Our next generation Application Policy Controller provides real-time control over the type of subscriber data that can be provided to any application (internal or third party), and the circumstances under which it is provided, enabling service providers to enrich the subscriber experience.

Network Policy

Our Dynamic Broadband Manager has been deployed to provide a comprehensive policy management solution that gives service providers the ability to manage network policies on a per-subscriber, per-session basis.

Our next generation Network Policy Controller enables service providers to manage network resources using policies and business rules to control the individual subscriber experience.

Alcatel-Lucent Subscriber Services Controller (OEM)

The Alcatel-Lucent Canada Subscriber Services Controller or SSC is licensed to Alcatel-Lucent Canada on an OEM basis as part of its IPTV offering. The SSC is based on our Dynamic Broadband Manager product and works to co-ordinate critical network elements to match the subscriber's entitlements (what the subscriber has paid to do or see on the network), provision bandwidth, secure that bandwidth for the duration of the event, trigger the appropriate content for delivery and ensure the subscriber is billed for the service and content received. We have recently modified our license arrangement with Alcatel-Lucent Canada for the SSC. See "Intellectual Property" and "Interests of Management and Others in Material Transactions — Alcatel-Lucent Canada Inc.".

Subscriber Management Products

Our subscriber management products allow for rapid access to the static and dynamic data required for network access and entitlement control.

Resource Management Server

Our Resource Management Server is a datastore for storage and retrieval of dynamic data required for application and service access. This product is based on leading-edge data management techniques.

Subscriber State Register

Our Subscriber State Register allows for the tailoring of application specific data to service provider authorization requirements to ensure ease of access and scalability.

Home Subscriber Solution

Our Home Subscriber Solution allows service providers to migrate to IMS/MMD frameworks seamlessly from our AAA Service Controller. Within an IMS infrastructure, Home Subscriber Solution is the master repository that maintains information for the authentication, authorization and establishment of subscriber calls and sessions. In addition, Home Subscriber Solution holds critical subscriber profile information and delivers subscriber information to an application on demand or as subscriber information changes.

Services and Support

We provide our customers with product support and maintenance services together with a range of value-added professional services. Our customer support and maintenance services consist of tiered 24/7 help desk support to service providers and indirect channel partners, technical support and updates to our products. We also offer professional services such as network design and optimization, deployment planning, interoperability testing for customers and partners, and customer and partner training for network planners, engineers, system operators and solution sales engineers.

Our Competitive Strengths

We believe that the following strengths differentiate us from our competitors and are important to our ongoing success.

Robust and Modular Technology Platform

Our products, currently in their ninth annual release cycle, are the result of a sustained investment in developing the features, scalability and performance enhancement that are essential to our customers. The chief advantages of our products include the following:

- *Scalability/High Performance* — Our products are designed to be highly scalable. For example, our network access control products are currently deployed in networks ranging from 5,000 to more than 60 million subscribers, and currently support in excess of 14 billion transactions in a single month on a single network.
- *Access Technology Agnostic* — Our platform functions with all key access technologies (CDMA, GSM, WiMAX, cable and DSL), allowing rapid integration of our products into multiple or converged networks.
- *Vendor Neutral* — Our products can be quickly deployed in networks with different policy enforcement points, minimizing the need for customization.

- *Proven Interoperability* — Our products interoperate with a wide range of network equipment, application platforms, OSS and BSS systems, and applications, giving service providers a time-to-market advantage and lowering deployment costs.
- *Flexibility* — The modular nature of our products allows our customers to purchase functionality to fit their precise needs and extend our solution on an as-required basis.
- *Unified View of Subscribers* — Our products are designed to provide a single view of subscribers, in real-time, across all networks and services, eliminating the need for multiple policy management solutions.

Operational Experience and Track Record

As a result of our ten years of in-service deployments we have established ourselves as a direct or indirect supplier to 92 service providers globally. As well:

- we have demonstrated customer traction and the ability to secure Tier 1 customers, including Verizon Wireless, Sprint Nextel Corp. and MetroPCS Wireless Inc.;
- we have developed domain expertise to allow us to design and implement solutions that are highly relevant to our customers;
- our close customer relationships are supported by an experienced and dedicated management team, including a core group of executives and senior managers who have a track record of building successful companies; and
- we have established a scalable global support infrastructure.

Strategic Relationships

We have established key strategic relationships with Motorola Inc., Nortel Networks Ltd. and Alvarion Ltd. in the wireless market, and Alcatel-Lucent in the wireline market. In addition to our direct sales force, we have a global sales and marketing network of distributors, resellers, systems integrators and OEMs. Our channel partners have enabled us to diversify our revenue base and to target service providers that we would not have been able to address without significant additional investment in internal sales and marketing. We also have strategic relationships with Sun Microsystems Inc. ("Sun Microsystems") and Oracle Corporation ("Oracle") as key technology partners.

Market and Technology Breadth

We have developed a comprehensive suite of solutions to address the specific requirements of service providers in each of the distinct markets in which we compete:

- for CDMA and GSM service providers, our solutions accelerate the launch of new applications and services, while maintaining a high level of control over subscriber interactions with the network;
- for emerging WiMAX service providers, our products have been developed for fixed, mobile and converged environments;
- for wireline service providers, our products enrich the subscriber experience, control resource usage (for example, for P2P and downloads), and increase ARPU by enabling on-demand service offerings; and
- finally, in converged networks, our solutions can ensure a 'single view' for subscribers across multiple networks, applications and devices, and achieve operational efficiencies and reduced costs for service providers.

Growth Strategy

The following are the key elements of our growth strategy, which we intend to implement through a combination of organic growth, and where appropriate, acquisition of complementary technologies, products or businesses.

Increase Penetration of Existing Customer Base

Our customer life cycle begins with the sale of a core network access control or policy control solution to a service provider. As the service provider adds net new subscribers to its network, it typically requires additional software licenses together with new maintenance and support contracts. Our modular product portfolio is also designed to allow our customers to add subscriber state management, IP address management, mediation, pre- and post-paid billing support, and metered and tiered service control to their networks. These dynamics mean that our revenues grow in step with our customers' businesses. In recognition of this, an important part of our growth strategy includes deepening relationships with our existing customers to drive incremental revenue growth.

Expand Solution Set

We have developed a strategy that we intend to implement to expand our solution set, as follows.

- We expect to build on the success of our flagship AAA Service Controller product to drive adoption of our recently introduced Application Policy Controller and Network Policy Controller.
- We intend to expand our professional services capability, which includes consulting services, custom solution design, and development, configuration and deployment services, to support new and existing customers.
- We are currently working with key customers to commercialize a new product offering that integrates our software with a hardware platform that has been optimized for performance, scalability and ease of management. This turnkey business model is intended to offer our customers an integrated platform, together with network design, support and dimensioning services, that will allow operators to more easily manage and scale their networks as they launch new applications and services.

Increase Adoption Across Wireless, Wireline and Converged Networks

We intend to increase our penetration across various access technology markets, including wireless, wireline and converged networks.

- In the GSM market, we intend to enhance our existing sales and marketing efforts by working toward a global reseller partnership with a Tier 1 network equipment vendor and/or systems integrator that is focused on GSM service providers.
- In the CDMA market, we expect to build on existing strengths with the introduction of our new Application Policy Controller and Network Policy Controller solutions, and to pursue new opportunities in Latin America and APAC.
- We intend to continue to develop our products for emerging markets such as WiMAX-based networks. We believe that in many respects, WiMAX-based networks have similar requirements to CDMA networks, and we expect to be able to leverage our CDMA leadership to win customers for WiMAX-based deployments.
- In the wireline market, we intend to build on our current product investment and capability to deliver solutions for operators adopting IPTV services. Our specific growth strategy involves securing additional OEM and reseller partners to drive expansion in this area.

In addition, the application of our products, technology and know-how to enable network and service convergence, as well as application portability across converged networks, is a compelling growth market that we are just beginning to address.

Expand to Additional Geographic Markets

We intend to continue to invest in direct sales and marketing activities, with an emphasis on expanding customer awareness and adoption of our products in APAC, EMEA and the Americas. Our distributor, reseller and systems integrator relationships have also allowed us to reach a broad market of service providers. We intend to continue to pursue additional channel partners to leverage their extensive service provider relationships, industry networks and global reach.

Technology and Suppliers

Through our support of standards and adaptive systems and interfaces, our products are designed to fit the requirements of a diverse array of service providers. By leveraging a highly reusable set of frameworks that have been refined though deployments by Tier 1 service providers, we are able to quickly deliver new functionality on a dependable platform. While our systems scale up to larger service providers, they also scale down to deliver value to smaller providers.

We have defined development processes focused on phased progression from concept development, to in-trial systems, pilot deployments, and finally deployed systems. Our development and support processes are designed to be appropriate to each phase. The processes are re-enforced by tools that span project management, to requirements and software design, build, configuration management, testing, auditing and performance engineering.

We use third party commercial components as part of our product set. These components are selected from various vendors, after evaluation of competitive offerings, based on quality, performance, our plans for product evolution, and price and other commercial terms. Key vendors of our components include Sun Microsystems for our hardware platform and Oracle for software databases.

Our products are based on industry standards in order to enhance interoperability with the networks operated by our customers. We are involved with or participate in a number of standards setting organizations, including:

- the Internet Engineering Task Force (Internet standards);
- the 3rd Generation Partnership Project 2 (CDMA2000 standards);
- open Mobile Alliance (mobile service enabler standards);
- European Telecommunications Standards Institute (3GPP IMS standards for wireline networks); and
- WiMAX Forum (certification/promotion of compatibility and interoperability of broadband wireless products based on the harmonized IEEE 802.16/ETSI HiperMAN standard).

We also follow standards development by the Liberty Alliance Project (federated network identity standards), The Parlay Group (API standards) and The Worldwide Web Consortium (W3C).

Sales and Marketing Strategy

We market and sell our products through direct and indirect sales channels. Whether sales are direct or indirect, an important part of our strategy involves dealing directly with service providers. We build relationships with service providers by identifying their service and market requirements, carrying out trials of our software as stand-alone solutions or in conjunction with other network equipment and software platforms, and providing training and education to their personnel. Through this process, we are able to better understand our customers' network designs, as well as their business and operational goals, deployment requirements and future direction, and adjust our investment in new products and solutions accordingly. Our use of indirect channels to support our internal sales and marketing teams permits us to more efficiently sell and deploy our solutions to a broader number of service providers, and manage the costs associated with servicing these providers.

As at September 30, 2007, we had 55 employees in sales and marketing functions, comprised of 22 sales and marketing personnel located in our Ottawa, Ontario headquarters, with the remaining sales and marketing personnel located in North America, Europe and APAC.

Our direct sales force primarily addresses Tier 1 and selected Tier 2 service providers. Our global indirect and OEM channel partners are generally focused on delivering turnkey networks or network subsystems in which our products are bundled and sold with a complete network solution. Our primary channel partners are Alcatel-Lucent Canada, Alvarion Ltd., Motorola, Inc., Nortel Networks Ltd., Starent Networks, Corp. and Syniverse Technologies Inc. Our regional indirect channel partners focus on specific customers and address customized or regional needs. Our distributors have been selected based on geographic coverage and coverage of specific network technologies. We offer extensive support to our channel partners, including sales and sales engineering support, marketing support, training and documentation.

Customers

Our customers include Tier 1 and Tier 2 wireless, wireline and converged service providers. Our products are installed in 92 service provider networks as of the end of the third quarter of fiscal 2007, up from 19 in the first quarter of fiscal 2004.

Some of our key customers include:

- Alcatel-Lucent Canada
- Bell Mobility
- Leap Wireless Inc.
- Metro PCS Wireless Inc.
- SmarTone-Vodafone
- Sprint Nextel Corp.
- US Cellular Corporation
- Verizon Wireless
- Virgin Mobile USA, LLC

Competition

For our network access control products, we face competition from a number of large telecommunications equipment providers, including Cisco Systems Inc., Nokia Siemens Networks B.V., Juniper Networks Inc. and Ericsson LM Telephone and some smaller ISVs, such as Apertio Limited and Aptilo Networks.

For our entitlement control and policy management products, we face competition from large network systems vendors (such as Juniper Networks Inc. and Ericsson LM Telephone), as well as a diverse set of early stage ISVs that are focused on a particular policy management solution or market. These ISVs include Camiant Inc. and Operax AB. While smaller ISVs can offer more specialization, they do not provide a full spectrum of products and services to meet the needs of customers.

For our subscriber management products, the market is highly fragmented, with a mix of large network equipment vendors (such as Ericsson LM Telephone and Nokia Siemens Networks B.V.), software infrastructure providers (such as Hewlett-Packard Company) and ISVs (such as Apertio Limited and Blueslice Networks Inc.) focused on specific market niches.

We believe that our key competitive differentiator is our ability to develop high transaction rate products with proven performance and reliability, as well as our proficiency in supporting our customers and their complex network environments. Developing these advantages has been our focus since inception and is the basis of our ability to successfully compete in each of our markets.

Research and Development

Our research and product development teams are located at our headquarters in Ottawa, Ontario. As of September 30, 2007, we had 112 personnel in our engineering, quality assurance, test and product management groups, the majority of whom hold technical degrees in software engineering or computer science. Through our ten years of operation, we have developed a proven product design and introduction process, which serves as the backbone of our software development process. Together with our quality assurance and testing protocols, this process allow us to produce high quality products that meet the stringent service level demands of our service provider customers. Research and product development has historically been, and will continue to be, a significant portion of our overall operating cost model as we continue to invest in new products, feature development and support of a variety of network equipment and OSS/BSS platforms. Our product management group leads our product planning effort, based on feedback from our deployed customers, the direction and requirements of industry standards, and competitive offerings. Our product management and marketing groups work closely to deliver marketing, documentation and sales collateral to support our direct and indirect selling efforts.

Intellectual Property

In accordance with industry practice, we protect our proprietary rights through a combination of patent, trade-mark, copyright, and trade secret laws and contractual provisions. We believe our products and the proprietary designs of our technology and the skills and know-how of our employees will continue to allow us to innovate ahead of our competitors.

Patent law offers some protection for our current and future products. Our patent strategy is focused on protecting novel elements of our product design. At September 30, 2007, our patent portfolio consisted of one patent issued in the United Kingdom, ten patent applications pending in the United States and three patent applications pending in Canada.

We generally license our technology pursuant to agreements that impose restrictions on our customers' ability to use the technology, such as prohibiting reverse engineering, limiting the use of software copies and restricting access to our source code. In connection with the Development Agreement and License Agreement described in "Interests of Management and Others in Material Transactions — Alcatel-Lucent Canada Inc.", we have granted a perpetual royalty-free license to Alcatel-Lucent Canada to use, copy, modify and create derivative works based on version 3.1 (and earlier versions) of our SSC product (which is based on our Dynamic Broadband Manager product), and to distribute and grant sublicenses for such product and derivative works in object code format. Alcatel-Lucent Canada was also granted a three-year, royalty-free license to use, reproduce, distribute and grant sublicenses to use copies of version 1.0 of our Radius Engine software, a policy and profile engine based on our AAA Service Controller, in object code only. The licenses granted to Alcatel-Lucent Canada are non-exclusive and we retain ownership of the intellectual property associated with the SSC and Radius Engine software, including the ability to license copies of the SSC and Radius Engine software to others, and to create new versions of the SSC and Radius Engine software. Alcatel-Lucent Canada owns any modifications it makes to the SSC.

We also seek to avoid disclosure of our intellectual property and proprietary information by requiring employees and consultants to execute non-disclosure and assignment of intellectual property agreements. Such agreements also require our employees and consultants to assign to us all intellectual property developed in the course of their employment or engagement. We also utilize non-disclosure agreements to govern interaction with all prospective business partners, interoperation testing and other relationships where disclosure of proprietary information may be necessary.

The source code for our software is protected under trade secret law and as unpublished, copyrighted works. We recognize, however, that effective copyright protection may not be available in some countries in which we distribute products.

Our products include software components licensed from third parties. We believe that replacements for this third party licensed software are available on commercially reasonable terms.

We have registered trade-marks for "Bridgewater", "widespan" and the Bridgewater logo in Canada, the United States, the European Community and Australia, and "Bridgewatersystems.com" in Canada. We have also applied to register trade-marks for "Bridgewater Systems" and the Bridgewater Systems logo in the United States.

Employees

As of September 30, 2007, we employed 201 people, of whom 164 are based in Ottawa, Ontario, 14 in the United States, 13 in EMEA and 10 in APAC. None of our employees are unionized.

We focus on identifying, attracting and retaining talented employees to support our growth. We view our employees as an important competitive advantage. Historically, we have been successful in retaining our key employees, including members of management, by placing a priority on creating and fostering a rewarding, stimulating and secure work environment.

Our management team averages more than twenty years of industry experience and has a strong track record of building software and networking businesses. In addition, we have attracted and retained strong sales, marketing and engineering personnel.

Operations and Facilities

Our research and development, services and support, and administration departments operate from our headquarters in Ottawa, Ontario. These premises are occupied by us pursuant to a lease entered into by us with Kanata Research Park Corporation ("KRPC"), a corporation controlled by Terry Matthews, a director, the Chairman of our Board of Directors, and through a company he controls, a principal and Selling Shareholder. See "Principal and Selling Shareholders" and "Interests of Management and Others in Certain Transactions — Kanata Research Park Corporation". These premises consist of approximately 40,000 square feet of rentable space with a lease term that expires on February 28, 2011. Aggregate annual lease payments (base rent and all other rent and charges) are approximately $819,842. The lease for these premises is renewable at our option at then prevailing market for a further term of five years, provided we deliver written notice to KRPC of our intention to exercise this option not less than six months prior to the expiry of the lease term.

USE OF PROCEEDS

We expect to receive $ ● in net proceeds from the Treasury Offering, after deducting fees payable by us to the Underwriters and the estimated expenses of the Offering. If the Over-Allotment Option granted by us is exercised in full, we expect to receive an aggregate of $ ● in net proceeds, after deducting fees payable by us to the Underwriters and our estimated expenses of the Offering.

We intend to use the net proceeds from the Offering as follows:

- approximately 10-15% to expand our professional services capability, which includes consulting services, custom solution design and development, configuration and deployment services;
- approximately 20-25% to extend our product portfolio by accelerating the development of new products and services including a turnkey product offering and targeted licensing of third party solutions; and
- approximately 15-20% to expand our sales and marketing activities into new markets.

The remaining net proceeds are expected to be used for working capital, general corporate purposes and for selective acquisitions of, or investments in, new products, technologies and businesses that expand, complement or are otherwise related to our current business. Any such acquisitions or investments will be made in accordance with our growth strategy. Although we regularly evaluate potential acquisition and investment opportunities, we have no agreements or commitments with respect to any particular transaction of this nature. See "Business of the Company — Growth Strategy".

While we currently anticipate that we will use the net proceeds of the Treasury Offering as set forth above, we may re-allocate the net proceeds from time to time depending upon our growth strategy relative to market and other conditions in effect at the time. Until we use the net proceeds, we expect to invest them in short-term, interest-bearing, investment-grade securities.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following selected consolidated financial information should be read in conjunction with the financial statements and related notes included elsewhere in this prospectus. The following tables set out the selected financial information for the periods or as of the dates indicated and are derived from our audited consolidated financial statements for each of the three most recently completed financial years and from our unaudited consolidated financial statements for the nine-month periods ended September 30, 2007 and 2006 and the twelve-month period ended September 30, 2007. Historical results do not necessarily indicate results for any future period.

Consolidated Statements of Operations Information

	Nine Months Ended September 30		Twelve Months Ended September 30	Years Ended December 31		
	2007	2006	2007	2006	2005	2004
	(in thousands of dollars, except per share amounts and number of shares)					
Revenue						
Product	$ 19,518	$ 16,033	$ 27,291	$ 23,807	$ 16,407	$ 9,919
Services and support	7,905	5,394	9,666	7,155	4,748	3,772
	27,423	21,427	36,957	30,962	21,155	13,691
Cost of sales	4,036	3,796	5,740	5,500	3,277	2,154
Gross margin	23,387	17,631	31,217	25,462	17,878	11,537
Expenses						
Sales and marketing	10,125	8,264	13,460	11,598	7,605	3,821
Research and development	9,793	6,242	12,579	9,029	5,328	4,183
General and administrative	1,825	1,511	2,727	2,414	1,746	1,523
Stock-based compensation	150	141	202	193	167	135
	21,893	16,158	28,968	23,234	14,846	9,662
Earnings before undernoted items	1,494	1,473	2,249	2,228	3,032	1,875
Foreign exchange (loss) gain	(1,081)	(128)	(341)	612	(277)	(108)
Interest income	453	319	634	500	375	303
Loss on disposal of capital assets	—	(33)	—	(33)	(158)	(58)
Other income (loss)	8	(6)	8	(6)	11	9
Earnings before income taxes	874	1,625	2,550	3,301	2,983	2,021
Future income taxes recovery	—	—	7,500	7,500	—	—
Net earnings for the period	$ 874	$ 1,625	$ 10,050	$ 10,801	$ 2,983	$ 2,021
Earnings per share — basic	$ 0.05	$ 0.09	$ 0.55	$ 0.59	$ 0.16	$ 0.11
Earnings per share — diluted	$ 0.04	$ 0.08	$ 0.48	$ 0.55	$ 0.16	$ 0.11
Weighted average number of shares — basic	18,449,727	18,352,738	18,436,384	18,363,980	18,286,821	18,208,978
Weighted average number of shares — diluted	20,813,315	19,424,683	20,783,057	19,748,737	18,816,596	18,214,665

Consolidated Balance Sheet Information

	As at September 30	As at December 31	
	2007	2006	2005
	(in thousands of dollars)		
Cash and cash equivalents	$16,821	$21,194	$15,302[1]
Accounts receivable	5,302	4,263	3,617
Working capital	22,093	21,292	18,015
Total assets	42,058	42,587	25,578
Deferred revenue	7,189	7,773	4,287
Shareholders' equity	32,117	30,995	19,869

(1) Cash and cash equivalents as at December 31, 2005 includes a note receivable of $12,500,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis of our financial condition and results of operations should be read in conjunction with the audited consolidated financial statements, and related notes thereto, included elsewhere in this prospectus. Our financial statements are prepared in accordance with Canadian GAAP and are presented in Canadian dollars. Our fiscal year ends on December 31 of each year.

Overview

Bridgewater is a leading provider of high performance, real-time software solutions that enable network service providers to dynamically control how subscribers access networks, content and applications. Our products centralize, store and manage critical information that defines service entitlements, preferences and billing profiles for subscribers, ensure quality of service, and manage bandwidth utilization. Service providers adopt our solutions to rapidly deploy content and applications, increase the number of subscriber transactions and improve revenue assurance.

We sell our products and services through direct sales teams in the Americas, EMEA and APAC. In addition to our direct sales efforts, we sell our products and services through indirect global sales channels and OEM partners.

Our service provider installations have increased from 30 as at the end of fiscal 2004 to 92 as at September 30, 2007. Revenue has grown from \$13.7 million for fiscal 2004 to \$37.0 million for the twelve month period ended September 30, 2007. Revenue growth is attributable to an increase in the number of customers, the expansion of our product offering, and growth in the number of subscribers in our customer networks. Through the introduction of new channel partners, we have grown our indirect revenue from 6.8% of revenue for fiscal 2004 to 22.8% of revenue for the twelve month period ended September 30, 2007. Indirect sales channels provide efficient means of addressing a broader set of customers and diverse geographies. In addition to strong revenue growth, we have been profitable for the past three fiscal years. The quarter ended September 30, 2007 represented our fourteenth consecutive quarter of profitability.

Revenue and Expenses

Revenue

We generate revenue from licensing our software products and providing related services, including maintenance, support and professional services. Licensed product is typically sold under either a perpetual license model or, under limited circumstances, on a subscription basis. Additional revenue for development of new features and applications on core products or other technical services can be part of the initial engagement or a follow-on sale. Customers generally enter into annual maintenance and support contracts which provide the customer with 24/7 support, product updates and release upgrades. For the twelve months ended September 30, 2007, 26% of our total revenue was generated from support and services.

We sell our products, support and other services through direct sales teams and through indirect global sales channels and OEM partners. Direct sales are typically targeted to Tier 1 and selected Tier 2 service providers. Our indirect sales are facilitated through global reseller arrangements as well as regional resellers to support specific sales engagements.

	Nine months ended Sept. 30, 2007		Nine months ended Sept. 30, 2006		Twelve months ended Sept. 30, 2007		Fiscal years ended December 31 2006		2005		2004	
	(in thousands of dollars, except for percentages)											
Direct	$21,432	78.2%	$18,653	87.1%	$28,528	77.2%	$25,750	83.2%	$17,638	83.4%	$12,766	93.2%
Indirect	5,991	21.8%	2,774	12.9%	8,429	22.8%	5,212	16.8%	3,517	16.6%	925	6.8%
	$27,423	100.0%	$21,427	100.0%	$36,957	100.0%	$30,962	100.0%	$21,155	100.0%	$13,691	100.0%

Cost of Sales

Cost of sales consist of the cost of third party licensed embedded software and internal expenses attributed to installation and support of our customers.

Operating Expenses

Sales and marketing expenses include all personnel and related costs for direct and channel sales teams and marketing personnel, direct sales commission expense associated with the delivery of the revenue, advertising, trade shows, communications expense and cost for regional offices. Research and development includes personnel and related costs for product management and development programs, technology infrastructure and product documentation.

Periodically we will engage external contractors to support specific research and development programs. General and administrative expenses include all personnel and related costs, professional fees, legal, and insurance costs.

Critical Accounting Estimates

Revenue Recognition

Our revenue is derived from the sale of software product licenses, professional services and maintenance and support. Product revenue includes licensed product and feature development on standard products. Services revenue includes installation, training and integration services. Maintenance and support revenue includes software support, updates and the right to receive product upgrades.

Revenue from the sale of software licenses is recorded upon execution of a contract and delivery of software, provided that the license price is fixed and determinable, no significant production, modification or customization of the software is required and collection is considered probable by management. Revenue from maintenance is deferred and recognized rateably over the period the services are provided. Professional services revenues are recognized as the services are performed. We license our software in multiple element arrangements, consisting of a combination of software, maintenance and professional services. Maintenance and professional service elements are unbundled from the license fee based on vendor specific objective evidence of their fair value and deferred until the revenue recognition criteria have been met. The residual amount is recognized as licensed software revenue upon delivery. We may also license our software, including maintenance, on a subscription basis for a defined period in time in which case the revenue is deferred and recognized rateably over the contract period. Deferred revenue arises where payments are received from customers in advance of revenue recognition criteria being met.

Unbilled receivables arise when services are performed or products and features are delivered prior to our ability to invoice in accordance with contract terms.

Research and Development Expense

We have historically qualified for Canadian federal investment tax credits ("ITCs") and Ontario Innovation Tax Credits ("OITCs") for qualifying research and development activities. As we have been a Canadian controlled private corporation ("CCPC"), we have claimed and received cash refunds based on related research and development programs. The cash refundable amount is estimated by management each year and is reflected in the consolidated financial statement as a reduction to expenses. In previous fiscal years, refundable ITCs and OITCs have totalled $1.0 million (fiscal 2004), $1.5 million (fiscal 2005) and $1.5 million (fiscal 2006). For fiscal 2007, we will no longer be considered a CCPC, and thus the ITCs earned will no longer be available as cash refunds; however, we will continue to earn ITCs at a reduced rate to reduce future cash taxes payable. For the nine month period ended September 30, 2007, expenses were reduced by $0.5 million as a result of an increase in the expected refundable investment tax credits for fiscal 2006, determined at the time of preparing the underlying tax return.

Stock-Based Compensation

We have stock option plans for employees, officers and directors. See "Share Capital", Note 6 of our consolidated financial statements. CICA Handbook Section 3870 — Stock-Based Compensation and Other Stock-Based Payments — is the standards for recognition, measurement and disclosure of stock-based compensation for all awards granted on or after January 1, 2003, whereby the compensation expense is measured based on fair value of the stock options issued. The fair value of stock options is determined using judgment, estimating the expected term of the stock options, the expected volatility of our Common Shares and expected dividends. In addition, judgment is also required in estimating the amount of stock option awards that are expected to be forfeited. While we currently assume a nominal volatility under the minimum value method for determining fair value, we will be required to determine a volatility estimate as a public entity and the fair value of an option is expected to increase. The fair value of the awards is determined using the Black-Scholes option pricing model, with assumptions set out in Note 6 to our consolidated financial statements.

Impairment of Long-Lived Assets

We monitor events and change in circumstances that may require assessment of the recoverability of our long-lived assets. If required, the impairment loss is recognized when the carrying value of long-lived assets exceeds the total undiscounted future operating cash flows. If the carrying value of the asset is not recoverable, an impairment loss is recognized comparing the carrying amount of the asset to its fair value.

Valuation of Future Income Taxes

As at December 31, 2006, we have accumulated $27.7 million of unclaimed federal research and development expense and $5.1 million of non-capital tax loss in our US subsidiary. In fiscal 2004 and subsequent periods, we had generated taxable income but had not paid income tax as we have had available historical tax losses and unclaimed research and development expense to reduce our tax liability and offset any current tax liability. In preparing the consolidated financial statements, we are required to estimate our income tax obligations. The process involves estimating the actual tax exposure together with assessing the temporary differences resulting from differing treatment of items for tax and accounting purposes. Judgment is required in determining the amounts of future income tax assets and liabilities and the related valuation allowance recorded against the net future income tax assets. In assessing the potential realization of future income tax assets, we have considered whether it is "more likely than not" that some portion or all of the future income tax assets will be realized. On a quarterly basis, management assesses the likelihood that future income tax assets will be recovered from future taxable income and whether a valuation allowance is required to reflect any uncertainty.

Management's assessment of future tax assets was $7.5 million as of September 30, 2007, as there was no significant change in the underlying assumptions. We will continue to reassess our estimates as to future profitability and make a determination related to the recognition of any potential future income tax asset. The ongoing determination will require judgment, estimates and analysis.

Impact of Recently Issued Accounting Standards

Effective January 1, 2007 we adopted the new CICA accounting standards contained in Section 3855 *Financial Instruments — Recognition and Measurement*, Section 3861 *Financial Instruments — Disclosure and Presentation*, Section 3865 *Hedges*, Section 3251 *Equity* and Section 1530 *Comprehensive Income*.

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income ("OCI") refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. We adopted this section on a prospective basis and have no OCI for the period presented.

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as loans and receivables, held-for-trading, held-to-maturity, available-for-sale or other liabilities. The classification depends on the purpose for which the financial instruments were acquired, their characteristics and management's intent. Management determines the classification of financial assets and liabilities at initial recognition and, except in very limited circumstances, the classification is not changed subsequent to initial recognition. Upon adoption of these new standards, we designated our cash and cash equivalents as held for trading which are measured at fair value, with changes in fair value being recorded in net earnings. Accounts receivable and other receivables have been classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities have been classified as other financial liabilities, which are measured at amortized cost. Due to the short-term nature of these assets and liabilities, the carrying amounts approximate amortized cost.

Derivative instruments, including embedded derivatives, are initially recorded at fair value. All changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in their fair value are recorded in OCI. We have outstanding foreign currency contracts at September 30, 2007 which are measured at fair value. We do not apply hedge accounting to these derivatives and changes in fair value are recorded in net income.

We have implemented the above new accounting policies as of January 1, 2007. There has been no material impact on our financial statements as a result of implementation of these policies.

Impact of Future Accounting Standards

Effective January 1, 2008, we will be required to adopt two new CICA standards, Section 3862 *Financial Instruments Disclosures* and Section 3863 *Financial Instruments Presentation* which will replace Section 3861 *Financial Instruments Disclosure and Presentation*. The new presentation standard carries forward the former presentation requirements and increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. This new standard is not expected to have a material effect on our consolidated financial statements.

In November 2006, the CICA issued the new handbook Section 1535 *Capital Disclosures* effective for annual and interim periods beginning on or after October 1, 2007. This section establishes standards for disclosing information about a company's capital and how it is managed in order that a user of the financial statements may evaluate the company's objectives, policies and processes for managing capital. This new standard is not expected to have a material effect on our consolidated financial statements.

Results of Operations

The following table sets out, as a percentage of revenue, consolidated statements of operations for the periods indicated.

	Nine Months Ended September 30		Twelve Months Ended September 30	Years Ended December 31		
	2007	**2006**	**2007**	**2006**	**2005**	**2004**
			(all amounts in percentages)			
Revenue						
Product	71	75	74	77	78	72
Services and support	29	25	26	23	22	28
	100	100	100	100	100	100
Cost of sales	15	18	16	18	16	16
Gross margin	85	82	84	82	84	84
Expenses						
Sales and marketing	37	38	36	37	36	28
Research and development	36	29	34	29	25	30
General and administrative	6	7	7	8	8	11
Stock-based compensation expense	1	1	1	1	1	1
	80	75	78	75	70	70
Earnings before undernoted items	5	7	6	7	14	14
Foreign exchange (loss) gain	(4)	(1)	(1)	2	(1)	(1)
Interest income	2	2	2	2	2	2
Loss on disposal of capital assets	—	—	—	—	(1)	—
Earnings before income taxes	3	8	7	11	14	15
Future income tax recovery	—	—	20	24	—	—
Net earnings for the period	3	8	27	35	14	15

Comparison of Nine Month Period Ended September 30, 2007 and September 30, 2006

Revenue

Revenue for the nine months ended September 30, 2007 was $27.4 million compared to $21.4 million for the same period in 2006, representing an increase of 28%. The increase in revenue is due to an increase in the number of new service provider installations and the expansion of revenue from existing service provider installations due to increases in their subscriber bases and application requirements. In addition, we have grown indirect revenue from channel partners from $2.8 million for the period ended September 30, 2006 to $6.0 million for the period ended September 30, 2007 due to an increase in IPTV deployments and expansion of our customers in Europe and Asia.

Product revenue for the nine month period ended September 30, 2007 was $19.5 million, or 71% of total revenue, compared to $16.0 million, or 75% of total revenue for the nine months ended September 30, 2006. Product revenue growth was driven by service provider installations of new products. Revenue from maintenance and support contracts and other services was $7.9 million, or 29% of revenue for the nine months ended September 30, 2007 compared to $5.4 million or 25% of revenue for the same period in 2006. Growth in service and support revenue is directly related to growth in our customer base and increases in the number of renewals for maintenance and support contracts.

Gross Margin

Gross margin increased from 82% to 85% for the nine months ended September 30, 2007 compared to the same nine month period in 2006. During the nine months ended September 30, 2006 we incurred a higher cost of sales as we added additional support capacity to address the increase in our installed customer base, expanded our customer support model and enhanced our service offering. Lower direct product costs in the nine months ended September 30, 2007 resulted in higher than average gross margin for the period due to a product mix that included more service revenue in the period, carrying lower direct costs.

Sales and Marketing

Sales and marketing expense was $10.1 million for the nine month period ended September 30, 2007 compared to $8.3 million for the nine month period ended September 30, 2006. A majority of the increase in marketing programs was in support of indirect sales, new product introduction and geographic expansion. The remainder of the increase in expense is due to the addition of sales resources in APAC and Europe to support market growth. We believe we have established our core infrastructure in sales and marketing personnel and expect future sales and marketing investment to be related to specific market or domain requirements.

Research and Development

Research and development expenses increased from $6.2 million to $9.8 million for the nine month period ended September 30, 2007 compared to the same period in the prior fiscal year. For the nine month period ended September 30, 2007, headcount increased from 90 to 112 in total, and additional contract costs were incurred to support growth in customer and market demands. We invested in design and development of key projects related to our policy products and expect to leverage this investment in future periods.

Our research and development expense is net of recoverable income tax credits of $0.5 million for the nine month period ended September 30, 2007 as a result of an increase in the expected refundable investment tax credits for fiscal 2006, determined at the time of preparing the underlying tax return.

General and Administrative Expense

General and administrative expenses were $1.8 million for the nine month period ended September 30, 2007, which was a $0.3 million increase over the same period in fiscal 2006. The increase is attributed to an increase in travel expenses, personnel expenses associated with headcount increases and professional fees.

Foreign Exchange

We realized a $1.1 million foreign exchange loss for the nine month period ended September 30, 2007 compared to a $0.1 million loss for the nine month period ended September 30, 2006. The higher foreign exchange loss in 2007 was due to the impact of a significant fluctuation in the Canadian dollar relative to the U.S. dollar on our working capital balances.

Comparison of the Years Ended December 31, 2006 and December 31, 2005

Revenue

Revenue for fiscal 2006 was $31.0 million compared to $21.2 million in fiscal 2005, representing a 46% increase. We added 27 new service provider installations in 2006, which contributed $3.5 million of revenue. Revenue from direct customer engagements was $25.7 million and $5.2 million from channel engagements in fiscal 2006 compared to $17.6 million for direct engagements and $3.5 million for channel engagements in fiscal year 2005. Growth in channel activity corresponds to increased revenue from Europe and APAC, representing sales primarily fulfilled through our resellers.

Product revenue for fiscal 2006 was $23.8 million, or 77% of total revenue, compared to $16.4 million, or 78% of total revenue for fiscal 2005. Revenue from maintenance and support contracts and other services was $7.2 million, or 23% of revenue for fiscal 2006 compared to $4.7 million or 22% of revenue for fiscal 2005. Growth in service and support revenue is directly related to growth in our customer base and increases in the number of renewals for maintenance and support contracts.

Gross margin

Our gross margin decreased slightly from 84% for fiscal 2005 to 82% for fiscal 2006. The decrease in gross margin is related to higher direct product costs due to the mix of product sold. Additional expense was also incurred in fiscal 2006 to increase support capacity to address the increase in our installed customer base.

Sales and Marketing Expenses

Sales and marketing expense was $11.6 million for fiscal 2006 compared to $7.6 million for fiscal 2005. During fiscal 2006 we expanded both our sales and marketing capability to address growing demand in all geographies. Sales and marketing headcount in fiscal 2006 increased from 41 to 47 people, with primary growth in Europe and APAC to support geographic expansion. Sales expenses increased due to higher sales commission expense associated with exceeding our sales targets. Marketing expenses increased in response to additional participation in trade shows, preparation of marketing material for new products and markets and acceleration of business development activities as we extended our partnership with network and software partners.

Research and Development

Spending on our research and development activity increased in proportion to headcount growth from $5.3 million for fiscal 2005 to $9.0 million for fiscal 2006. Headcount increased from 70 to 90 people in fiscal 2006. In addition to continued development of features and scalability of our core products, research and development expenses were directed towards new programs to address the policy management, WiMAX and IPTV markets.

We earned recoverable income tax credits by virtue of completing eligible research activities in Canada. Our research and development expense is net of recoverable income tax credits earned of $1.5 million for fiscal 2006.

General and Administration Expenses

General and administration expenses were $2.4 million for fiscal 2006 as compared to $1.7 million for fiscal 2005. The increase was due to greater headcount and increased spending on legal and other professional services. Our spending for general and administration expenses as a percentage of revenue decreased to 7.8% for fiscal 2006 from 8.3% for fiscal 2005.

Interest Income

Interest income increased from $0.4 million for fiscal 2005 to $0.5 million for fiscal 2006 as result of higher cash and cash equivalent balances maintained by us through the year.

Future Tax Recovery

At December 31, 2006, we reviewed the assumptions and projections regarding future profitability and based on this analysis, we established a future income tax recovery of $7.5 million. A further description of future income taxes is contained in Critical Accounting Estimates.

Comparison of Years Ended December 31, 2005 and 2004

Revenue

Revenue increased 55% to $21.2 million for fiscal 2005 compared to $13.7 million for fiscal 2004. The number of customers deploying our products and services increased from 30 as of the end of fiscal 2004 to 44 as of the end of fiscal 2005, reflecting growth in data applications and services. Our indirect channel revenue contributed 6.8% of revenue in fiscal 2004 compared to 16.6% for fiscal 2005 as result of an increase in deployments from our indirect sales channels and an increase in the number of resellers marketing and selling our products and solutions globally.

Product revenue for fiscal 2005 was $16.4 million or 78% of total revenue, compared to $9.9 million, or 72% of total revenue for fiscal 2004. Revenue from maintenance and support contracts and other services was $4.7 million, or 22% of revenue for fiscal 2005 compared to $3.7 million or 28% of revenue for fiscal 2004. Growth in service and support is directly related to growth in our customer base and increases in the number of renewals for maintenance and support contracts.

Gross Margin

Gross margin remained consistent at 84% for fiscal 2005 compared to fiscal 2004 due to our ability to leverage customer services and support costs over an increasing customer base.

Sales and Marketing Expense

We increased our sales and marketing expense in fiscal 2005 to address the growth in the market for our products. For fiscal 2004 our sales and marketing expense was $3.8 million, which increased to $7.6 million for fiscal 2005. The increase in sales and marketing expense is related to the increase in headcount from 24 to 41 through fiscal 2005 and related compensation and recruiting costs associated with this growth. Additional headcount was hired to accelerate new customer engagements, to address growth in existing networks related to subscriber growth and support our global channel partners.

Research and Development

Research and development expenses were $4.2 million for fiscal 2004 compared to $5.3 million for fiscal 2005. The increase is due to an increase in compensation expense associated with growth in headcount. Total headcount at December 31, 2004 was 36 compared to 70 at December 31, 2005. Headcount increased to support new product introduction and continued development of core products.

We earned recoverable income tax credits by virtue of completing eligible research activities in Canada. Our research and development expense is net of recoverable income tax credits earned of $1.5 million for fiscal 2005.

General and Administration Expense

General and administration expenses increased from $1.5 million in fiscal 2004 to $1.7 million for fiscal 2005. The increase was due to headcount increases and recruiting programs in human resources to address headcount needs.

Liquidity and Capital Resources

We have funded our operations from private placements of equity securities, which were purchased in the period from our inception in 1997 through to our last private placement in March, 2000.

The table below outlines selected balance sheet accounts, key ratios and a summary of cash inflows and outflows by activity.

	Nine Months Ended September 30		Years Ended December 31		
	2007	2006	2006	2005	2004
	(in thousands of dollars, except for ratios)				
Cash inflows and (outflows) by activity					
Operating activities	$ (2,576)	$ 2,790	$ 8,085	$ 590	$ 3,508
Investing activities (net of note receivable)	(1,215)	(1,936)	(2,808)	(1,462)	(1,366)
Financing activities	98	70	131	162	13
Net cash inflows (outflows)	$ (4,373)	$ 738	$ 5,892	$ (844)	$ 1,613
Key Balance Sheet Accounts and Ratios					
Cash and cash equivalents	$16,821	$16,040	$21,194	$15,302	$16,146
Working capital	5,272	2,462	98	2,713	(663)
Long term assets	10,024	3,203	9,702	1,853	1,076
Long term liabilities	—	—	—	—	—
Working capital ratio(1)	1.5	1.2	1.0	1.5	0.9
Current ratio(2)	3.3	2.5	2.8	4.2	4.5

(1) Working capital ratio is calculated as the ratio of current assets less cash and cash equivalents to current liabilities.

(2) Current ratio is calculated as the ratio of current assets to current liabilities.

Operating Activities

Working capital is calculated as the difference between the current assets and current liabilities net of cash and cash equivalents. Our working capital balance increased $2.8 million from September 30, 2006 to September 30, 2007. Accounts receivable decreased by $0.7 million and unbilled revenue decreased by $0.3 million due to timing of billings driven by the terms in the specific contracts. Investment tax credits receivable decreased by $0.5 million on net collection of cash refunds. Prepaid expenses and other assets increased $0.8 million due to renewal of annual licensing and support agreements and deferred costs associated with the Offering. The $1.4 million current portion of the $7.5 million future income tax asset was recorded on December 31, 2006. Accounts payable decreased $0.5 million due to a reduction in trade amounts outstanding and timing of payments. Deferred revenue decreased $1.5 million due to timing of recognition of revenue which is based on completion of product license deliveries, feature development and recognition of our maintenance and service contracts.

Our cash flow from operations was a net usage of funds of $2.6 million for the nine months ended September 30, 2007 due to outflows from the change in working capital of $5.2 million net of operating income of $0.9 million and non-cash items including amortization of capital assets of $0.9 million, stock compensation of $0.1 million and the $0.7 million impact of foreign exchange rate changes on cash held in foreign currency.

Investing Activities

Capital asset purchases for the nine months ended September 30, 2007 were $1.2 million compared to $2.8 million for fiscal 2006. Capital purchases are comprised of desktop equipment, IT infrastructure, research and development computer equipment and servers. In fiscal 2006 we incurred $0.9 million of leasehold improvements associated with the move of our headquarters in Ottawa.

Financing Activities

We have not completed any equity financing transactions since March, 2000. Our cash from financing for the nine months ending September 30, 2007 is related to proceeds received from the exercise of stock options held by employees.

Capital Resources

As at September 30, 2007, cash and cash equivalents were $16.8 million, which represented a $4.4 million decrease in cash since the beginning of the fiscal period. The decrease in cash was due to $2.6 million of cash used in operations resulting from changes in our working capital net of earnings for the period and capital purchases of $1.2 million.

Lease Obligations

We rent premises in Canada, the United Kingdom, Singapore and Australia under operating leases which expire at varying dates up to February 2011. We also lease certain office equipment.

The following table sets forth our contractual obligations and commitments to make future payments under leases as at September 30, 2007.

	Payments Due (in thousands)
Less than 1 year	$ 908
1-3 years	1,713
After 4 years	356
Total lease obligations	$2,977

Off-Balance Sheet Arrangements

We do not have any off balance sheet arrangements other than as disclosed under "Lease Obligations" and "Financial Instruments".

Related Party Transactions

Our headquarters in Ottawa are leased from KRPC, a related party that is controlled by Terry Matthews, our chairman, one of our directors and, through a company he controls, a principal and Selling Shareholder. Terms of this lease were negotiated on normal commercial terms.

We also earn revenue from a license agreement and a reseller agreement with a related company (Alcatel-Lucent Canada) that, prior to the Offering, holds 23% of our outstanding shares and has representation on our Board of Directors. See "Interests of Management and Others in Material Transactions — Alcatel-Lucent Canada Inc." These arrangements were negotiated on normal commercial terms.

Financial Instruments

We currently use forward exchange contracts to manage our exposure to fluctuations in U.S. dollars as we conduct a significant portion of our business activities in this currency. Realized and unrealized gains or losses are recorded in net earnings as foreign exchange gains or losses.

Outstanding Share Data

As of October 31, 2007 we had outstanding 16,057,811 Class A Voting Common Shares, 2,423,390 Class B Non-Voting Common Shares and options to acquire 3,926,761 Class A Voting Common Shares under the Predecessor Plans (as defined in "Options to Purchase Securities").

Outlook

We expect that our revenue will grow from sales of existing and new products in wireless, wireline and converged markets. Also, as our customers grow and continue to add new subscribers and devices to their networks, we expect to continue to receive increased license and maintenance fees from these deployments. We anticipate gross margin percentage to be impacted in future periods as a result of incremental costs associated with expansion of turnkey and professional services engagements, which will carry a higher cost burden than our software products. Research and development is expected to continue to be an important focus as we invest in new product development. However, we are seeking lower cost alternatives for product development and are working on increasing efficiencies from our existing operational staff. Accordingly, we expect research and development expense to decline as a percentage of revenue. We anticipate that additional resources will be committed to sales and marketing with particular emphasis on further developing our distribution channels, with primary focus on EMEA, APAC and North America, where we are seeking to increase our presence. General and administrative expense is expected to increase following completion of the Offering as a result of additional costs associated with operating as a public company. We expect to continue to be capable of financing our current operations internally.

SUMMARY OF QUARTERLY RESULTS

The following table sets out selected financial information for each of our most recent eight fiscal quarters ending on September 30, 2007. In the opinion of management, this information has been prepared on the same basis as the consolidated audited financial statements appearing elsewhere in this prospectus, and all necessary adjustments have been included in the amounts stated below to present fairly the unaudited quarterly results when read in conjunction with our consolidated financial statements and the related notes to those statements.

	Quarters Ended							
	Sept. 30, 2007	June 30, 2007	Mar. 31, 2007	Dec. 31, 2006	Sept. 30, 2006	June 30, 2006	Mar. 31, 2006	December 31, 2005
	(in thousands of dollars, except for percentages, per share amounts and number of shares)							
Revenue	$ 8,998	$ 9,859	$ 8,565	$ 9,535	$ 8,341	$ 6,897	$ 6,189	$ 6,195
Gross margin	$ 7,702	$ 8,453	$ 7,232	$ 7,830	$ 6,942	$ 5,623	$ 5,067	$ 4,997
Gross margin %	86%	86%	84%	82%	83%	82%	82%	81%
Expenses[(1)]	$ 7,178	$ 7,720	$ 6,995	$ 7,076	$ 5,759	$ 5,514	$ 4,885	$ 4,397
Net earnings	$ 250	$ 351	$ 273	$ 9,176	$ 1,239	$ 68	$ 318	$ 668
Earnings per share — basic	0.01	0.02	0.01	0.50	0.07	0.00	0.02	0.04
Earnings per share — diluted	0.01	0.02	0.01	0.45	0.06	0.00	0.02	0.04
Weighted average number of shares outstanding — basic	18,473,560	18,445,252	18,429,132	18,397,531	18,378,582	18,343,913	18,335,046	18,330,846
Weighted average number of shares outstanding — diluted	20,953,134	20,679,734	20,687,196	20,183,016	19,591,022	19,558,399	19,351,002	18,842,885

(1) Includes expenses before foreign exchange, loss on disposal of capital assets and other income and loss.

Volatility of Operating Results

Our quarterly operating results have fluctuated in the past and may fluctuate significantly in the future depending on factors such as demand for our products, the size and timing of orders, the number, timing and significance of new product announcements by us and our competitors, the ability to develop, introduce and market new and enhanced versions of products on a timely basis, the level of product and price competition, changes in operating expenses, changes in our sales incentive strategy, sales personnel changes, the mix of direct and indirect sales and general economic factors, among others.

A significant portion of our expenses are based on expectations of future revenue and, therefore, is relatively fixed in the short-term. Accordingly, if revenue levels are below expectations, operating results are likely to be adversely affected. As a result, we caution that period-to-period comparison of results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance.

DIVIDENDS

We have not paid dividends to our shareholders to date and do not currently intend to pay dividends on our Common Shares in the foreseeable future. The declaration and payment of dividends on our Common Shares is in the discretion of the Board of Directors. The Board of Directors will review our dividend policy from time to time having regard to, among other factors, our earnings, growth plans and our operating and financial requirements.

PRIOR SALES

Since October 31, 2006, 86,809 Class A Voting Common Shares have been issued by us at prices ranging from $1.15 to $2.00 per share in connection with stock option exercises. Immediately before completion of the Offering, all of our Class B Non-Voting Common Shares will be converted into Class A Voting Common Shares on a one-for-one basis and our Class A Voting Common Shares will be redesignated as Common Shares. See "Reorganization".

REORGANIZATION

We are currently authorized to issue an unlimited number of Class A Voting Common Shares and an unlimited number of Class B Non-Voting Common Shares. Immediately before completion of the Offering, all of our Class B Non-Voting Common Shares will be converted into Class A Voting Common Shares on a one-for-one basis.

Immediately before completion of the Offering we will amend our articles to: (i) redesignate the Class A Voting Common Shares as Common Shares; and (ii) delete the Class B Non-Voting Common Shares from the authorized capital.

The amendment of our articles and the conversion of the Class A Voting Common Shares into Class B Non-Voting Common Shares described above is referred to in this prospectus as the "Reorganization". Except as otherwise noted, the information in this prospectus assumes the completion of the Reorganization. As of the date of this prospectus, assuming the Reorganization had been completed as of such date and without taking into account the exercise of the Over-Allotment Option or the options described under "Options to Purchase Securities", there were 18,481,201 Common Shares outstanding. See "Description of Share Capital".

DESCRIPTION OF SHARE CAPITAL

Upon the completion of the Offering, our authorized share capital will consist of an unlimited number of Common Shares. Each Common Share is entitled to one vote at meetings of our shareholders. Each Common Share is also entitled to receive dividends if, as and when declared by our Board of Directors. Holders of Common Shares are entitled to participate in any distribution of our net assets upon liquidation, dissolution or winding-up on an equal basis per share. There are no pre-emptive, redemption, purchase or conversion rights attaching to our Common Shares.

OPTIONS TO PURCHASE SECURITIES

Option Plan

Prior to the Offering, we have two stock option plans: a Key Employee Stock Option Plan and a Key Management Stock Option Plan (collectively, the "Predecessor Plans"). Immediately prior to the closing of the Offering, the Predecessor Plans will be 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 will be governed by the terms of the Amended Plan.

The purpose of the Amended Plan and the Predecessor Plans is to attract, retain and motivate our employees, consultants, directors and officers by providing an opportunity to acquire an equity interest in our company.

As of the date of this prospectus, options to purchase an aggregate of 3,926,761 Common Shares are outstanding under the Predecessor Plans. Before giving effect to the Offering, this represents 21.2% of our outstanding Common Shares, and after giving effect to the Offering, ● % of our Common Shares. Outstanding options are as described below:

Category	Year of Grant	Common Shares Outstanding under Options Granted	Exercise Price
All of our executive officers and past executive officers (7 individuals in total)	2003	376,519	$1.15
	2004	1,275,000	$1.15
	2005	200,000	$1.50
	2006	20,000	$2.00
	2007	350,000	$4.00
All of our directors and past directors who are not also executive officers (9 individuals in total)	2003	52,958	$1.15
	2004	54,517	$1.15
	2005	54,517	$1.50
All of our other employees or past employees	2003	343,240	$1.15
	2004	132,465	$1.15
	2005	38,936	$1.15
	2005	375,627	$1.50
	2005	9,000	$2.00
	2006	138,501	$2.00
	2006	22,500	$1.50
	2006	32,500	$4.00
	2007	190,724	$4.00
	2007	37,600	$6.00
All of our other employees or past employees of our subsidiaries	2003	15,001	$1.15
	2004	21,000	$1.15
	2005	67,000	$1.50
	2006	61,300	$2.00
	2007	29,000	$4.00
All of our consultants or past consultants	2003	24,856	$1.15
	2004	4,000	$1.15

As of the date of this prospectus, outstanding options to purchase an aggregate of 2,672,129 Common Shares are fully vested under the Predecessor Plans, with a weighted-average exercise price of $1.37 per Common Share. This represents 68.0% of the 3,926,761 Common Shares issuable under options outstanding under the Predecessor Plans.

On the closing of the Offering, the Amended Plan will provide that the maximum number of Common Shares that may be issued pursuant to options granted under the Amended Plan (including Common Shares issuable on the exercise of outstanding options) (“Options”) will be determined on the following basis.

- Initially, the maximum number of Common Shares issuable pursuant to the Amended Plan will be 4,109,034 Common Shares (subject to adjustment for stock dividends, stock splits, reverse stock splits, share combinations or other alterations of our capital stock), including Common Shares issuable on the exercise of outstanding Options. Prior to the Offering, 4,109,034 Common Shares represents 22.2% of our outstanding Common Shares and giving effect to the Offering, 4,109,034 Common Shares will represent ● % of our outstanding Common Shares. As Options are exercised or expire, or are otherwise surrendered, cancelled or terminated, 50% of the Common Shares previously issuable under such Options will no longer be available for future grant under the Amended Plan, and 50% will be ‘reloaded’ so that they are again available for future grant under the Amended Plan.
- Our Board of Directors has determined that it is desirable, as soon as reasonably practicable, that the maximum number of Common Shares issuable under the Amended Plan be set at a rolling maximum of 15% of our outstanding Common Shares. Over time, we expect that Options will expire or be exercised at a more rapid rate than we expect to grant new Options. Accordingly, at such time as the sum of (i) the maximum number of

Common Shares subject to issuance on the exercise of granted Options plus (ii) a pool of 450,000 Common Shares are available for future grants of Options, equals less than 15% of the number of Common Shares outstanding at such time, from that date forward the maximum number of Common Shares issuable pursuant to the Amended Plan shall be equal to 15% of the number of outstanding Common Shares from time to time. After this date, 100% of the Common Shares that underlie Options that are exercised or expire or that are otherwise surrendered, cancelled or terminated, will be 'reloaded' and will again be available for future grant under the Amended Plan.

Based on the expiry dates of Options currently outstanding under the Predecessor Plan and taking into consideration the timing of lock-up and black-out periods, we expect that by the first quarter of 2009 the number of Common Shares issuable pursuant to the Amended Plan will represent approximately 15% of our outstanding Common Shares.

The other terms of the Amended Plan are described below. Unless otherwise indicated, references to the Amended Plan in this description includes the Predecessor Plans.

The Amended Plan is administered by the Compensation Committee of the Board of Directors, and in the absence of a Compensation Committee, by the Board of Directors (the "Plan Administrator"). Option grants to members of management are required to be approved by the Board of Directors, and no director is permitted to take any action with respect to Options issued to such director. Unless otherwise determined by the Plan Administrator, options expire within five years after the date of grant and vest monthly in equal amounts over a 48 month period. Except in the case of ISOs (as defined below), if an Option expires within or immediately after a black-out period, the holder may elect for the term of the Option to be extended to that date which is ten business days after the last date of the black-out period, provided that the expiration date as extended will not in any event be beyond the later of (i) December 31 of the calendar year in which the Option was otherwise due to expire, and (ii) the 15^{th} day of the third month following the month in which the Option was otherwise due to expire. In addition, in the case of any Option holder who is subject to a lock-up agreement as described in "Plan of Distribution", the expiry date of any Option that would otherwise expire during 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 after such Option is released from lock-up restrictions, provided that such Option holder enters into a programmed exercise arrangement. The programmed exercise arrangement will provide that the Option holder must exercise a minimum number of his or her Options within certain time periods designated in advance by us within the nine months following the release from lock-up restrictions.

Our Board of Directors intends to ensure that our senior management team retains a meaningful equity ownership stake in our company on an ongoing basis.

The exercise price of all Options is equal to the fair market value of the Common Shares at the date of grant, which after the Offering is deemed to be equal to the volume weighted average trading price for a Common Share as quoted on the TSX for the five market trading days prior to the date of grant.

Options are not transferable. If a participant's employment is terminated without cause, all unvested Options are cancelled. All vested Options expire 60 days after the date upon which the holder is no longer one of our employees, consultants, directors and officers. If a participant's employment is terminated for cause, all Options, vested and unvested, will be immediately cancelled.

The Amended Plan provides that Options granted to our U.S. employees may be characterized as incentive stock options or "ISOs" for U.S. federal income tax purposes.

The Predecessor Plans provided for 100% accelerated vesting for options granted under the Key Management Stock Option Plan (currently representing Options to purchase 2,221,519 Common Shares) and one year of accelerated vesting for options granted under the Key Employee Stock Option Plan (currently representing Options to purchase 1,705,242 Common Shares). These accelerated vesting terms will continue for existing outstanding Options on a "Corporate Event" (as defined below), but new Option grants under the Amended Plan will not carry an acceleration feature. A "Corporate Event" is defined as a merger, amalgamation, consolidation, reorganization or arrangement of our company with or into another corporation (other than a merger, amalgamation, consolidation, reorganization or arrangement of our company with one or more of its related entities, as described in the Amended Plan); (ii) a tender offer for all or substantially all of the outstanding Common Shares; (iii) the sale of all or substantially all of our assets; or (iv) any other acquisition of our business as determined by the Board of Directors.

No Options may be granted or Common Shares issued under the Amended Plan if such grant or issuance would result in: (i) the number of Common Shares issued to insiders pursuant to the Amended Plan, together with all of our other share compensation arrangements, within any one year period, exceeding 10% of the outstanding Common Shares, or (ii) the number of Common Shares issuable to insiders at any time pursuant to the Amended Plan and all of our other share compensation arrangements exceeding 10% of the outstanding Common Shares.

The Amended Plan provides that the Plan Administrator may in its discretion grant loans, on such terms as are permitted by law and the Plan Administrator may determine, to holders of Options to enable them to purchase Common Shares on the exercise of such Options.

Amendments to the Amended Plan generally require the consent of the TSX and our shareholders given at a duly constituted meeting. However, the following amendments to the Amended Plan may be made by the Board of Directors without shareholder approval: (a) amendments of a technical, clerical or "housekeeping" nature, or to clarify any provision of the Amended Plan, including without limiting the generality of the foregoing, any amendment for the purpose of curing any ambiguity, error or omission in the Amended Plan or to correct or supplement any provision of the Amended Plan that is inconsistent with any other provision of the Amended Plan; (b) suspension or termination of the Amended Plan; (c) amendments to respond to changes in legislation, regulations, instruments (including National Instrument 45-106), stock exchange rules (including the rules, regulations and policies of the TSX) or accounting or auditing requirements; (d) amendments respecting administration of the Amended Plan; (e) any amendment to the definition of "Consultant", "Officer", "Director" or "Employee" therein or otherwise relating to eligibility to receive an award under the Amended Plan; (f) changes to the vesting provisions for any outstanding Option (except that changes to vesting provisions of any Option held by an insider requires TSX and shareholder approval); (g) amendments to reduce the exercise price or purchase price of an Option, except with respect to an Option granted to an insider; (h) amendments to the termination provisions of the Amended Plan or any outstanding Option, provided no such amendment may result in an extension of any outstanding Option held by an insider beyond its original expiry date; (i) adjustments to reflect stock dividends, stock splits, reverse stock splits, share combinations or other alterations of our capital stock; (j) amendments to permit awards granted under the Amended Plan to be transferable; (k) amendments necessary to qualify any or all incentive stock options for such favourable U.S. federal income tax treatment (including deferral of taxation upon exercise) as may be afforded incentive stock options under Section 422 of the Internal Revenue Code; and (l) any other amendment, whether fundamental or otherwise, not requiring shareholder approval under applicable law (including, without limitation, the rules, regulations and policies of the TSX).

Shareholder approval will be required for the following types of amendments of the Amended Plan: (a) amendments to the number of Common Shares issuable under the Amended Plan, including an increase to a fixed maximum number of Common Shares or a fixed maximum percentage or a change from a fixed maximum number of Common Shares to a fixed maximum percentage (except as described above); (b) amendments: (i) reducing the exercise price or purchase price of an Option held by an insider, or (ii) extending the term of an Option that benefits an insider; and (c) amendments required to be approved by shareholders under applicable law (including, without limitation, the rules, regulations and policies of the TSX). Further, except in certain limited circumstances, in no event may the Board of Directors alter or impair any rights or increase any obligations with respect to any Option previously granted without the consent of the optionee.

The Amended Plan shall terminate ten years from the date of the listing of Common Shares on the TSX.

CONSOLIDATED CAPITALIZATION

The following table sets forth the capitalization of our company both before and after giving effect to the Offering.

Designation	Authorized	As at December 31, 2006 (before giving effect to the Offering)	As at December 31, 2006 (after giving effect to the Offering)[1]
		(in thousands of dollars, except number of shares)	
Common Shares[1]	unlimited	18,415,647	●
Share Capital		$ 49,382	$●
Contributed Surplus		$ 511	$●

(1) The amounts and number of shares outstanding give effect to the Reorganization but do not take into account the exercise of the Over-Allotment Option or any other options described in “Options to Purchase Securities”. See “Reorganization” and “Description of Share Capital”.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table shows the name and information about our securities directly or indirectly beneficially owned by each person or company who, immediately following the Reorganization and the closing of the Offering, will own of record, or who, to our knowledge, will own beneficially, directly or indirectly, more than 10% of our Common Shares, and/or who is a Selling Shareholder in the Offering. See "Plan of Distribution". Each shareholder shown on the table below is the registered and beneficial holder of such Common Shares, unless otherwise indicated.

	Before Giving Effect to the Offering			After Giving Effect to the Offering	
Name of Shareholder	**Number of Common Shares**	**Percentage of Common Shares Outstanding**	**Number of Common Shares Offered Pursuant to the Secondary Offering**	**Number of Common Shares**	**Percentage of Common Shares Outstanding**
Alcatel — Lucent Canada(1)	4,307,497	23.31%	●	●	●
The VenGrowth Investment Fund Inc.(2)	2,793,555	15.12%	●	●	●
Wesley Clover Corporation(3)	2,089,179	11.30%	●	●	●
1567516 Ontario Inc.(4)	850,000	4.60%	●	●	●
10737 Newfoundland Inc.(5)	769,524	4.16%	●	●	●
Covington Group Funds(6)	619,300	3.35%	●	●	●
Newbury Ventures Associates L.P.(7)	604,230	3.27%	●	●	●
Marquest Canadian Equity Group Fund(8)	436,943	2.36%	●	●	●
Doug Somers(9)	372,867	2.02%	●	●	●
Royal Bank of Canada	357,143	1.93%	●	●	●
Caroline Somers(10)	306,239	1.66%	●	●	●
Dara O'Huiginn	300,571	1.63%	●	●	●

(1) Two of our directors, namely, David Wilson and Avedis Menechian, are officers or employees of Alcatel-Lucent Canada. In addition to the Common Shares owned directly by Alcatel-Lucent Canada, Severn Bridge Investments L.P. owns 107,714 Common Shares. Alcatel-Lucent Canada may be viewed as having some degree of indirect control or direction over the shares held by Severn Bridge Investments L.P.

(2) David Ferguson, a member of our Board of Directors, is Managing General Partner of The VenGrowth Investment Fund Inc. David Ferguson beneficially owns less that 1% of the shares of The VenGrowth Investment Fund Inc. David Ferguson does not independently exert control or direction over the Common Shares owned by The VenGrowth Investment Fund Inc.

(3) Terry Matthews, our Chairman and a member of our Board of Directors, controls, directly or indirectly, Wesley Clover Corporation.

(4) 1567516 Ontario Inc. is controlled by Kent Plumley.

(5) 10737 Newfoundland Inc. is controlled by Sian Mills.

(6) Common Shares held by the Covington Group Funds are registered in the name of a nominee.

(7) Includes 529,849 Common Shares registered in the name of Waterbridge SRL, an affiliate of Newbury Ventures Associates L.P. Ken Wigglesworth, a member of our Board of Directors, is a Senior Managing Director of Newbury Ventures Canada, an affiliate of Newbury Venture Partners, which manages Newbury Ventures Associates L.P. Ken Wigglesworth and his associates beneficially own less than 5% of the limited partnership units of Newbury Ventures Associates L.P. Ken Wigglesworth does not independently exert control or direction over the Common Shares owned by Newbury Ventures Associates L.P.

(8) Common Shares held by the Marquest Canadian Equity Group Fund are registered in the name of a nominee.

(9) Includes 17,000 Common Shares held by a nominee in trust for Doug Somers.

(10) Includes 10,800 Common Shares held by a nominee in trust for Caroline Somers.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets out, for each of our directors and executive officers, the person's name, municipality of residence, position(s) with Bridgewater, principal occupation and, if a director, the year in which the person became a director. Our directors are elected annually and, unless re-elected, retire from office at the end of the next annual general meeting of shareholders. As of the date hereof, our directors and executive officers (as a group) owned, or exerted direction or control over, a total of 2,376,468 Common Shares, representing 12.9% of our total outstanding Common Shares (or ● % of our total Common Shares following the Offering).

Name and Place of Residence	Position(s) with Bridgewater	Principal Occupation	Director Since
TERRY MATTHEWS Ottawa, Ontario	Chairman and Director	Chairman, Wesley Clover International Corporation, Mitel Networks Corporation and March Networks Corporation	April 3, 1997
ED OGONEK Ottawa, Ontario	President, Chief Executive Officer and Director	President and Chief Executive Officer of Bridgewater	May 11, 2004
KIM BUTLER Ottawa, Ontario	Vice President, Finance and Chief Financial Officer	Vice President, Finance and Chief Financial Officer of Bridgewater	N/A
RUSSELL FREEN Ottawa, Ontario	Chief Technical Officer and Director	Chief Technology Officer of Bridgewater	April 3, 1997
EAMONN GARRY Manotick, Ontario	Vice President, Engineering and Operations	Vice President, Engineering and Operations of Bridgewater	N/A
FARSHID MOHAMMADI Ottawa, Ontario	Vice President, Product Line Management	Vice President, Product Line Management of Bridgewater	N/A
TYLER NELSON Ottawa, Ontario	Vice President, Business Development and Marketing	Vice President, Business Development and Marketing of Bridgewater	N/A
PHILIP THRASHER Plano, Texas, U.S.A.	Senior Vice President, World Wide Sales	Senior Vice President, World Wide Sales of Bridgewater	N/A
MICHAEL CRISTINZIANO(1)(2) Wake Forest, North Carolina, USA. .	Director	Vice President, Strategic Development for Citrix Systems, Inc.	June 27, 2005
DAVID FERGUSON(4) Toronto, Ontario	Director	Managing General Partner of VenGrowth Asset Management Inc.	April 1, 1999

Name and Place of Residence	Position(s) with Bridgewater	Principal Occupation	Director Since
AVEDIS MENECHIAN[4] Ottawa, Ontario	Director	Chief Technology Officer, Chief Marketing Officer and Strategy Vice President Services Business Group of Alcatel-Lucent Canada	June 29, 2006
KEN WIGGLESWORTH[1] Ottawa, Ontario	Director	Managing Director, Rising Tide Fund, Senior Managing Director, Newbury Ventures Canada	October 25, 2007
JON SHANTZ[2][3] Los Altos Hills, California, USA	Director	Consultant	October 22, 2004
DAVID WILSON[1][2][3] Ottawa, Ontario	Director	Vice-President and General Counsel, Legal Services, Alcatel-Lucent Canada	March 9, 2001

Notes:

(1) Member of the Audit Committee

(2) Member of the Compensation Committee.

(3) Member of the Nominating and Governance Committee.

(4) Messrs. Ferguson and Menechian will resign from our Board of Directors effective on the completion of the Offering.

Biographies

The following are brief profiles of our executive officers and directors, including a description of each individual's principal occupation within the past five years. As noted below, Messrs. Ferguson and Menechian intend to resign from our Board of Directors effective on the completion of the Offering. These directors are resigning in order to create an opportunity to add two additional independent directors. We expect to add two additional independent directors within the first year after the completion of the Offering.

Terry Matthews, Chairman and Director

Terry Matthews is the non-executive chairman of a number of technology companies including Mitel Networks Corporation, March Networks Corporation, Newport Networks Ltd. and Solace Systems, Inc. In 1972 Matthews co-founded his first technology company, Mitel Corporation. Today, he is the non-executive chairman of Mitel Networks Corporation. He served as chief executive officer and chairman of Newbridge Networks Corporation ("Newbridge"), a company he founded in 1986. Matthews holds an honours degree in electronics from the University of Wales, and is a Fellow of the Institute of Electrical Engineers and of the Royal Academy of Engineering. Matthews is also the founder of Wesley Clover Corporation, an early-stage technology venture capital firm with offices in Canada, the USA and the United Kingdom.

Ed Ogonek, President and CEO

Ed Ogonek joined Bridgewater in May 2004 as its president and chief executive officer, bringing us more than 20 years of experience in telecommunications, data networking, and network/service management. Before joining us, Ogonek held the position of senior vice president and general manager of metro and enterprise solutions for CIENA Corporation ("CIENA"). Prior to CIENA, Ogonek was president and chief executive officer of Akara Corporation from 2000 to August 2003 when it was acquired by CIENA in August 2003. Ogonek's prior experience includes key executive and general management positions at Newbridge, Alcatel-Lucent Canada, BT Group PLC, and Bell Communications

Research Inc. Ogonek received a bachelor degree in mathematics from John Carroll University and a masters degree in operations research from Case Western Reserve University.

Kim Butler, Vice President, Finance and Chief Financial Officer

Kim Butler joined Bridgewater in 1998 and is responsible for our finance, administration, and legal affairs. Before joining Bridgewater, Butler was segment controller for the power generation segment of Asea Brown Boveri Ltd, with a prime focus on large project financing. She was also employed as director of finance for Flakt Canada Ltd., as vice president of finance for Mitel Corporation's semiconductor division, and with Mitel Corporation in various finance roles for nine years. Butler graduated from Carleton University with a bachelor of commerce degree and is a certified management accountant.

Russell Freen, Chief Technology Officer

Russell Freen co-founded Bridgewater in 1997. Freen is responsible for our product planning and architectural design. Freen is an Ernst & Young Entrepreneur Of The Year® 2006 award recipient in the Information Technology category. Before co-founding Bridgewater, Freen was the assistant vice president of network management development for Newbridge, where he was responsible for all aspects of product development for network management products. He also developed operations support systems at Raynet Corporation. Before that, he was employed by Motorola Corporation, where he was responsible for the development and deployment of packet radio networks and a nationwide network in Germany. Before Motorola Corporation, he held director-level R&D positions at Mitel Corporation and Bell-Northern Research Ltd. Freen received a bachelor of computer science and economics degree from York University and a masters degree in computer science from the University of Toronto.

Eamonn Garry, Vice President, Engineering and Operations

Eamonn Garry joined Bridgewater in October 2005. His responsibilities include leading Bridgewater's engineering team. Prior to joining Bridgewater, Garry spent more than 14 years at Nortel Networks Ltd. ("Nortel"), where he held numerous positions, including heading the GSM, GPRS, and EDGE development team spread between Canada, France and India. Previous roles with Nortel included system integration setup for UMTS and GPRS, and software architecture management and definition for the DMS line of products. Prior to Nortel, Eamonn was with Analog Devices Inc. where he worked extensively on the development and testing of CMOS devices. Garry is a graduate of University College Dublin, with a bachelor degree in hardware and embedded systems design.

Farshid Mohammadi, Vice President, Product Line Management

Farshid Mohammadi joined Bridgewater in April 2007 and is responsible for the lifecycle management and future direction of our product lines. Prior to joining Bridgewater, Mohammadi was General Manager North America and International for UTStarcom Incorporated from January 2001 to March 2007. Mohammadi has 18 years of experience in senior-level positions in the telecommunications market, driving the development of next-generation data and voice switching products and applications across various domains including VoIP, fixed mobile convergence, and IMS at UTStarcom Incorporated, 3COM Corp., Westwave Communications Inc., and Telcordia Technologies Inc. Mohammadi is actively involved with the IMS Forum, including serving as a board member. He holds a bachelor of science degree in engineering from Syracuse University and a masters of engineering degree from Cornell University.

Tyler Nelson, Vice President, Business Development and Marketing

Tyler Nelson joined Bridgewater in 2004, bringing us more than 16 years of experience in mobile wireless software, hardware, high-technology marketing, and strategic business development and management. Prior to joining Bridgewater, Nelson held the position of vice president, global business development with Research In Motion Limited ("RIM") from 1997 to 2004. During his time with RIM, Nelson was responsible for a number of mandates, including acquisition and commercialization of RIM's global network of wireless operator partnerships, channel development and management, business affairs and inception, and development and commercialization of RIM's BlackBerry Connect and BlackBerry Built-In business units. Prior to RIM, he held a number of executive and general management positions in the industrial products, consumer packaged goods and publishing sectors.

Philip Thrasher, Senior Vice President, World Wide Sales

Philip Thrasher joined Bridgewater in May 2007 and is responsible for driving the development of our global sales strategy and managing our direct and indirect sales and professional services teams in the Americas, EMEA and APAC.

Prior to Bridgewater, Thrasher spent more than 20 years in senior-level positions in the telecommunications market, in areas such as global sales, channel development, operations, and solution delivery. Prior to Bridgewater, he was most recently executive vice president of global sales for MetaSolv Software Inc., which was acquired by Oracle Corporation in 2006. Thrasher joined MetaSolv Software Inc. in 2002 through its acquisition of the service commerce assets of Nortel. Prior to Nortel, Thrasher led sales, partner, and professional services at Architel Holdings LLC and Accugraph Corporation. He holds diplomas in electrical engineering and general arts and science from Sir Sandford Fleming College.

Michael Cristinziano, Director

Michael Cristinziano is currently corporate vice president, strategic development at Fort Lauderdale, Florida-based Citrix Systems Inc., where he is responsible for merger and acquisition strategy and execution, technology licensing, venture capital investments and investor relations. From 1997 to 2003, Cristinziano was a managing director at New York-based investment bank Harris Nesbitt Corp., where he covered the networking and software industries. During his tenure as an equity research analyst, Cristinziano was recognized by The Wall Street Journal, Reuters and StarMine. In 1995, Cristinziano began his Wall Street career as an analyst at Needham & Co. LLC. From 1988 to 1995, he served as a member of the technical staff of Telcordia Technologies Inc. Cristinziano earned a bachelor of science in electrical engineering from Temple University and a master of science in systems engineering from the University of Pennsylvania.

David Ferguson, Director

David Ferguson has over 22 years of experience in the financing of small and medium sized businesses. He has been a managing general partner at VenGrowth Asset Management Inc. (“VenGrowth”) since 1994, and is involved in all aspects of venture capital investing. Ferguson participates on the board of directors of a number of VenGrowth’s investee companies, concentrating on software and telecommunications companies. Prior to VenGrowth, he was a managing director of a corporate finance consulting firm. Ferguson is a chartered accountant and holds a masters degree in business administration from University of Western Ontario. Ferguson will resign from our Board of Directors effective on the completion of the Offering.

Avedis Menechian, Director

Avedis Menechian brings more than 28 years of telecommunications industry experience to his current role as chief technology officer, chief marketing officer and strategy vice president for Alcatel-Lucent Canada’s services business group. In this position, Menechian is responsible for all of the service business group’s services strategy, portfolio planning and marketing functions. Prior to assuming his current role, Menechian served as senior director of mergers and acquisitions for Alcatel-Lucent Canada in North America, where he was responsible for advising/supporting mergers, acquisitions, disposals, takeovers, joint ventures, strategic alliances, bid defences and public offerings. Prior to joining Alcatel-Lucent, Menechian served as founder and president of Clear Imagination, as co-founder, president and chief executive officer of Spacebridge Semiconductor Corporation, and as president of AGRA Systems Limited. Menechian holds a degree in economics with a major in international business and a minor in mathematics from the University of Ottawa. Menechian will resign from our Board of Directors effective on the completion of the Offering.

Ken Wigglesworth, Director

Ken Wigglesworth has been managing director of Rising Tide Fund, an international private equity firm, since October 2007. He is also senior managing director of Newbury Ventures Canada (“Newbury”). He started with Newbury in 2001 and has been in the venture capital industry for over six years. Prior to Newbury, Wigglesworth spent 13 years at Newbridge where he held a variety of senior management roles, including chief financial officer in his last four years at Newbridge. Wigglesworth currently sits on the board and audit committees of four other companies. Wigglesworth has been a chartered accountant for over 20 years and earned a bachelor of arts degree from the University of Western Ontario.

Jon Shantz, Director

Jon Shantz currently advises a number of companies in the networking and mobile market areas. Jon was a senior executive at Openwave Systems Inc. from 2001 to 2004 and Cisco Systems Inc. from 1995 to 2001, with extensive experience developing new markets. Shantz has held senior positions in marketing, business development and general management. Shantz began his career in the Bell system, spending 10 years at Bell Telephone Laboratories Inc. and Bell Communications Research Inc. before moving to London with British Telecom. He is also on the board of directors for Accelere Inc., Intelliden Inc., OptimalQuality Inc. and True Context Corporation. Shantz received a bachelor degree in economics and math from UC Santa Barbara, a masters degree in systems engineering from the University of Arizona and a masters of business administration degree from Rutgers.

David Wilson, Director

David Wilson is vice president and general counsel, legal services for Alcatel-Lucent Canada. Wilson now supports global compliance for Alcatel-Lucent Canada. Since 2001 he has supervised a team of professionals and supported North American sales, the internet protocol division and the light rail transportation business. Wilson joined Alcatel-Lucent Canada from Nortel, where he held the position of senior counsel, global operations since May 1998. While at Nortel, he supervised a global team and worked closely with senior management as legal advisor on supply chain issues related to operations. Before joining Nortel, he was vice president and international counsel with Avent Inc. and corporate counsel with Cognos Inc. Wilson holds a bachelor of arts from the University of Guelph, master of arts from the University of Alberta, master of business administration from Dalhousie University and bachelor of laws from Dalhousie University and is a member of the Law Society of Upper Canada (1987) and the Law Society of England and Wales (1994).

Corporate Governance

Bridgewater's directors have determined that, giving effect to the resignation of Messrs. Ferguson and Menechian effective on the completion of the Offering, our Board of Directors will be comprised of a majority of independent directors within the meaning of corporate governance guidelines established by the Canadian Securities Administrators ("CSA") in National Policy 58-201 — Corporate Governance Guidelines ("NP 58-201"). The directors determined by the Board to be independent within the meaning of NP 58-201 are Terry Matthews, Michael Cristinziano, Jon Shantz and Ken Wigglesworth. The directors also determined that, while they were satisfied that David Wilson's position as an officer of Alcatel-Lucent Canada, a principal and Selling Shareholder (see "Principal and Selling Shareholders") and customer of ours, had not and could not be reasonably expected to interfere with his exercise of independent judgment, it would be preferable to not treat him as "independent" for corporate governance purposes due to his relationship with Alcatel-Lucent Canada. The audit committee is comprised of a majority of independent directors within the meaning of Multilateral Instrument 52-110 — Audit Committees ("MI 52-110") of the CSA.

Committees of the Board of Directors

The Board of Directors has an audit committee, a compensation committee and a nominating and governance committee. Each of the committees has adopted a written charter establishing its role and responsibilities. The Board of Directors intends to move toward fully independent committees over time and, in the case of the audit committee, to establish a committee comprised solely of independent directors no later than one year after the completion of the Offering.

Audit Committee

The audit committee assists the Board of Directors in fulfilling its responsibilities for oversight and supervision of financial and accounting matters. The committee supervises the adequacy of internal accounting controls and financial reporting practices and procedures and the quality and integrity of audited and unaudited financial statements, including through discussions with external auditors. The committee reviews business plans and operating and capital budgets. The committee is responsible for ensuring efficient and effective assessment of management of risk throughout our organization. The audit committee will comply with all requirements under applicable securities legislation. Our audit committee currently consists of Messrs. Wigglesworth (Chair), Cristinziano and Wilson. All audit committee members are "financially literate" within the meaning of MI 52-110. While one member of the audit committee (David Wilson) may not be considered "independent" within the meaning of MI 52-110, our Board of Directors has determined that Mr. Wilson brings valuable experience to this position and his continued membership on the audit committee for the year after the Offering in accordance with the limitations prescribed by MI 52-110 will not adversely affect the ability of the committee to act independently and to satisfy the other requirements of MI 52-110.

Compensation Committee

The compensation committee ensures that we have a high calibre executive management team in place and a total compensation plan that is competitive, motivating and rewarding for participants. The committee also advises the Board of Directors in filling vacancies on the Board. The committee reviews and makes recommendations to the Board of Directors regarding the appointment of executive officers, and the establishment of, and any material changes to, executive compensation programs, including that of the President and Chief Executive Officer. This committee also reviews management succession plans and is responsible for overseeing employee compensation. Our compensation committee currently consists of Messrs. Shantz (Chair), Cristinziano and Wilson.

Nominating and Governance Committee

The corporate governance committee is responsible for developing our approach to corporate governance issues. It periodically reviews the size, composition and compensation of the Board of Directors, the effectiveness of the Board and its individual members, and appropriate committee structures, mandates, composition, membership and effectiveness. Our nominating and governance committee currently consists of Messrs. Wilson (Chair) and Shantz.

The Board of Directors intends to move toward fully independent committees over time, and in the case of the audit committee, will establish a committee comprised solely of independent directors no later than one year after the completion of the Offering.

Corporate Bankruptcies and Receiverships

Terry Matthews routinely invests in and acts as a director on the boards of businesses that are at an early stage of development and that, as a result, involve substantial risks. Dr. Matthews was a director of Ironbridge Networks Corporation, which went into receivership in January 2001 and West End Systems Corporation, which went into receivership in February 1999.

Ken Wigglesworth, one of our directors, was a director of Waterfall Networks Corporation, a Delaware corporation, until June 2001. Waterfall Networks Corporation sought bankruptcy protection in June 2001 and has since been wound up.

EXECUTIVE COMPENSATION

Summary Annual Compensation Table

The following table provides a summary of the compensation earned in fiscal 2006 by each of our President and Chief Executive Officer, our Chief Financial Officer and our three next most highly compensated executive officers who served as our executive officers in fiscal 2006 (together with the President and Chief Executive Officer and the Chief Financial Officer, the "Named Executive Officers") for services rendered to us in all capacities.

Name and Principal Position	Fiscal Year	Salary ($)	Bonus[1] ($)	Other Annual Compensation ($)	Common Shares Under Option (#)
ED OGONEK, President, Chief Executive Officer and Director	2006	$220,591	$99,000	Nil	Nil
KIM BUTLER, Vice President, Finance and Chief Financial Officer	2006	$149,287	$55,836	Nil	Nil
RUSSELL FREEN, Chief Technology Officer	2006	$187,474	$74,250	Nil	Nil
TYLER NELSON Vice President, Business Development and Marketing	2006	$170,461	$69,300	Nil	20,000
EAMONN GARRY, Vice President, Engineering and Operations	2006	$175,474	$40,742	Nil	Nil

Notes:

(1) Bonus pay-out, if any, is based on performance to targets approved by our Board. Bonuses are determined, reviewed and approved by the compensation committee of our Board.

Option Grants During the Most Recently Completed Fiscal Year

We granted options to certain executive officers named in the summary compensation table above during the year ended December 31, 2006 as follows:

NEO Name	Common Shares Under Options Granted	Percent of Total Options Granted to Employees in Financial Year[1]	Exercise or Base Price ($/Security)	Market Value of Securities Underlying Options on the Date of Grant ($/Security)	Expiration Date
ED OGONEK,	Nil	0.00%	n/a	n/a	n/a
KIM BUTLER	Nil	0.00%	n/a	n/a	n/a
RUSSELL FREEN	Nil	0.00%	n/a	n/a	n/a
TYLER NELSON	20,000	5.5%	$2.00	$2.00	April 27, 2011
EAMONN GARRY	Nil	0.00%	n/a	n/a	n/a

Notes:

(1) Based on total of options to purchase an aggregate of 363,300 Common Shares granted to employees in the most recently completed financial year.

Employment Agreements

Ed Ogonek. Our President and Chief Executive Officer, Mr. Ogonek, has entered into an employment agreement dated April 27, 2004 with us that provides for, among other things, industry standard covenants in our favour, including non-competition covenants for a period of six months from termination of employment and non-solicitation covenants for a period of twelve months from termination of employment. Pursuant to the terms of his employment agreement and subject to ongoing annual reviews, Mr. Ogonek is currently entitled to an annual salary of $240,000. Mr. Ogonek is also entitled to an annual performance based bonus of up to $110,000. We may terminate Mr. Ogonek's employment by providing him with twelve months compensation if he is terminated without cause, and no compensation if he is terminated with cause. Mr. Ogonek may terminate his employment with us upon one month prior written notice. Upon a change in control of Bridgewater, (i) any unvested options to purchase Common Shares then held by Mr. Ogonek will be deemed to have vested; and (ii) if there is a material adverse reduction in Mr. Ogonek's total compensation, stature or employment responsibilities, or Mr. Ogonek's principal place of employment is relocated, Mr. Ogonek may choose to terminate his employment and we shall provide him with twelve months compensation equivalent to his then current base salary and 100% of his annual bonus.

Kim Butler. Our Vice President, Finance and Chief Financial Officer, Ms. Butler, has entered into an employment agreement dated September 13, 2007, replacing the original employment agreement dated April 16, 1998, with us, that provides for, among other things, industry standard covenants in our favour, including non-competition covenants and non-solicitation covenants for a period of twelve months from termination of employment. Pursuant to the terms of her employment agreement and subject to ongoing annual reviews, Ms. Butler is currently entitled to an annual salary of $168,000. Ms. Butler is also entitled to an annual performance based bonus of up to $58,000. We may terminate Ms. Butler's employment by providing her with twelve months compensation if she is terminated without cause, and no compensation if she is terminated with cause. Ms. Butler may terminate her employment with us upon one month prior written notice. Upon a change in control of Bridgewater, (i) any unvested options to purchase Common Shares then held by Ms. Butler will be deemed to have vested; and (ii) if there is a material adverse reduction in Ms. Butler's total compensation, stature or employment responsibilities, or Ms. Butler's principal place of employment is relocated, Ms. Butler may choose to terminate her employment and we shall provide her with twelve months compensation equivalent to her then current base salary.

Russell Freen. Our Chief Technology Officer, Mr. Freen, has entered into an employment agreement dated April 24, 1997, with us which provides for, among other things, industry standard covenants in our favour, including non-competition and non-solicitation covenants for a period of twelve months from termination of employment. Pursuant to the terms of his employment agreement and subject to ongoing annual reviews, Mr. Freen is currently entitled to an annual salary of $200,000. Mr. Freen is also entitled to an annual performance based bonus of up to $75,000. We may terminate Mr. Freen's employment by providing him with twelve months compensation if he is terminated without cause, and no compensation if he is terminated with cause. Mr. Freen may terminate his employment with us upon four months prior written notice.

Tyler Nelson. Our Vice President, Business Development and Marketing, Mr. Nelson, has entered into an employment agreement dated November 11, 2004, with us which provides for, among other things, industry standard covenants in our favour, including non-competition and non-solicitation covenants for a period of twelve months from termination of employment. Pursuant to the terms of his employment agreement and subject to ongoing annual reviews, Mr. Nelson is currently entitled to an annual salary of $182,000. Mr. Nelson is also entitled to an annual performance based bonus of up to $70,000. We may terminate Mr. Nelson's employment by providing him with six months compensation if he is terminated without cause, and no compensation if he is terminated with cause. Mr. Nelson may terminate his employment with us upon one months prior written notice. Upon a change in control of Bridgewater, (i) any unvested options to purchase Common Shares then held by Mr. Nelson will be deemed to have vested; and (ii) if there is a material adverse reduction in Mr. Nelson's total compensation, stature or employment responsibilities, or Mr. Nelson's principal place of employment is relocated, Mr. Nelson may choose to terminate his employment and we shall provide him with six months compensation equivalent to his then current base salary.

Eamonn Garry. Our Vice President, Engineering and Operations, Mr. Garry, has entered into an employment agreement dated September 1, 2005, with us which provides for, among other things, industry standard covenants in our favour, including non-competition and non-solicitation covenants for a period of twelve months from termination of employment. Pursuant to the terms of his employment agreement and subject to ongoing annual reviews, Mr. Garry is currently entitled to an annual salary of $180,000. Mr. Garry is also entitled to an annual performance based bonus of up to $55,000. We may terminate Mr. Garry's employment by providing him with six months compensation if he is terminated without cause, and no compensation if he is terminated with cause. Mr. Garry may terminate his employment with us upon one months prior written notice. Upon a change in control of Bridgewater, (i) any unvested options to purchase Common Shares then held by Mr. Garry will be deemed to have vested; and (ii) if there is a material adverse reduction in Mr. Garry's total compensation, stature or employment responsibilities, or Mr. Garry's principal place of employment is relocated, Mr. Garry may choose to terminate his employment and we shall provide him with six months compensation equivalent to his then current base salary.

These employment agreements are subject to review and change as determined and approved by the Board of Directors from time to time.

Compensation of Directors

Following the closing of the Offering, our Board of Directors will be entitled to the following compensation.

Chair

The Chair of our Board of Directors will be entitled to an annual cash retainer of $10,000, a meeting fee for each regularly scheduled meeting of the Board of Directors of $1,000 and an annual grant of Options under the Amended Plan to purchase that number of Common Shares equal to between 0.025% and 0.1% of the outstanding Common Shares, calculated on a fully-diluted basis.

Annual Director Compensation

Each director, other than the Chair of our Board of Directors and directors who are members of management, will receive an annual cash retainer of $5,000 and a fee of $1,000 for each regularly scheduled board meeting. In addition, each such director will also receive an annual grant of Options under the Amended Plan to purchase that number of Common Shares equal to between 0.025% and 0.05% of the outstanding Common Shares, calculated on a fully-diluted basis. The number of Common Shares subject to the Options within this range will be determined by the Board of Directors on a basis commensurate with the recipient's service, as a committee member or otherwise.

Committee Members

In addition to the director compensation summarized above, the Chair of the audit committee will receive an annual cash retainer of $7,500 and the Chair of each other committee of the Board of Directors will receive an annual cash retainer of $5,000. Regular members of the audit committee will also receive an annual cash retainer of $5,000 and regular members of other committees will receive an annual cash retainer of $3,000. All committee members will be entitled to a meeting fee of $1,000 for each regularly scheduled committee meeting.

Directors' and Officers' Liability Insurance and Indemnification

We currently maintain directors and officers liability insurance coverage with a deductible of $25,000 for each non-securities claim and $50,000 for each securities claim with a $5 million limit in aggregate, which will increase to a $10 million limit in aggregate effective on the closing of the Offering. Coverage includes errors, omissions or breach of fiduciary duty by the directors and officers during the discharge of their legal duties.

Our by-laws also provide for the indemnification by us of our directors and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties of office, subject to certain limitations. We have also entered into contractual indemnities in favour of each of the directors that provide, to the full extent allowed by law, that we shall indemnify and save harmless each director, his estate, executors, administrators, legal representatives and lawful heirs, from and against any and all costs, charges or expenses (including, but not limited to, an amount paid to settle any action or to satisfy any judgment, legal fees on a solicitor and client basis, other professional fees, out-of-pocket expenses for attending proceedings including discoveries, trials, hearings and meetings, and any amount for which he is liable by reason of any statutory provision whether civil, criminal or otherwise ("indemnifiable costs")), suffered or incurred by the director or such other indemnified parties, directly or indirectly, as a result of or by reason of the director: (i) being or having been a director or officer of our company or an affiliate of our company or by reason of any action taken by the director in his capacity as a director or officer of our company or an affiliate of our company; (ii) being or having been a member of a committee of the board of directors of our company or an affiliate of our company; or (iii) acting as a member of the plan administrator pursuant to the Amended Plan, subject to certain conditions being satisfied including that the director: (a) acted honestly and in good faith with a view to the best interests of our company, or the best interests of our company's affiliate, as the case may be; and (b) in the case of a criminal or administrative action, proceeding, investigation, inquiry or hearing that is enforced by monetary penalty, he had reasonable grounds for believing that his conduct was lawful. The indemnities also provide that indemnifiable costs will be paid by us immediately, with the agreement that, in the event it is ultimately determined that the indemnified party was not entitled to be so indemnified, such amounts shall be refunded to us.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

There is no indebtedness owing to us from any of our current or former directors, officers or employees, including in respect of indebtedness to others where the indebtedness is the subject of a guarantee, support agreement, letter of credit or similar arrangement or understanding provided by us.

PLAN OF DISTRIBUTION

Pursuant to an underwriting agreement dated ● (the "Underwriting Agreement") among us, the Selling Shareholders and the Underwriters, we have agreed to issue and sell ● Common Shares and the Selling Shareholders have agreed to sell, in aggregate, up to ● Common Shares and the Underwriters have agreed severally to purchase, as principals, on the closing date, being ● , 2007, or any other date as may be agreed upon by us, the Selling Shareholders and the Underwriters, but not later than ● , 2007, in compliance with all necessary legal requirements and subject to the conditions stipulated in the Underwriting Agreement, all but not less than all of such Offered Shares at a price of $ ● per Offered Share, payable in cash to us and the Selling Shareholders, against the issue and delivery by us and delivery by the Selling Shareholders of a certificate or certificates representing such Offered Shares in accordance with the terms of the Underwriting Agreement. The offering price of the Offered Shares was determined by negotiation between us, the Selling Shareholders and the Underwriters. The Underwriting Agreement provides that we and the Selling Shareholders will pay to the Underwriters, in consideration for their services in connection with the Offering, an Underwriters' fee of $ ● per Offered Share sold in the Offering. We will not receive any of the proceeds of the sale of Offered Shares sold by the Selling Shareholders.

The obligations of the Underwriters under the Underwriting Agreement are conditional and may be terminated at their discretion on the basis of their assessment of the state of financial markets and may also be terminated in certain circumstances and upon the occurrence of certain stated events. The Underwriters are, however, severally obligated to take up and pay for all Offered Shares if any of the Offered Shares are purchased under the Underwriting Agreement.

Subscriptions for the Offered Shares will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice.

We and the Selling Shareholders have granted the Underwriters an Over-Allotment Option, exercisable for a period of 30 days following the closing of the Offering, to purchase up to an aggregate of ● Additional Shares, at a price of $ ● per Additional Share and otherwise on the same terms and conditions as the Offered Shares, payable in cash against delivery of such Additional Shares, representing up to 15% of the Offered Shares offered pursuant to the Offering. The Over-Allotment Option is exercisable in whole or in part only for the purpose of covering over-allotments, if any, made by the Underwriters in connection with the Offering and for market stabilization purposes. This prospectus qualifies the grant of the Over-Allotment Option and also the distribution of the Additional Shares upon exercise of that option. The Underwriters will receive a fee of $ ● per Additional Share purchased pursuant to such option.

The Underwriters propose to offer the Offered Shares initially at the public offering price on the cover page of this prospectus. After the Underwriters have made a reasonable effort to sell all of the Offered Shares offered by this prospectus at the price specified in the prospectus, the offering price may be decreased, and further changed from time to time, to an amount not greater than the initial offering price, and compensation realized by the Underwriters will decrease by the amount the aggregate price paid by purchasers for the Offered Shares is less than the gross proceeds paid by the Underwriters to us and the Selling Shareholders.

We are applying to list our Common Shares on the TSX under the symbol "BWC". Listing will be subject to our fulfillment of the listing requirements of the TSX.

The Offered Shares have not been and will not be registered under the *United States Securities Act* of 1933, as amended (the "1933 Act"), or any state securities laws, and may not be offered or sold in the United States except in transactions exempt from the registration requirements of the 1933 Act. Accordingly, the Offered Shares will be offered or sold to purchasers in the United States only in transactions that are exempt from or not subject to the registration requirements of the 1993 Act and state securities laws. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Offered Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the 1933 Act if such an offer or sale is made otherwise than in accordance with an exemption from registration under the 1933 Act.

Pursuant to policy statements of the Ontario Securities Commission and the Autorité des marchés financiers, the Underwriters may not, throughout the period of distribution, bid for or purchase Common Shares. The foregoing restriction is subject to exceptions, on the condition that the bid or purchase is not engaged in for the purpose of creating actual or apparent active trading in, or raising the price of, the Common Shares. These exceptions include bids or purchases permitted under the Universal Market Integrity Rules and administered by Market Regulation Services Inc. relating to market stabilization and passive market-making activities and bids or purchases made for and on behalf of a customer where the order was not solicited during the period of distribution. Under the first-mentioned exception, in connection with the Offering, the Underwriters may over-allot or effect transactions, which stabilize or maintain the market price of the Common Shares at levels other than those which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

Lock-up Arrangements

Shareholders holding in aggregate approximately 76.3% of our Common Shares outstanding prior to the Offering, including the Selling Shareholders, substantially all shareholders holding greater than 1.5% of our Common Shares (fully diluted) and our executive officers and directors, have entered into a contractual lock-up agreement with the Underwriters with respect to all Common Shares then held by them (including any Options to acquire Common Shares and Common Shares subsequently purchased on the exercise of Options). Under the lock-up agreement, the shareholder agrees to not, directly or indirectly, sell, offer, contract to sell, pledge, grant an option to purchase, make a short sale or otherwise dispose of or monetize any of that shareholder's securities held as of the closing date of the Offering (including any Options to purchase Common Shares or Common Shares subsequently acquired on the exercise of Options).

Such securities will be subject to a lock-up for a period of up to 12 months following the closing of the Offering. One-half of the securities subject to the lock-up will be released on each of the six-month and 12-month anniversary dates of the closing of the Offering. The restrictions in the lock-up agreements are subject to certain exceptions which permit each shareholder to transfer any or all of their Common Shares (including any Options to purchase Common Shares or Common Shares subsequently acquired on the exercise of Options) to certain non-arm's length parties under certain conditions, or with the prior written consent of CIBC World Markets Inc. and Genuity Capital Markets G.P., not to be unreasonably withheld.

Following the closing of the Offering, shareholders who have entered into such lock-up agreements will beneficially own, directly or indirectly, approximately ● % of the outstanding Common Shares, fully diluted (approximately ● % of the outstanding Common Shares if the Over-Allotment Option is exercised in full). Securities of Bridgewater held by those shareholders who hold less than 1.5% of our outstanding Common Shares (on a fully diluted basis) and who are not entitled to participate in the Offering, will not be subject to a contractual lock-up or other restriction on transfer of their securities. Following the closing of the Offering, the total number of Common Shares (fully-diluted) that may be sold by such shareholders following the Offering is ● .

We have agreed not to sell or issue, or negotiate or enter into any agreements to sell or issue, any additional Common Shares or securities convertible into Common Shares, other than the issuance of Common Shares issuable upon the exercise of options and the grant of options pursuant to our Amended Plan or any other existing agreements or instruments already issued or authorized, for a period of 180 days following the closing date of the Offering, without the prior consent of CIBC World Markets Inc. and Genuity Capital Markets G.P. on behalf of itself and the other Underwriters, not to be unreasonably withheld.

RISK FACTORS

Investing in our Common Shares is subject to a number of risk factors. You should carefully consider the following risk factors, as well as the other information in this prospectus, before deciding whether to invest in our Common Shares. If any of the following risks materialize, our business, financial condition and results of operations would suffer. The trading price of our Common Shares could decline as a result of any of these risks.

Risks Related to Our Business

The market for our products is competitive and continually evolving, and if we are not able to compete effectively, we may not be able to continue to expand our business as expected and our business may suffer.

Although relatively new, the market for our products is competitive and continually evolving. We expect competition to persist and intensify in the future and for existing competitors to devote considerable resources to introducing and enhancing their products. Our primary competitors generally consist of both start-up vendors as well as established network equipment and software companies. See "Business of the Company — Competition". As well, networking, telecommunications equipment and software suppliers who are currently without competitive solutions may introduce competitive solutions in the future, either through internal development or acquisition. New competitors may include some of our existing distribution partners.

Specifically, other providers of network infrastructure elements are offering or proposing to offer functionality aimed at addressing the problems addressed by our products. The inclusion of, or the announcement of an intent to include, functionality perceived to be similar to that offered by our products in infrastructure elements that are already generally accepted as necessary components of network architecture may cause the market not to grow as predicted, which would have an adverse effect on our ability to market and sell certain of our products. If organizations are reluctant to add additional products from new vendors to their networks or otherwise decide to work with their existing vendors, the market for our products may prove to be smaller than predicted and our business, operating results and financial condition will be adversely affected.

In terms of new entrants to the market, any new entrant would be likely to devote significant sales and marketing resources to establish its position in the policy and subscriber management market and may be willing to price its products at a discount or bundle its products with other equipment, software or services in an attempt to rapidly gain market share. New product introductions or new market entrants could cause service providers to delay purchasing decisions or reopen bidding processes. If new product enhancements and introductions are superior to our products, and we are unable to make comparable enhancements to our products, our competitive advantages could be compromised and our business could be harmed.

We may not be able to compete effectively against current and potential competitors, especially those with significantly greater resources and market leverage. Our competitors may have more extensive customer bases and broader customer relationships than we do, including relationships with our potential customers. In addition, these companies may have longer operating histories and greater name recognition than we do. These competitors may be in a position to respond more quickly than we do to new or emerging technologies or changes in customer requirements or may foresee the course of market developments more accurately than we do. As a result, we may experience price reductions for our products, order cancellations and increased expenses. Accordingly, our business may not grow as expected and our business, operating results and financial condition may be adversely affected.

If one or more of our competitors were to merge or partner with another of our competitors, the change in the competitive landscape could adversely affect our ability to compete effectively. Our competitors may also establish or strengthen co-operative relationships with systems integrators, third-party consulting firms or other parties with whom we have relationships, thereby limiting our ability to promote our products. Disruptions in our business caused by these events could reduce our revenue and adversely affect our business, operating results and financial condition.

We cannot assure you that we will sustain profitability in the future. If we do not maintain our profitability, our share price may decline.

Our operating expenses and capital expenditures are expected to increase and as a result, we will need to generate additional revenue to maintain profitability. If our revenues do not continue to increase, we may not be able to sustain profitability because many of our expenses are fixed in the short term and cannot be easily or quickly reduced. A failure to maintain profitability would adversely affect our business.

Our quarterly revenues and operating results may fluctuate, which may harm our results of operations.

Our revenue is difficult to forecast and is likely to fluctuate significantly from quarter to quarter. Because our quarterly revenue could be dependent upon a relatively small number of large channel partner or service provider installations, even minor variations in the rate and timing of conversion of our sales prospects into revenue could cause us to plan or budget inaccurately, and those variations could adversely affect our financial results. Delays, reduction in amount, or cancellations of customers' purchases could adversely affect our business, financial condition and results of operations. Some of the other factors affecting our revenue and results, many of which are outside of our control, include:

- competitive conditions in our industry, including new products, product announcements, changes in pricing policy, and incentive pricing offered by our competitors;
- our ability to maintain existing relationships with channel partners and service provider customers and to create new relationships with potential channel partners and service provider customers;
- varying size, timing and contractual terms of orders for our products, which may delay the recognition of revenue;
- the discretionary nature of our customers' purchase and budget cycles and changes in their budgets for, and timing of, software, equipment and related purchases;
- the length and variability of the sales cycles for our products;
- order cancellations;
- strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments or changes in business strategy;
- our ability to complete our service obligations related to product sales in a timely manner;
- general weakening of the economy resulting in a decrease in the overall demand for our software and solutions;
- the geographical mix of our sales (owing to differing costs of sales and pricing in different geographies, together with fluctuations in foreign currency exchange rates); and
- timing of product development and new product initiatives.

In light of the foregoing, quarter-to-quarter comparisons of our operating results are not necessarily meaningful and should not be relied upon as indications of likely future performance or annual operating results. Reductions in revenue or net income between quarters or our failure to achieve expected quarterly earnings per share could cause the market price of our Common Shares to decline or have a material adverse effect on our business, financial condition and results of operations.

If we are unable to manage our growth and expand our operations successfully, our business and operating results will be harmed and our reputation may be damaged.

We anticipate that further expansion of our infrastructure and headcount will be required to achieve planned expansion of our product offerings and planned increases in our customer base. Our growth has placed, and is expected to continue to place, a significant strain on our administrative and operational infrastructure. Our ability to manage our operations and growth will require us to continue to refine our operational, financial and management controls, human resource policies, and reporting systems and procedures.

We may not be able to implement improvements to our management information and control systems in an efficient or timely manner and may discover deficiencies in existing systems and controls. If we are unable to manage future expansion, our ability to provide high quality products and services could be harmed, which would damage our reputation and substantially harm our business and results of operations. If we experience significant delays in releasing new or enhanced software products, our position in the market could be harmed and our revenue could be substantially reduced, which would adversely affect our operating results. Delays may occur for many reasons, including the inability to hire a sufficient number of developers, discovery of bugs and errors, or the inability of our current or future software products to conform to customer and industry requirements.

Once our products are deployed within a service provider's network, the service provider and our OEM customer depend on our support organization to resolve issues relating to our products. A high level of support is critical for the successful marketing and sale of our products. If we do not effectively assist service providers in deploying our products, succeed in helping service providers quickly resolve post-deployment issues, and provide effective ongoing support, it would adversely affect our ability to sell our products. As a result, our failure to maintain high quality support and services would have a material adverse effect on our business and operating results.

The introduction of new technologies or industry standards could reduce spending on our products and therefore harm our operating results.

The introduction by competitors of products embodying new technology and the emergence of new industry standards could render our existing products obsolete and unmarketable and could exert price pressures on existing products. It is critical to our success that we be able to anticipate and react quickly to changes in technology or in industry standards and successfully develop and introduce new, enhanced and competitive products on a timely basis. We cannot give assurance that we will successfully develop new products or enhance and improve our existing products, that new products and enhanced and improved existing products will achieve market acceptance or that the introduction of new products or enhanced existing products by others will not render our products obsolete. The process of developing new technology is complex and uncertain, and, if we fail to accurately predict service providers' changing needs and emerging technological trends, our business could be harmed. We must commit significant resources to developing new products before knowing whether our investments will result in products the market will accept. To remain competitive, we may be required to invest significantly greater resources than currently anticipated in research and development and product enhancement efforts, which would result in increased operating expenses.

To achieve market acceptance for our products, we must effectively anticipate the requirements of service providers, and we must offer products that meet changing service provider demands in a timely manner. Service providers may require product features and capabilities that our current products do not have. In developing our products, we seek to identify the long-term trends of service providers and their customers. The development cycle for our products and technologies can take several years. The ultimate success of our new products depends, in large part, on the accuracy of our assessments of the long-term needs of the industry, and it is difficult to change quickly the design or function of a planned new product if the market need does not develop as we anticipated. If we fail to develop products that satisfy service provider requirements, our ability to create or increase demand for our products will be harmed.

We may experience difficulties with software development, industry standards or marketing that could delay or prevent our development, introduction or implementation of new products and enhancements. The introduction of new products by competitors, including some of our OEM customers, the emergence of new industry standards or the development of entirely new technologies to replace existing product offerings could render our existing or future products obsolete. If our products become technologically obsolete, service providers may purchase solutions offered by our competitors and our ability to generate revenue may be impaired.

We depend on a limited number of customers for a substantial portion of our revenue in any fiscal period, and the loss of, or a significant shortfall in orders from, key customers could significantly reduce our revenue.

We derive a substantial portion of our total revenue in any fiscal period from a limited number of customers. For the twelve months ended September 30, 2007, our largest customer, Verizon Wireless, accounted for approximately 31% of our total revenue, and our top five customers represented approximately 78% of our total revenues. During any fiscal quarter, a small number of customers may account for a significant percentage of our revenue. In addition, as a result of our customer concentration, we are subject to credit risk if one or more of customers fails to pay license or other fees. For example, the License Agreement with Alcatel-Lucent Canada described under "Interests of Management and Others in Material Transactions" provides for payment of $23 million in license fees over three years. The security of this revenue stream therefore depends on the creditworthiness of Alcatel-Lucent Canada.

Our inability to generate anticipated revenue from our key existing or targeted customers, or a significant shortfall in sales to them, would significantly reduce our revenue and adversely affect our business. Our operating results in the foreseeable future will continue to depend on our ability to effect sales to existing and other large customers.

Our current and future sales depend on our success in generating indirect sales to a limited number of channel partners, and any failure to do so would have a significant detrimental effect on our business.

A portion of our sales are sourced, developed and closed through our network of distributors, resellers, systems integrators and OEMs, and our operating results for the foreseeable future will depend to a significant extent on our ability to effect indirect sales through these channel partners. We believe that these channel partners can have a substantial influence on customer purchase decisions, especially purchasing decisions by large service provider customers. These channel partners may not effectively promote or market our products, may experience financial difficulties or may cease operations. In addition, our channel partners are not contractually obligated to sell our products. Therefore, our current channel partners may, at any time, refuse to promote or pay for our products. Also, since many of our distribution arrangements are non-exclusive, our channel partners may carry competitors' products and could discontinue our products in favour of competitors' products. As a result of these risks, we could experience unforeseen variations in revenue and results of operations. A single systems integrator could become our sole conduit to several end customers. Losing such a relationship would have a material adverse effect on our business, financial condition and results of operations.

Our existing channel relationships are very important to our business plan. There are a limited number of such channel partners that offer solutions that would require products such as those developed by us. Several of these channel partners have developed their own solutions internally and, therefore, do not require solutions from us. Our existing channel partners might seek to develop internally, or acquire from a third party, alternative solutions to those currently purchased from us. We expect to generate revenue for the foreseeable future from channel partners and therefore any adverse change in our relationships, or a significant decline or shortfall in our sales to channel partners would materially harm our business and operating results.

The rate at which our channel partners purchase products from us depends on their success in selling solutions to service providers that include our products. There can be no assurance that our channel partners will continue to devote significant resources to their network infrastructure businesses or that they will be successful in securing such business in the future. Our future success depends in part on the ability of our channel partners to sell our products to service providers operating complex networks in a highly competitive environment. Our channel partners may need to reduce the prices they charge for our products in order to maintain or expand their market share. We may need to reduce the prices we charge our channel partners for our products in order to support their selling efforts. If our channel partners incur shortfalls in their sales of their network solutions to their existing customers or fail to expand their customer base to include additional services providers that deploy our products, or if we reduce the prices we charge our channel partner customers for our products, our operating results will suffer. In addition, further consolidation in our target markets could adversely affect our channel partner relationships.

We derive a large portion of our revenue from a single market.

We derive, and expect to continue to derive, a large portion of our revenue from the delivery of our products and services to the CDMA wireless network service providers in North America who offer wireless data services. Our success is largely dependent upon continued adoption of wireless data services by their subscribers. A slow down in the forecasted growth rates of these wireless data services could have material adverse affect on our business, financial condition and results of operations.

There are multiple competing standards that may be used by wireless network service providers. In North America, the majority of operators and subscribers use the CDMA standard. Other standards such as GSM/UMTS are currently the primary standards used by wireless network service providers worldwide. We cannot guarantee that our existing and prospective customers will continue to utilize the CDMA standard. Our products do support the other standards; however, a significant migration to other standards such as GSM/UMTS could introduce additional competitors and customers may select other competitive products. This could have a material adverse effect on our business, financial condition and results of operations. To continue to grow our business, we need to increase our penetration with GSM and WiMAX service providers.

Furthermore, a significant portion of our historical revenues have been derived in the United States and any industry or macro-economic event that impacts the capital expenditure patterns in the wireless service provider market in the United States would have a material adverse effect on our business, financial condition and results of operations.

We derive a large portion of our revenue from our network access control products and related products and services. Our future revenue growth will in part depend on the introduction of new products and services which have not yet been proven.

We derive, and expect to continue to derive, a large portion of our revenue from sales of network access control products and related services. Because we generally sell licences to our products on a perpetual basis and deliver new versions and enhancements to service providers who purchase maintenance contracts, our future licence revenue is substantially dependant on sales to new customers. As a result of these factors, we are particularly vulnerable to fluctuations in demand for our products. Accordingly, if demand for our network access control products and related products and services declines significantly, our business and operating results would be adversely affected. Our future revenue growth will therefore in part depend on the introduction of new products and services which have not yet been proven.

There are numerous risks associated with our expansion into new markets and lines of business. In terms of our current plans, as described in "Growth Strategy", we intend to develop a business model for a turnkey or integrated software solution. This business model carries higher costs than our product model and can be expected to reduce gross margins for future periods. In the wireline market, our growth depends on securing a well-established OEM partner. If we fail to do so, our growth prospects in this area will be materially adversely affected.

We have a lengthy and variable sales cycle.

We have difficulty in forecasting the timing of revenue from sales of our products because our customers typically invest substantial time, money and other resources researching their needs and available competitive alternatives before deciding to purchase our products and services. Typically, the larger the potential sale, the more time, money and resources will be invested by customers. As a result, it may take many months after the first contact with a customer before a sale can actually be completed. In addition, we rely on our channel partners to sell our products to service providers and therefore, our sales efforts are vulnerable to delays at both the channel partner and the service provider level.

During these long sales cycles, events may occur that affect the size or timing of the order or even cause it to be cancelled, including:

- purchasing decisions may be postponed, or large purchases reduced during periods of economic uncertainty;
- we, or our competitors, may announce or introduce new products or services;
- our competitors may offer lower prices; and/or
- budget and purchasing priorities of service providers may change.

If these events were to occur, sales of our products or services may be cancelled or delayed, and our revenue, business and operating results would be adversely affected.

We may engage in future acquisitions that could disrupt our business, cause dilution to our shareholders and harm our financial condition and operating results.

We may pursue acquisitions of companies or assets in order to enhance our market position or expand our product portfolio. We may not be able to find suitable acquisition candidates and we may not be able to complete acquisitions on favourable terms, if at all. If we do complete acquisitions, we cannot be sure that they will ultimately strengthen our competitive position or that they will not be viewed negatively by customers, securities analysts or investors. In addition, any acquisitions that we make could lead to difficulties in integrating personnel, operations and technology from the acquired businesses and in retaining and motivating key personnel from those businesses. Acquisitions may disrupt our ongoing operations, divert management from day-to-day responsibilities, increase our expenses and harm our operating results or financial condition. Future acquisitions may reduce our cash available for operations and other uses and could result in an increase in amortization expense related to identifiable assets acquired, potentially dilutive issuances of equity securities or the incurrence of debt, which could harm our business, financial condition and operating results.

The loss of key personnel or an inability to attract and retain additional personnel may impair our ability to grow our business.

We are highly dependent upon the continued service and performance of our senior management team and key technical and sales personnel. The replacement of these employees likely would involve significant time and costs, and may significantly delay or prevent the achievement of our business objectives. At the current time and for a period following the Offering, we have and will continue to have a limited stock option pool to use for equity incentive purposes. See "Options to Purchase Securities".

We face intense competition for qualified individuals from numerous technology and software companies. For example, our competitors may be able attract and retain a more qualified engineering team by offering more competitive compensation packages. If we are unable to attract new engineers and retain our current engineers, we may not be able to develop and service our products at the same levels as our competitors and we may, therefore, lose potential customers and sales penetration in certain markets. Our failure to attract and retain suitably qualified individuals could have an adverse effect on our ability to implement our business plan and, as a result, our ability to compete effectively in our market would decrease, our operating results would suffer and our revenues would decrease.

Our products are highly technical and may contain undetected software or hardware errors, which could cause harm to our reputation and adversely affect our business.

Our products are highly technical and complex and are critical to the operation of many networks. Our products have contained and are expected to continue to contain one or more undetected errors, defects or security vulnerabilities. Some errors in our products may only be discovered after our software product has been installed and used by a service provider. For example, we have encountered errors in our software products that have caused the service provider using our products to experience a temporary loss of certain network services. Any errors, defects or security vulnerabilities discovered in our products after commercial release could result in loss of revenue or delay in revenue recognition, loss of customers and increased service and warranty cost, any of which could adversely affect our business, results of operations and financial condition. Further, there is a risk that customers may uncover latent defects in our products that were not apparent at the time the product was sold. This type of defect may be discovered before or after the warranty period has expired. Performance failure due to a defect may cause loss of customers, damage to our reputation for delivering high-quality products, delay in or loss of market acceptance, additional warranty expense or costs associated with product recall.

We provide product warranties that typically run for 90 days and which are longer in some circumstances. If our products fail to perform as warranted and we are unable to resolve product quality or performance issues in a timely manner, we may lose sales or be forced to pay damages.

Product liability claims could negatively impact sales and have a material adverse effect on our business, results of operation and financial condition.

We could face claims for product liability, tort or breach of warranty, including claims related to changes to our products made by an OEM customer. An OEM customer will typically augment our products with its own software or hardware and in the event that a claim for product liability is brought against it, it may be difficult to ascertain responsibility. Our contracts for the sale of our products typically contain provisions relating to warranty disclaimers and liability limitations, which in certain cases may not be upheld. Defending a lawsuit, regardless of its merit, is costly and may divert management's attention and adversely affect the market's perception of us and our products. In addition, if our business liability insurance coverage proves inadequate or future coverage is unavailable on acceptable terms or at all, our financial condition could be harmed. We have not experienced a material product liability claim to date; however, the sale and support of our products entails the risk of those claims, which are likely to be substantial in light of the use of our products in critical applications. A successful product liability claim could result in significant monetary liability and/or reputational harm, and could seriously harm our business.

Our ability to compete and the success of our business could be jeopardized if we are unable to protect our intellectual property adequately.

Our success depends upon the protection of our software and other proprietary technology. We rely on a combination of patent, trade-mark, copyright, and trade secret laws, and confidentiality and other provisions in agreements with employees, consultants, customers and other third parties to protect our intellectual property rights. Other parties may not comply with the terms of their agreements with us, and we may not be able to enforce our rights adequately against these parties. In addition, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Monitoring unauthorized use of our products is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in Canada and the United States. If competitors are able to use our technology, our ability to compete effectively could be harmed. For example, if a competitor were to gain use of certain of our proprietary technology, it might be able to develop similarly designed and equipped solutions at a reduced cost, which would result in a decrease in demand for our products. Furthermore, we have adopted a strategy of seeking limited patent protection both in Canada, the United States and in foreign countries with respect to the technologies used in or relating to our products. We do not know whether any of our pending patent applications will result in the issuance of patents or whether the examination process will require us to narrow our claims, and even if patents are issued, they may be contested, circumvented or invalidated over the course of our business. Moreover, the rights granted under any issued patents may not provide us with proprietary protection or competitive advantages, and, as with any technology, competitors may be able to develop and obtain patents for technologies that are similar to or superior to our technologies. If that happens, we may need to license these technologies and we may not be able to obtain licenses on reasonable terms, if at all, thereby causing harm to our business. In addition, if we resort to legal proceedings to enforce our intellectual property rights, the proceedings could become burdensome and expensive, even if we were to prevail.

Claims by other parties that we infringe their proprietary technology could force us to redesign our products or to incur significant costs.

Many companies in the telecommunications industry have significant patent portfolios. These companies and other parties may claim that our products infringe their proprietary rights. We may become involved in litigation as a result of allegations that we infringe the intellectual property rights of others. Any party asserting that our products infringe their proprietary rights would force us to defend ourselves, and possibly our customers, against the alleged infringement. These claims and any resulting lawsuit, if successful, could subject us to significant liability for damages and invalidation of our intellectual property rights. We also could be forced to do one or more of the following:

- stop selling, incorporating or using our products that use the challenged intellectual property;
- obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, which license may not be available on reasonable terms, or at all;
- redesign those products that use any allegedly infringing technology, which may be costly and time-consuming; or
- refund license fees and other amounts received for allegedly infringing technology or products.

Intellectual property litigation can be costly. Even if we prevail, the cost of such litigation could deplete our financial resources. Litigation is also time consuming and could divert management's attention and resources away from our business. Furthermore, during the course of litigation, confidential information may be disclosed in the form of documents or testimony in connection with discovery requests, depositions or trial testimony. Disclosure of our confidential information and our involvement in intellectual property litigation could materially adversely affect our business. Some of our competitors may be able to sustain the costs of complex intellectual property litigation more effectively than we can because they have substantially greater resources. In addition, any uncertainties resulting from the initiation and continuation of any litigation could significantly limit our ability to continue our operations.

We use open source software in connection with our products which exposes us to uncertainty and potential liability.

Certain modules of our products make use of or incorporate open source software components. These components are developed by third parties over whom we have no control. We have no assurances that those components do not infringe upon the intellectual property rights of others. We could be exposed to infringement claims and liability in connection with the use of those open source software components, and we may be forced to replace those components with internally developed software or software obtained by another supplier, which may increase our expenses. The developers of open source software are usually under no obligation to maintain or update that software, and we may be forced to maintain or update such software ourselves or replace such software with internally developed software or software obtained by another supplier, which may increase our expenses. Making such replacements could also delay enhancements to our products. Certain open source software licences provide that the licensed software may be freely used, modified and distributed to others provided that any modifications made to such software, including the source code to such modifications, are also made available under the same terms and conditions. As a result, any modifications we make to such software will be available to all downstream users of the software, including our competitors. In addition, certain open source licenses ("Reciprocal Licences") provide that if we wish to combine the licensed software, in whole or in part, with our proprietary software, and distribute copies of the resulting combined work, we may only do so if such copies are distributed under the same terms and conditions as the open source software component of the work was licensed to us, including the requirement to make the source code to the entire work available to recipients of such copies. The types of combinations of open source software and proprietary code that are covered by the requirement to release the source code to the entire combined work are uncertain and much debated by users of open source software. An incorrect determination as to whether a combination is governed by such provisions will result in non-compliance with the terms of the open source license. Such non-compliance could result in the termination of our license to use, modify and distribute copies of the affected open source software and we may be forced to replace such open source software with internally developed software or software obtained from another supplier, which may increase our expenses. In addition to terminating the affected open source license, the licensor of such open source software may seek to have a court order that the proprietary software that was combined with the open source software be made available to others, including our competitors, under the terms and conditions of the applicable open source license. For those reasons we have instituted policies and practices which are intended to limit the use of open source software that is distributed under the terms of a Reciprocal License.

We depend on sole sources for certain third party intellectual property embedded or used in our products, and our business would be harmed if the supply from our sole sources were disrupted.

We depend on sole sources for certain third party intellectual property embedded or used in our products. We have not entered into long-term agreements with any of our suppliers. We depend on several software vendors for the operating system, databases and other capabilities used in our products. In addition, our software operates on computing platforms provided by a single computing vendor. If these hardware or software components were to become unavailable to us or to our OEM customers, it would take us a significant period of time to develop alternative solutions and it is likely that our operating results would be significantly harmed. We have not entered into source code escrow agreements with any of our software suppliers or third party licensors. In the event that software suppliers or other third party licensors terminate their relationships with us, are unable to fill our orders on a timely basis or the licenses are otherwise terminated, we may be unable to deliver the affected products to meet our customer orders.

Foreign exchange fluctuations could adversely impact our revenue and net earnings.

Our expenses are predominantly incurred in Canadian dollars. A substantial portion of our revenue is earned in U.S. dollars. We are therefore exposed to U.S. dollar currency fluctuations. As our international operations increase, we will also be exposed to fluctuations in other currencies. We use hedging contracts to minimize the downside risk from any fluctuations in our cash flows due to exchange rate changes. However, we do not hedge entirely the exposure related to any one foreign currency and we do not hedge our exposure at all with respect to certain foreign currencies.

Over the last years, the U.S. dollar has weakened significantly against the Canadian dollar. For the twelve months ended September 30, 2007, we generated almost all of our worldwide revenue in U.S. dollars. We report our consolidated financial statements in Canadian dollars. If U.S. dollar weakness persists vis-à-vis the Canadian dollar, this will adversely impact our revenue and net earnings.

Our international sales and operations subject us to additional risks that can adversely affect our operating results.

We have sales personnel in five countries worldwide. We expect to continue to add personnel in foreign countries in accordance with our growth strategy. Our current and future international operations will subject us to a variety of risks, including:

- the difficulty of managing and staffing foreign offices and the increased travel, infrastructure and legal compliance costs associated with multiple international locations;
- difficulties in enforcing contracts, collecting accounts receivable and longer payment cycles, especially in emerging markets;
- the need to localize our products and licensing programs for international customers;
- tariffs and trade barriers and other regulatory or contractual limitations on our ability to sell or develop our products in certain foreign markets;
- increased exposure to foreign currency exchange rate risk; and
- reduced protection for intellectual property rights in some countries.

In addition, because our products are sold and marketed in different countries, the products must function in and meet the requirements of many different environments and be compatible with various systems and products. Any failure of our products to meet these requirements could have a negative impact on sales and a material adverse effect on our business, results of operation and financial condition.

If we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. We may derive some of our future revenue from customers in foreign countries that pay for our products in the form of their local currency. Our failure to manage any of these risks successfully could harm our international operations and reduce our international sales, adversely affecting our business, operating results and financial condition.

Tax matters including R&D tax credits may adversely affect our business, financial condition and results of operations.

Although we are of the view that all expenses and tax credits claimed by us, including research and development ("R&D") expenses and related tax credits, are reasonable and deductible and have been correctly determined, there can be no assurance that the Canadian taxation authorities will agree. If the Canadian taxation authorities successfully challenge such expenses or the correctness of such income tax credits claimed, our operating results could be adversely affected. If the Canadian taxation authorities reduce the tax credit either by reducing the rate of the credit or the eligibility of some R&D expenses in the future, our operating results will be adversely affected.

The majority of our R&D activities are conducted at our headquarters in Ottawa, Ontario. We participate in government programs with both the federal government and the Government of Ontario that provide R&D tax credits based upon qualifying R&D expenditures. These expenditures primarily consist of the salaries of the persons conducting the R&D activities. If these R&D tax credits are reduced or eliminated, this may adversely affect our business, financial condition and results of operations. As a result of the timing of the Offering, on the closing of the Offering we will cease to be eligible for refundable ITCs as of January 1, 2007. As such, for fiscal 2007 and future years, our R&D ITCs will no longer be available as a cash refund. However, we will continue to earn ITCs at a reduced rate, to reduce future cash taxes payable.

Risks Related to Our Industry

Because our business depends on the continued strength of the telecommunications industry, our operating results will suffer if that industry experiences an economic downturn.

We derive most of our revenue from direct or indirect purchases of our products by telecommunications service providers. Our future success depends upon the continued demand from these service providers. The telecommunications industry is cyclical and reactive to general economic conditions. In the recent past, worldwide economic conditions, pricing pressures, mergers and deregulation have led to consolidations and reorganizations. These conditions, pricing pressures and restructurings have caused delays and reductions in capital and operating expenditures by many service providers. These delays and reductions, in turn, have reduced demand for software products such as ours. A continuation or recurrence of these industry patterns, as well as general domestic and foreign economic conditions and other factors that reduce spending by telecommunications service providers, could harm our operating results in the future.

Our growth is dependent in part on the rate of adoption of new services.

We offer products and services that are optimized for service providers that wish to deploy high-speed networks in order to offer advanced wireless data services (such as push to talk, video calling and IMS-based applications) and bandwidth intensive applications (such as IPTV). The market for these services and applications is still emerging and market demand, price sensitivity and the preferred business models remains highly uncertain. Our growth depends on, among other things, the size and pace at which these markets develop. If these services and applications do not gain widespread acceptance and declines, remains constant, or grows more slowly than anticipated, we may not be able to grow or sustain our growth and our overall revenues and operating results will be materially affected. Service providers that do choose to deploy advanced wireless data services and bandwidth intensive applications are also dependent on suppliers other than us in order to build and operate such services. If these third party suppliers are not successful in developing the network components, subscriber equipment, applications and other components required by our customers in a timely and cost-efficient manner, network deployments by our customers and demand for our products and services will be materially and adversely affected.

Mergers or other strategic transactions by our existing and prospective customers could negatively impact sales and have a material adverse effect on our business, results of operation and financial condition.

Consolidation within the service provider market as a result of mergers or other strategic transactions may introduce uncertainty into those customers as they realign their business. This may delay orders for our products and services, cause orders to be cancelled or the use of our products to be discontinued, which would have a material adverse effect on our business, financial condition and results of operations.

Economic and geopolitical uncertainty may affect our business, financial conditions and results of operations.

The market for our products and solutions depends on economic and geopolitical conditions affecting the broader market. Economic conditions globally are beyond our control. In addition, acts of terrorism and the outbreak of hostilities, disease, and armed conflicts between countries can create geopolitical uncertainties that may affect the global economy. Downturns in the economy or geopolitical uncertainties may cause customers to delay or cancel projects, reduce their overall budgets or reduce or cancel order for our products and solutions, which could have a material adverse effect on our business, results of operations and financial condition.

Compliance with industry standards applicable to our products may be time consuming, difficult and costly, and if we fail to comply, our product sales will decrease.

In order to achieve and maintain market acceptance, our products must continue to meet a significant number of industry standards. As these standards evolve, and if new regulations or standards are implemented, we will be required to modify our products or develop and support new versions of our products, and this will increase our costs. The failure of our products to comply, or delays in compliance, with the various existing and evolving industry regulations and standards could prevent or delay introduction of our products, which could harm our business. User uncertainty regarding future policies may also affect demand for communications products, including our products. Our inability to alter our products to address these requirements could have a material adverse effect on our business, financial condition and operating results.

If our products do not interoperate with our customers' existing networks and applications, the demand for our products will decrease and our operating results will be harmed.

Our products must interface with service providers' existing networks and applications, each of which may have different specifications. An unanticipated lack of interoperability may result in significant support and repair costs and harm our relations with our end-customers. If our products do not interoperate with those of our end-customers' networks and applications, installations could be delayed or orders for our products could be cancelled, which would result in losses of revenue and customers that could significantly impair our business and operating results.

Risks Related to this Offering

An active trading market for our Common Shares may not develop, and you may not be able to sell your Common Shares at or above the initial public offering price.

Prior to this Offering, there has been no public market for our Common Shares. Although we have applied to list our Common Shares on the Toronto Stock Exchange, an active trading market for our Common Shares may never develop or be sustained following this Offering. If an active trading market does not develop, securities analysts may not initiate or maintain research coverage on us, which could further depress the market for our Common Shares. As a result, the liquidity of an investment in our Common Shares may be limited and investors may not be able to sell their Common Shares at or above the initial public offering price or at the time that they would like to sell.

The market price of our Common Shares may be volatile, which could result in substantial losses for investors purchasing shares in this Offering.

The initial public offering price for our Common Shares will be determined through negotiations with the Underwriters and the Selling Shareholders and may not be representative of the price that will prevail in the open market. This initial public offering price may vary from the market price of our Common Shares after the Offering. Some of the factors that may cause the market price of our Common Shares to fluctuate include:

- fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- fluctuations in our revenue as a result of our revenue recognition policy, even during periods of significant sales activity;
- failure of any of our products to achieve or maintain market acceptance;
- any adverse change in our relationship with our principal OEMs or resellers;
- changes in market valuations of similar companies;
- changes in our capital structure, such as future issuances of securities or the incurrence of debt;
- announcements by us or our competitors of significant products, contracts, acquisitions or strategic alliances, and the success of competitive products;
- regulatory developments in Canada, foreign countries or both;

- litigation involving our company, our general industry or both;
- additions or departures of key personnel;
- general perception of the future of the software sector;
- investors' general perception of us;
- negative changes to estimates of our financial results or recommendations, downgrades of our stock and/or unfavourable commentary published by equity research analysts, or such analysts cease publishing reports about us or our business; and
- changes in general economic, industry and market conditions.

In addition, if the market for technology stocks or the stock market in general experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to class action lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

We do not currently intend to pay dividends on our Common Shares and, consequently, your ability to achieve a return on your investment will depend on appreciation in the price of our Common Shares.

Our current policy is to retain earnings to finance the development of new lines of products and to otherwise reinvest in our company. Therefore, we do not anticipate paying cash dividends in the foreseeable future. Our dividend policy will be reviewed from time to time by our Board of Directors in the context of our earnings, financial condition and other relevant factors. Until we pay dividends, which we may never do, our shareholders will not be able to receive a return on our Common Shares unless they sell them.

As a public company, we will become subject to additional financial and other reporting and corporate governance requirements that may be difficult for us to comply with on a timely basis and will require significant company resources and management's attention.

Prior to this Offering, we have not been subject to the continuous and timely disclosure requirements of Canadian securities laws or other rules, regulations and policies of the TSX. We are working with our legal, accounting and financial advisors to identify those areas in which changes should be made to our financial management control systems to manage our obligations as a public company. These areas include corporate governance, corporate controls, internal audit, disclosure controls and procedures and financial reporting and accounting systems. We have made, and will continue to make, changes in these and other areas, including our internal controls over financial reporting. However, we cannot assure purchasers of Common Shares that these and other measures that we may take will be sufficient to allow us to satisfy our obligations as a public company on a timely basis. In particular, for the first year after the Offering we intend to rely on an exemption under the CSA instrument pertaining to audit committees to permit us to have an audit committee comprised of only a majority of independent board members, rather than exclusively independent board members. In addition, compliance with reporting and other requirements applicable to public companies will create additional costs for us and will require the time and attention of management. We cannot predict the amount of the additional costs that we may incur, the timing of such costs or the impact that management's attention to these matters will have on our business.

We may require additional capital in the future and no assurance can be given that such capital will be available at all or available on terms acceptable to us and if it is available, may dilute your ownership of our Common Shares.

We may need to raise additional funds through public or private debt or equity financings in order to:

- fund ongoing operations;
- take advantage of opportunities, including more rapid expansion of our business or the acquisition of complementary product, technologies or businesses;
- develop new products; or
- respond to competitive pressures.

Any additional capital raised through the sale of equity may dilute your percentage ownership of our Common Shares. Capital raised through debt financing would require us to make periodic interest payments and may impose restrictive covenants on the conduct of our business. Furthermore, additional financings may not be available on terms favourable to us, or at all. A failure to obtain additional funding could prevent us from making expenditures that may be required to grow or maintain our operations.

Future sales of Common Shares by our existing shareholders could cause the price of our Common Shares to decline.

Sales of a substantial number of Common Shares in the public market could occur at any time before or after the expiration of the lock-up agreements described "Plan of Distribution". These sales, or the market perception that the holders of a large number of Common Shares intend to sell Common Shares, could reduce the market price of our Common Shares. After this Offering, we will have ● Common Shares outstanding based on the number of shares outstanding as of the date of this prospectus. This includes the ● Common Shares that we are selling in the Treasury Offering, which may be resold in the public market immediately. 14,094,337 of the remaining Common Shares, or ● % of our outstanding Common Shares after this Offering, are currently restricted as a result of lock-up agreements but will be able to be sold in the near future as set forth below.

Number of Common Shares and % of Total Outstanding	Date Available for Sale Into Public Market
● Common Shares or ● %	On the date of this prospectus.
7,047,168 Common Shares or ● %	6 months after the date of this prospectus.
7,047,169 Common Shares or ● %	12 months after the date of this prospectus.

In addition, the Underwriters can waive the provisions of these lock-up agreements and allow these shareholders to sell their Common Shares at any time. There are no pre-established conditions for the grant of such a waiver by the Underwriters, and any decision by them to waive those conditions would depend on a number of factors, which may include market conditions, the performance of our Common Shares in the market and our financial condition at that time. If the restrictions in such lock-up agreements are waived, additional Common Shares will be available for sale into the public market, subject to applicable securities laws, which could reduce the market price for Common Shares.

Holders of a significant percentage of our outstanding Options are subject to taxation in the United States, and accordingly have an immediate income inclusion for tax purposes when they exercise their Options (that is, tax is not deferred until they sell the underlying Common Shares). As a result, these holders will generally need to sell Common Shares purchased on the exercise of Options in the same year that they exercise their Options. This may result in a greater number of Common Shares being sold in the public market, and fewer long-term holds of Common Shares by our management and employees, than would otherwise be the case if such persons were Canadian residents and/or were not subject to taxation in the United States.

A significant number of Common Shares will be owned by a limited number of existing shareholders after the closing of the Offering.

Immediately after the closing of the Offering, our existing shareholders will own ● % (or ● % if the Over-Allotment Option is exercised in full) of the outstanding Common Shares. Our existing shareholders will be in a position to exercise significant influence over matters requiring shareholder approval, including the election of directors and the determination of significant corporate actions, after the Offering. As well, these shareholders could delay or prevent a change in control of Bridgewater that could otherwise be beneficial to our shareholders.

Each purchaser will suffer immediate and substantial dilution due to this offering.

The initial public offering price of our Common Shares will significantly exceed the net tangible book value per share of our Common Shares. Accordingly, a purchaser of Common Shares in this offering will incur immediate and substantial dilution of his, her or its investment. If the outstanding Options to purchase our Common Shares are exercised, additional dilution will occur.

We have broad discretion in the use of the net proceeds from this Offering and may not use them effectively.

We cannot specify with certainty the particular uses of the net proceeds we will receive from this Offering. Our management will have broad discretion in the application of the net proceeds, including for any of the purposes described in "Use of Proceeds". Accordingly, you will have to rely upon the judgment of our management with respect to the use of the proceeds, with only limited information concerning management's specific intentions. Our management may spend a portion or all of the net proceeds from this Offering in ways that our shareholders may not desire or that may not yield a favourable return. The failure by our management to apply these funds effectively could harm our business. Pending their use, we may invest the net proceeds from this Offering in a manner that does not produce income or that loses value.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Except as described below, we have not entered into any related party transactions or other transactions in which management or principal shareholders have an interest during the period commencing on October 31, 2004 and ending on the date of this prospectus.

Kanata Research Park Corporation

Our principal offices located at 303 Terry Fox Drive, Suite 500, Ottawa, Ontario are leased by us from KRPC pursuant to a lease dated November 25, 2005. The term of this lease expires on February 28, 2011. We currently lease approximately 40,000 square feet of rental space pursuant to this lease. Aggregate annual lease payments (base rent and all other rent and charges) are approximately $819,842. We believe that the terms of our lease are reflective of market terms that were prevailing at the time that the lease was negotiated. KRPC is a corporation wholly-owned by Terry Matthews, a director, the Chairman of our Board and (through Wesley Clover Corporation) a principal and Selling Shareholder. See "Principal and Selling Shareholders".

Alcatel — Lucent Canada Inc.

Alcatel-Lucent owns approximately 23.3% of our issued and outstanding Common Shares prior to the completion of the Offering.

We entered into a development agreement with Alcatel-Lucent Canada (successor to Alcatel Canada Inc.) on April 1, 2005 (the "Development Agreement"), pursuant to which we agreed to provide Alcatel-Lucent Canada with certain software design, development, maintenance, support and related services related to a product developed by us and branded by Alcatel-Lucent Canada as Subscriber Service Controller or SSC. The SSC is based on our Dynamic Broadband Manager product. Over the term of the Development Agreement, Alcatel-Lucent Canada paid us approximately US$1.1 million (US$0.4 million in fiscal 2005, US$0.3 million in fiscal 2006 and US$0.4 in fiscal 2007) for services provided by us pursuant to this agreement. On May 8, 2006, we entered into a license agreement (the "Original License Agreement") with Alcatel-Lucent Canada pursuant to which Alcatel-Lucent Canada was granted an option to obtain a perpetual license to use, copy, modify, and create derivative works based on, certain versions of SSC, and to distribute and grant sublicenses to use such product and derivative works in object code format. In order to provide Alcatel-Lucent Canada with a secure source of supply and us with greater revenue assurance in relation to the SSC product, the terms of the Original License Agreement were renegotiated and we entered into a new license agreement with Alcatel-Lucent Canada on October 30, 2007 (the "License Agreement"). Pursuant to the License Agreement, Alcatel-Lucent Canada was granted a perpetual, royalty-free, license to use, copy, modify, and create derivative works based on, version 3.1 (and earlier versions) of the SSC, and to distribute and grant sublicenses for such versions and derivative works in object code format. Alcatel-Lucent Canada was also granted a three-year, royalty-free license to reproduce, distribute and grant sublicenses to use copies of version 1.0 of our Radius Engine software, a policy and profile engine based on our AAA Service Controller product, in object code format only. The licenses granted to Alcatel-Lucent Canada are non-exclusive and we retain ownership of the intellectual property associated with the SSC and Radius Engine software, including the ability to license copies of the SSC and Radius Engine software to others, and to create new versions of the SSC and Radius Engine software. Alcatel-Lucent Canada owns any intellectual property associated with modifications it makes to the SSC. The total consideration payable by Alcatel-Lucent Canada for the licenses granted pursuant to the License Agreement is US$23 million, with US$5.0 million paid on execution and the remaining amount paid in equal quarterly instalments over the next three years. In addition, the License Agreement contemplates the provision by us to Alcatel-Lucent Canada of an estimated US$0.8 to US$3 million of support, engineering and other professional services over the next three years, depending on the level of services requested by Alcatel-Lucent Canada.

We also entered into a reseller agreement with Alcatel-Lucent Canada on March 14, 2005 (the "Reseller Agreement"). Pursuant to the Reseller Agreement, Alcatel-Lucent Canada has agreed to act as a non-exclusive authorized reseller for us. To September 30, 2007, Alcatel-Lucent Canada has paid us approximately US$6.8 million (US$1.3 million in fiscal 2005, US$3.7 million in fiscal 2006 and US$1.8 in fiscal 2007) pursuant to the Reseller Agreement. The initial term of the Reseller Agreement is three years, after which time the Reseller Agreement is renewable for one year terms if agreed to by both Alcatel-Lucent Canada and us. Either Alcatel-Lucent Canada or we can terminate the Reseller Agreement if the other party remains in default of the material covenants, terms and conditions of the agreement thirty days after written notice by the party seeking termination. Pursuant to the Reseller Agreement we also agreed to enter into an escrow agreement with Alcatel-Lucent Canada and deposit the source code to products sold to Alcatel-Lucent Canada into an escrow account. Such source code may only be accessed by Alcatel-Lucent Canada upon the occurrence, and the continuation, of a failure by us to support the products in accordance with the Reseller Agreement and may only be used by Alcatel-Lucent Canada to make, have made, test and support our products to the extent necessary to comply with its obligations to its customers.

Each of the Development Agreement, the License Agreement and the Reseller Agreement were negotiated on an arm's length basis, and we believe that such agreements reflect prevailing market terms as at the time such agreements were negotiated.

MATERIAL CONTRACTS

The only material contract entered into by us within the last two years, or to which we will become a party on or prior to the closing of this Offering, other than in the ordinary course of business, is the Underwriting Agreement, described under "Plan of Distribution".

A copy of such agreement may be examined during normal business hours at our offices located at 303 Terry Fox Drive, Suite 500 Ottawa, Ontario, K2K 3J1 and at www.sedar.com.

EXPERTS

Opinions

Certain legal matters relating to the issue and sale of Common Shares offered hereby will be passed upon on behalf of Bridgewater by Fraser Milner Casgrain LLP and on behalf of the Underwriters by Osler, Hoskin & Harcourt LLP.

Interest of Experts

As of November 5, 2007, the partners and associates of Fraser Milner Casgrain LLP as a group beneficially owned, directly or indirectly, less than 1.0% of the outstanding Common Shares. As of November 5, 2007, Kent Plumley, a partner of Osler, Hoskin & Harcourt LLP owned 850,000 Common Shares (4.6% of our outstanding Common Shares) through 1567516 Ontario Inc., a company he controls. As of November 5, 2007, all of the other partners and associates of Osler, Hoskin & Harcourt LLP as a group beneficially owned, directly or indirectly, less than 1.0% of the outstanding Common Shares.

AUDITORS, TRANSFER AGENT AND REGISTRAR

Our auditors are Deloitte & Touche LLP, Chartered Accountants and Licensed Public Accountants, Suite 800, 100 Queen Street, Ottawa, Ontario, K1P 5T8, and are independent within the Rule of Professional Conduct of the Institute of Chartered Accountants of Ontario.

The transfer agent and registrar for the Common Shares is CIBC Mellon Trust Company at its principal transfer office in Toronto, Ontario.

PURCHASERS' STATUTORY RIGHTS

Securities legislation in certain provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal advisor.

GLOSSARY OF TECHNICAL TERMS

"**3G**" refers to the third generation of developments in wireless technology, particularly for mobile communications. 3G includes capabilities and features such as: enhanced multimedia (voice, video and other data), usability on all popular modes (cellular telephone, e-mail, paging, fax, videoconferencing, and Web browsing), broad bandwidth and high speed (upwards of 2 Mbps), and roaming capability throughout Europe, Japan and North America.

"**AAA**" is an acronym for "authentication, authorization and accounting", and generally includes services to authenticate dial-in users for network access, authorize a connection service, and generate accounting records for the session.

"**access technology**" means the technology used to access a network and is typically described in terms of telecommunications standards such as GSM or CDMA.

"**BSS**" is an acronym for "Business Support System", the components that a service provider uses to run its business operations.

"**carrier grade**" means a system that is designed to have 99.999% availability within a service provider's network.

"**CDMA**" is an acronym for "code division multiple access", a cellular network type.

"**CDMA2000**" means a family of standards for CDMA transmission. The CDMA2000 standards include CDMA2000 1x and CDMA2000 1xEV-DO, and are controlled by the 3GPP2.

"**churn**" or "**churn rate**" means the proportion of contractual customers or subscribers who leave a supplier during a given time period.

"**CRM**" is an acronym for "customer relationship management", an information industry term for methodologies, software, and usually Internet capabilities that help an enterprise manage customer relationships in an organized way.

"**DHCP**" is an acronym for "dynamic host configuration protocol", a protocol for assigning dynamic IP addresses to devices on a network. With dynamic addressing, a device can have a different IP address every time it connects to the network. DHCP also supports a mix of static and dynamic IP addresses.

"**DSL**" is an acronym for "digital subscriber line", a technology that provides digital data transmission over the wires of a local telephone network.

"**ERP**" is an acronym for "enterprise resource planning", an industry term for the broad set of activities supported by multi-module application software that helps a manufacturer or other business manage the important parts of its business, including product planning, parts purchasing, maintaining inventories, interacting with suppliers, providing customer service, and tracking orders.

"EV-DO" is an acronym for "EVolution-Data Optimized", a 3G broadband, packet-based transmission of text, digitized voice, video, and multimedia at data rates up to 2.4 megabits per second (Mbps) averaging 300-600 Kbps. EV-DO is provided by cellular carriers worldwide that use the CDMA technology.

"**frameworks**" means the core technology building blocks that are used within Bridgewater's suite of products.

"GPRS" is an acronym for "General Packet Radio Services", a packet-based wireless communication service that promises data rates from 56 up to 114 Kbps and continuous connection to the Internet for mobile phone and computer users.

"**GSM**" is an acronym for "global system for mobile communication", a communication standard for mobile phones, used primarily in Europe and Asia but gaining ground in North America.

"**HSDPA**" is an acronym for "high speed downlink packet access", a protocol for mobile telephone data transmission. The standard is expected to provide download speeds on a mobile phone equivalent to an ADSL line in a home, removing any limitations placed on the use of phones by a slow connection.

"**IM**" is an acronym for "instant messaging", the exchange of text messages through a software application in real-time.

"**interfaces**" means the specifications that exist between software components or network elements that specify a selected means of interaction.

"**IMS**" is an acronym for "IP multimedia subsystem", an open, standardized multi-media VoIP architecture for mobile and fixed IP services.

“**IPTV**” means Internet Protocol television.

“**MMD**” is an acronym for “MultiMedia Domain”, the variant of the IMS standards that are used in CDMA wireless networks.

“**MMS**” is an acronym for “multimedia messaging service”, a communications technology that allows users to exchange multimedia communications between capable mobile phones and other devices.

“**network capacity**” means the ability of a telecommunications network to support activity, usually expressed in terms of a quantity of users, services or transactions.

“**OEM**” is an acronym for “original equipment manufacturer”.

“**OSS**” is an acronym for “operational support system”, a network management system that supports a specific management function, such as alarm surveillance and provisioning, in a service provider’s network.

“**PTT**” is an acronym for “push to talk”, a means of instantaneous communication commonly employed in wireless cellular phone services that uses a button to switch a device from voice transmission mode to voice reception mode.

“**quad-play**” means a bundle of services consisting of voice communication (telephony), video, data and mobility services combined into a service package and offered by a service provider to their customers.

“**scalability**” means the ability of a product to continue to function well as it (or its context) is changed in size or volume. Typically, the rescaling is to a larger size or volume.

“**SDP**” is an acronym for “service delivery platform”, an architecture for converged multimedia services that typically provides a service control environment, a service creation environment, a service orchestration and execution environment, and abstractions for media control, presence/location, integration, and other low-level communications capabilities.

“**SMS**” is an acronym for “short message service”, a service for sending short text messages to mobile phones.

“**Tier 1**” means a service provider with national coverage.

“**Tier 2**” means a service provider with partial or regional coverage.

“**Triple-play**” means a bundle of services consisting of voice communication (telephony), video and data services combined into a service package and offered by a service provider to their customers.

“**UMTS**” is an acronym for “universal mobile telecommunications service”, a 3G broadband, packet-based transmission of text, digitized voice, video and multimedia at data rates up to 2 megabits per second. UMTS is based on the GSM communication standard.

“**VoD**” or “**video on demand**” means an application that provides a specific, non-broadcast video stream to an end user.

“**VoIP**” or “**voice over IP**” means the routing of voice communication over the Internet. Instead of sending the voice traffic over the traditional circuit-switched lines, it is sent over the IP packet-switched network. VoIP is typically part of a triple play service.

“**VPN**” is an acronym for “virtual private network”, a network that uses a public telecommunication infrastructure, such as the Internet, to provide remote offices or individual users with secure access to their organization’s network.

“**WAP**” is an acronym for “wireless application protocol”, a specification for a set of communication protocols to standardize the way that wireless devices, such as cellular telephones and radio transceivers, can be used for Internet access, including e-mail, the World Wide Web, newsgroups, and IM.

“**Wi-Fi**” is an acronym for “wireless fidelity”, a set of product compatibility standards for wireless local area networks based on the IEEE 802.11 standard. WiFi operates in unlicensed frequency bands.

“**WiMAX**” is an acronym for “worldwide interoperability for microwave access”, a wireless standard defined by IEEE 802.16. WiMAX provides wireless broadband access with a range of up to 30 miles. WiMAX is implemented in both fixed applications providing point-to-multipoint home and business access, and mobile applications providing cellular network broadband access.

INDEX TO FINANCIAL STATEMENTS

AUDITORS' CONSENT

We have read the prospectus of Bridgewater Systems Corporation (the "Company") dated ● , 2007 qualifying the distribution of ● Common Shares of the Company. We have complied with Canadian generally accepted standards for an auditor's involvement with the offering documents.

We consent to the use in the above mentioned prospectus of our report to the directors of the Company on the consolidated balance sheets of the Company as at December 31, 2006 and 2005, and the consolidated statement of operations and deficit, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 2006. Our report is dated March 8, 2007, except as to Note 14 which is as of ● , 2007.

Ottawa, Ontario
● , 2007

●
Chartered Accountants, Licensed Public Accountants

AUDITORS' REPORT

To the Directors of Bridgewater Systems Corporation

We have audited the consolidated balance sheets of Bridgewater Systems Corporation as at December 31, 2006 and 2005 and the consolidated statements of operations and deficit, cash flows and shareholders' equity for each of the years in the three-year period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006 in accordance with Canadian generally accepted accounting principles.

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Chartered Accountants, Licensed Public Accountants

Ottawa, Ontario
March 8, 2007, except as to Note 14 which is as of
● , 2007.

BRIDGEWATER SYSTEMS CORPORATION

CONSOLIDATED BALANCE SHEETS

	September 30, 2007	December 31, 2006	December 31, 2005
	(unaudited)		
CURRENT ASSETS			
Cash and cash equivalents	$ 16,821,132	$ 21,194,258	$ 2,802,246
Note receivable (Note 3)	—	—	12,500,000
Accounts receivable	5,302,240	4,263,141	3,617,010
Investment tax credits receivable (Note 7)	1,684,904	1,399,950	1,254,797
Unbilled receivables	5,368,338	3,896,853	2,761,025
Prepaid expenses and other assets	1,422,561	694,936	788,404
Future income tax asset (Note 7)	1,435,000	1,435,000	—
	$ 32,034,175	$ 32,884,138	$ 23,723,482
FUTURE INCOME TAX ASSET (Note 7)	6,065,000	6,065,000	—
CAPITAL ASSETS (Note 4)	3,958,767	3,637,441	1,386,658
OTHER ASSETS (Note 11)	—	—	467,715
	$ 42,057,942	$ 42,586,579	$ 25,577,855
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	2,752,013	3,818,437	1,421,383
Deferred revenue	7,189,306	7,773,170	4,287,004
	$ 9,941,319	$ 11,591,607	$ 5,708,387
SHAREHOLDERS' EQUITY			
Share capital (Note 6)	$ 49,495,503	$ 49,382,189	$ 49,206,905
Contributed surplus (Note 6)	645,678	511,293	362,300
Deficit	(18,024,558)	(18,898,510)	(29,699,737)
	32,116,623	30,994,972	19,869,468
	$ 42,057,942	$ 42,586,579	$ 25,577,855

APPROVED BY THE BOARD

(Signed) KEN WIGGLESWORTH, Director
(Signed) MICHAEL CRISTINZIANO, Director

See accompanying notes to the consolidated financial statements.

BRIDGEWATER SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE EARNINGS AND DEFICIT

	September 30, 2007	September 30, 2006	December 31, 2006	December 31, 2005	December 31, 2004
	(9 months unaudited)	(9 months unaudited)	(12 months)	(12 months)	(12 months)
REVENUE	$ 27,422,683	$ 21,427,342	$ 30,962,357	$ 21,154,657	$ 13,691,430
Cost of sales	4,036,189	3,796,459	5,500,276	3,276,545	2,154,352
Gross margin	23,386,494	17,630,883	25,462,081	17,878,112	11,537,078
EXPENSES					
Sales and marketing	10,125,133	8,263,800	11,598,488	7,605,575	3,820,977
Research and development (Note 7)	9,792,781	6,241,410	9,028,444	5,327,673	4,183,371
General and administration	1,825,299	1,511,380	2,413,725	1,746,103	1,522,876
Stock-based compensation	149,532	140,983	193,405	167,000	135,000
	21,892,745	16,157,573	23,234,062	14,846,351	9,662,224
Earnings before undernoted items	1,493,749	1,473,310	2,228,019	3,031,761	1,874,854
Foreign exchange (loss) gain	(1,081,370)	(127,790)	612,469	(276,980)	(107,602)
Interest income	453,178	318,715	500,192	374,772	303,069
Loss on disposal of capital assets	—	(33,434)	(33,434)	(158,000)	(57,525)
Other income (loss)	8,395	(6,095)	(6,019)	11,178	8,446
Earnings before income taxes	873,952	1,624,706	3,301,227	2,982,731	2,021,242
Future income tax recovery (Note 7)	—	—	7,500,000	—	—
NET EARNINGS AND COMPREHENSIVE EARNINGS	873,952	1,624,706	10,801,227	2,982,731	2,021,242
DEFICIT, BEGINNING OF PERIOD	(18,898,510)	(29,699,737)	(29,699,737)	(32,682,468)	(34,703,710)
DEFICIT, END OF PERIOD	$(18,024,558)	$(28,075,031)	$(18,898,510)	$(29,699,737)	$(32,682,468)
Net earnings per common share — basic	$ 0.05	$ 0.09	$ 0.59	$ 0.16	$ 0.11
Net earnings per common share — diluted	$ 0.04	$ 0.08	$ 0.55	$ 0.16	$ 0.11
Weighted average number of common shares outstanding — basic	18,449,727	18,352,738	18,363,980	18,286,821	18,208,978
Weighted average number of common shares outstanding — diluted	20,813,315	19,424,683	19,748,737	18,816,596	18,214,665

BRIDGEWATER SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	September 30, 2007	September 30, 2006	December 31, 2006	December 31, 2005	December 31, 2004
	(9 months unaudited)	(9 months unaudited)	(12 months)	(12 months)	(12 months)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:					
OPERATING					
Net earnings	$ 873,952	$ 1,624,706	$10,801,227	$ 2,982,731	$ 2,021,242
Items not affecting cash					
Loss on disposal of assets	—	33,434	33,434	158,000	57,525
Stock-based compensation (Note 6)	149,532	140,983	193,405	167,000	135,000
Foreign exchange (gain) loss	680,428	185,796	(484,273)	132,633	520,405
Future income taxes	—	—	(7,500,000)	—	—
Amortization of capital assets	894,019	553,866	990,894	525,686	426,531
	2,597,931	2,538,785	4,034,687	3,966,050	3,160,703
Changes in non-cash operating working capital items (Note 10)	(5,173,451)	251,292	4,049,576	(3,376,230)	326,168
	(2,575,520)	2,790,077	8,084,263	589,820	3,486,871
INVESTING					
Repayment of note receivable	—	12,500,000	12,500,000	—	(1,000,000)
Decrease (increase) in other assets	—	—	—	(467,715)	—
Purchases of capital assets	(1,215,345)	(1,936,309)	(2,807,396)	(994,065)	(366,618)
	(1,215,345)	10,563,691	9,692,604	(1,461,780)	(1,366,618)
FINANCING					
Proceeds from issuance of common shares	98,167	70,075	130,872	160,573	13,258
Foreign exchange gain (loss) on cash held in foreign currency	(680,428)	(185,796)	484,273	(132,633)	(520,405)
NET CASH (OUTFLOW) INFLOW	(4,373,126)	13,238,047	18,392,012	(844,020)	1,613,106
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	21,194,258	2,802,246	2,802,246	3,646,266	2,033,160
CASH AND CASH EQUIVALENTS, END OF PERIOD	$16,821,132	$16,040,293	$21,194,258	$ 2,802,246	$ 3,646,266
SUPPLEMENTARY INFORMATION:					
Cash on hand and bank balances	$ 4,207,322	$12,834,759	$10,562,732	$ 2,786,907	$ 3,495,915
Short-term investments	12,613,810	3,205,534	10,631,526	15,339	150,351
Total cash and cash equivalents	$16,821,132	$16,040,293	$21,194,258	$ 2,802,246	$ 3,646,266
Interest received	285,612	228,313	500,192	380,867	303,069
Income taxes paid	—	—	—	—	—

See accompanying notes to the consolidated financial statements.

BRIDGEWATER SYSTEMS CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Shares, Class A		Common Shares, Class B		Contributed		Shareholders'
	Number	Amount	Number	Amount	Surplus	Deficit	Equity
BALANCE DECEMBER 31, 2004	15,797,502	$46,255,279	2,423,390	$2,791,053	$195,300	$(32,682,468)	$16,559,164
Stock-based compensation	—	—	—	—	167,000	—	167,000
Exercise of stock options	114,154	160,573	—	—	—	—	160,573
Net earnings	—	—	—	—	—	2,982,731	2,982,731
BALANCE DECEMBER 31, 2005	15,911,656	46,415,852	2,423,390	2,791,053	362,300	(29,699,737)	19,869,468
Stock-based compensation	—	—	—	—	193,405	—	193,405
Exercise of stock options	80,601	175,284	—	—	(44,412)	—	130,872
Net earnings	—	—	—	—	—	10,801,227	10,801,227
BALANCE DECEMBER 31, 2006	15,992,257	46,591,136	2,423,390	2,791,053	511,293	(18,898,510)	30,994,972
Stock-based compensation	—	—	—	—	149,532	—	149,532
Exercise of stock options	65,554	113,314	—	—	(15,147)	—	98,167
Net earnings	—	—	—	—	—	873,952	873,952
BALANCE SEPTEMBER 30, 2007 (unaudited)	**16,057,811**	**$46,704,450**	**2,423,390**	**$2,791,053**	**$645,678**	**$(18,024,558)**	**$32,116,623**

See accompanying notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Years ended December 31, 2006, 2005 and 2004)
(Information as at and for the nine month period ended September 30, 2007 and 2006 is unaudited)

1. DESCRIPTION OF BUSINESS

Bridgewater Systems Corporation (the "Company") was incorporated under the Canada Business Corporations Act and commenced operations in April 1997. The Company develops, designs, and markets subscriber-centric policy management software for IP-based services.

2. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") and include the following significant accounting policies:

Basis of presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Bridgewater Systems Inc. and Bridgewater Systems (UK) Ltd. All intercompany accounts and transactions have been eliminated.

Basis of presentation — interim financial information

The interim financial information as at September 30, 2007 and 2006 is unaudited. However, in the opinion of management, such information has been prepared on the same basis as the annual audited consolidated financial statements, except for financial instruments which have been accounted for in accordance with the new policy described below under the heading ("New Accounting Pronouncements") and includes adjustments considered necessary for the fair presentation of the financial position and results of operations for the periods presented. The interim results, however, are not necessarily indicative of results of future periods.

Cash and cash equivalents

Cash and cash equivalents includes investments and other highly liquid, low risk financial instruments which have terms of three months or less at the time of acquisition. Due to the short maturity period of the instruments, the carrying amounts approximate fair market value.

Foreign currency translation

The accounts of the Company's US and UK subsidiaries, which are considered to be integrated subsidiaries, and accounts in foreign currencies have been translated into Canadian dollars using the temporal method of foreign currency translation. Under this method, monetary assets and liabilities are translated at the rate of exchange in effect at the balance sheet date. Non-monetary items are at rates in effect on the dates of the transactions. Revenue and expenses are translated at the average rate for the period. The resulting translation adjustments are included in the determination of net earnings.

Capital assets

Capital assets are recorded at cost. Amortization is calculated using the declining-balance method over the estimated useful lives of the assets as follows:

Office furniture and fixtures	20%
Computer equipment	30%
Software	100%
Leasehold improvements	Shorter of useful life or term of the lease

Impairment of long-lived assets

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected from their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

Revenue recognition

Revenue consists of licensed software, maintenance contracts and professional services. Licensed software revenue is recorded upon execution of a contract and delivery of software, provided that the license price is fixed and determinable, no significant production, modification or customization of the software is required and collection is considered probable by management. Revenue from maintenance is deferred and recognized rateably over the period the services are provided. Professional services revenues are recognized as the services are performed. The Company licenses its software in multiple element arrangements consisting of a combination of software, maintenance and professional services. Maintenance and professional service elements are unbundled from the license fee based on vendor specific objective evidence of their fair value and deferred until the revenue recognition criteria have been met. The residual amount is recognized as licensed software revenue upon delivery. The Company may also license its software including maintenance as a right to use for a defined period in time in which case the revenue is deferred and recognized ratably over the contract period. Deferred revenue arises where payments are received from customers in advance of revenue recognition criteria being met.

Unbilled receivables arise where professional services are performed or product is delivered prior to the Company's ability to invoice in accordance with the contract terms.

Use of accounting estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company's management to make estimates that affect the reported amount of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods presented. Significant estimates are used in determining stock-based compensation expense, future income taxes, amortization, warranty provision, allowance for doubtful accounts, investment tax credits and contingencies. Actual results could differ from the estimates made by management.

Research and development

Current research costs are expensed as incurred. Development costs are deferred and amortized when the criteria for deferral are met, or otherwise, are expensed as incurred. To date, no development costs have been deferred.

Income taxes

The Company uses the asset and liability method to account for income taxes. Future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax bases. Future income tax assets and liabilities are measured using substantively enacted statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in statutory tax rates is recognized in net income in the year of change. Future income taxes are recorded when their recoverability is considered more likely than not.

Accounting for stock-based compensation

The Company follows the CICA Handbook Section 3870 *Stock-Based Compensation and Other Stock-Based Payments* which establishes standards for the recognition, measurement and disclosure of stock-based compensation. The Company measures and recognizes compensation expense based on the fair value of the stock options issued. Consideration paid by employees on the exercise of stock options is recorded as share capital and the related stock-based compensation is transferred from contributed surplus to share capital.

Earnings per Share

Basic net income per common share is calculated by dividing the net income by the weighted average common shares outstanding for the period. Diluted net income per common share is calculated by dividing net income by the diluted weighted average common shares outstanding for the period. Options under the stock-based compensation plan that have a dilutive impact are assumed to have been exercised on the later of the beginning of the period or the date granted and are included in the diluted weighted average common shares. Diluted earnings per common share is computed using the treasury stock method.

New Accounting Pronouncements

Effective January 1, 2007 the Company adopted the new CICA accounting standards contained in Section 3855 *Financial Instruments — Recognition and Measurement,* Section 3861 *Financial Instruments — Disclosure and Presentation,* Section 3865 *Hedges,* Section 3251 *Equity* and Section 1530 *Comprehensive Income*.

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income ("OCI") refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. The Company has adopted this section on a prospective basis and has no OCI for the period presented.

Section 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. All financial instruments are required to be measured at fair value on initial recognition, except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as loans and receivables, held-for-trading, held-to-maturity, available-for-sale or other liabilities. The classification depends on the purpose for which the financial instruments were acquired, their characteristics and management's intent. Management determines the classification of financial assets and liabilities at initial recognition and, except in very limited circumstances, the classification is not changed subsequent to initial recognition. Upon adoption of these new standards, the Company designated its cash and cash equivalents and foreign exchange contracts as held for trading which are measured at fair value, with changes in fair value being recorded in net income. Accounts receivable and investment tax credits receivable have been classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities have been classified as other financial liabilities, which are measured at amortized cost. Due to the short-term nature of these assets and liabilities, the carrying amounts approximate amortized cost.

Derivative instruments, including embedded derivatives, are initially recorded at fair value. All changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in their fair value are recorded in OCI. The Company has outstanding foreign currency contracts at September 30, 2007 which are measured at fair value (Note 9). The Company does not apply hedge accounting to these derivatives and changes in fair value are recorded in net income.

Future Accounting Pronouncements

Financial Instruments

Effective January 1, 2008, the Company will be required to adopt two new CICA standards, Section 3862 Financial Instruments Disclosures and Section 3863 Financial Instruments Presentation which will replace Section 3861 Financial Instruments Disclosure and Presentation. The new presentation standard carries forward the former presentation requirements and increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. This new standard is not expected to have a material effect on the Company's consolidated financial statements.

Capital Disclosures

In November 2006, the CICA issued the new handbook Section 1535 Capital Disclosures effective for annual and interim periods beginning on or after October 1, 2007. This section establishes standards for disclosing information about a company's capital and how it is managed in order that a user of the financial statements may evaluate the company's objectives, policies and processes for managing capital. This new standard is not expected to have a material effect on the Company's consolidated financial statements.

3. NOTE RECEIVABLE

As at December 31, 2005, the Company had loaned surplus cash to an unrelated third party secured by a Chartered Bank. The note receivable was due January 13, 2006 and accrued interest at an annualized rate of 3.275%. This amount was collected in fiscal 2006.

4. CAPITAL ASSETS

	SEPTEMBER 30, 2007		
	Cost	Accumulated Amortization	Net Book Value
Office furniture and fixtures	$ 521,548	$ 217,778	$ 303,770
Computer equipment	5,791,834	3,157,202	2,634,632
Software	1,100,647	891,933	208,714
Leasehold improvements	1,227,376	415,725	811,651
	$8,641,405	$4,682,638	$3,958,767

	DECEMBER 31, 2006		
	Cost	Accumulated Amortization	Net Book Value
Office furniture and fixtures	$ 452,994	$ 171,439	$ 281,555
Computer equipment	4,888,788	2,543,937	2,344,851
Software	972,990	813,558	159,432
Leasehold improvements	1,111,290	259,687	851,603
	$7,426,062	$3,788,621	$3,637,441

	DECEMBER 31, 2005		
	Cost	Accumulated Amortization	Net Book Value
Office furniture and fixtures	$ 209,291	$ 129,293	$ 79,998
Computer equipment	3,029,562	1,879,393	1,150,169
Software	736,219	647,479	88,740
Leasehold improvements	204,024	136,273	67,751
	$4,179,096	$2,792,438	$1,386,658

5. LEASE OBLIGATIONS

The Company has operating leases for office space and equipment. The future minimum lease payments related to these leases are as follows:

Fiscal Year	Operating Leases
2007	$227,000
2008	887,000
2009	860,000
2010	860,000
2011	143,000
2012	—

6. SHARE CAPITAL

Authorized Unlimited number of Class A voting and Class B non-voting common shares (prior to giving effect to the reorganization, see Note 14)

Class A shares are convertible at any time into Class B shares on a 1:1 basis. Class B shares are mandatorily convertible into Class A shares on a 1:1 basis in the event of a public offering of shares.

Anti-dilution right

Under the Shareholders' Agreement, three shareholders have the right to acquire sufficient common shares, at a price equal to their then current fair market value, to maintain their current levels of ownership. These rights are exercisable should the Company issue any additional shares of any class. The Shareholders' Agreement terminates on the completion of the Company's initial public offering.

Stock options

The Company has a Key Employee Stock Option Plan and a Key Management Stock Option Plan (collectively, the "Plans") applicable to full-time employees and members of the Board of Directors effective June 1, 1999. The option exercise price is 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 may generally be exercised 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 expire on the fifth anniversary or upon termination of employment.

Activity in the stock option plan is summarized below:

	Number of Options	Weighted Average Exercise Price
Options outstanding, December 31, 2004	3,123,027	$1.24
Granted	899,017	$1.48
Exercised	(114,154)	$1.40
Cancelled	(223,654)	$1.57
Options outstanding, December 31, 2005	3,684,236	$1.27
Granted	363,300	$2.12
Exercised	(80,601)	$1.62
Cancelled	(466,637)	$1.46
Options outstanding, December 31, 2006	3,500,298	$1.31
Granted	573,600	$4.00
Exercised	(65,554)	$1.50
Cancelled	(116,483)	$1.72
Options outstanding, September 30, 2007	3,891,861	$1.71

The following tables summarize information about stock options outstanding at September 30, 2007:

Exercise Price	Number Outstanding	Weighted Average Remaining Life (Years)	Number Exercisable
$1.15	2,339,597	1.24	2,075,981
$1.50	720,645	2.80	357,701
$2.00	228,801	3.71	70,631
$4.00	602,818	4.59	60,447
$1.71	3,891,861	2.20	2,564,760

The following tables summarize information about stock options outstanding at December 31, 2006:

Exercise Price	Number Outstanding	Weighted Average Remaining Life (Years)	Number Exercisable
$1.15	2,394,238	1.98	1,759,761
$1.50	772,860	3.55	251,327
$1.85	40,700	0.35	40,700
$2.00	257,000	4.50	30,931
$4.00	35,500	4.94	—
$1.33	3,500,298	2.53	2,082,719

The following tables summarize information about stock options outstanding at December 31, 2005:

Exercise Price	Number Outstanding	Weighted Average Remaining Life (Years)	Number Exercisable
$1.15	2,732,032	3.00	1,291,304
$1.50	834,270	4.54	80,330
$1.85	59,334	1.24	54,915
$2.50	37,000	0.41	37,000
$4.00	21,600	0.25	21,600
$1.27	3,684,236	3.29	1,485,149

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:

	September 30, 2007	September 30, 2006	December 31, 2006	December 31, 2005
Expected option life (years)	4.0	4.0	4.0	4.0
Volatility	1.0%	1.0%	1.0%	1.0%
Risk-free interest rate	4.9%	4.5%	4.5%	3.5%
Dividend yield	—	—	—	—

The weighted average fair value for stock options granted in the fiscal periods ending September 30, 2007 and 2006 and December 31, 2006 and 2005 were $0.70, $0.31, $0.35 and $0.17 respectively.

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

Earnings per share

For the periods ended September 30, 2007 and 2006, 333,282 and 116,616 (December 31, 2006 — 194,207; December 31, 2005 — 531,030; December 31, 2004 — 2,709,551) weighted average stock options outstanding had an exercise price greater than the average fair value of the common shares and were excluded from the computation of earnings per common share because they were anti-dilutive.

	Sept. 30, 2007	Sept. 30, 2006	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
Weighted average common shares outstanding-basic	18,449,727	18,352,738	18,363,980	18,286,821	18,208,978
Dilutive effect of stock options	2,363,588	1,071,945	1,384,757	529,775	5,687
Weighted average common shares outstanding-diluted	20,813,315	19,424,683	19,748,737	18,816,596	18,214,665

7. INCOME TAXES

Tax reconciliation

	Sept. 30, 2007	Sept. 30, 2006	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
	(9 months)	(9 months)	(12 months)	(12 months)	(12 months)
Statutory tax rate	36.12%	36.12%	36.12%	36.12%	36.12%
Expected income tax expense	$ 315,671	$ 586,844	$ 1,192,403	$1,077,362	$ 778,835
Permanent differences	82,000	72,000	95,230	69,972	7,990
Foreign/provincial rate differential	32,392	(44,820)	(61,506)	(175,062)	(121,281)
Benefit of losses, ITCs and timing not recorded	(365,279)	(614,024)	(1,226,127)	(972,272)	(665,544)
Future income tax asset recorded	—	—	(7,500,000)	—	—
Income tax expense (recovery)	$ —	$ —	$(7,500,000)	$ —	$ —

Research and development

The Company claims research and development expenditures and related investment tax credits based on management's interpretation of the applicable legislation in the Income Tax Act of Canada. These claims are subject to review by the Canada Revenue Agency.

As at September 30, 2007, the Company has recorded investment tax credits receivable of $1,684,904 (December 31, 2006 — $1,399,950; December 31, 2005 — $1,254,797). These investment tax credits have been recorded as a reduction of research and development expenses.

	Sept. 30, 2007	Sept. 30, 2006	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
	(9 months)	(9 months)	(12 months)	(12 months)	(12 months)
Total research and development expenses	$10,276,754	$ 7,346,509	$10,514,380	$ 6,782,669	$ 5,233,371
Less: investment tax credits	(483,973)	(1,105,099)	(1,485,936)	(1,454,996)	(1,050,000)
Net research and development expenses	$ 9,792,781	$ 6,241,410	$ 9,028,444	$ 5,327,673	$ 4,183,371

At December 31, 2006, the Company has approximately $2,386,000 (2005 - $3,780,000) of non-refundable investment tax credits carried forward, relating primarily to research and development, available to reduce future years Canadian federal income taxes. These potential benefits expire as follows:

2014	$ 478,000
2015	664,000
2026	1,244,000
	$2,386,000

The Company has claimed less research and development expenses for income tax purposes than has been recorded in the financial statements. As at September 30, 2007, these unclaimed expenses total approximately $27,900,000 (December 31, 2006 — $27,700,000) and $32,900,000 (December 31, 2006 — $34,170,000) for Canadian federal and provincial income tax purposes, respectively. These are available without expiry to reduce future years' taxable income.

The US subsidiary has losses available to reduce future years' federal taxable income totalling approximately $4,220,000 (US$4,235,000) (December 31, 2006 — $5,100,000, US$4,400,000). These losses begin to expire in 2020.

Future tax assets

In assessing the realizability of future tax assets, the Company considers whether it is more likely than not that some portion or all of the future tax asset will not be realized. During fiscal 2006, the Company determined that certain future tax assets are considered more likely than not to be realized and therefore reduced its valuation allowance.

The sources of accumulated timing differences and the related future income taxes are as follows:

	September 30, 2007	December 31, 2006	December 31, 2005
Accounting depreciation in excess of tax	$ 12,731	$ 103,423	$ 144,000
Research and development expenses not deducted for tax purposes and investment tax credits	13,805,268	12,662,273	12,185,000
Losses available to offset future income taxes	1,687,755	2,103,415	2,956,000
Future income tax asset before valuation allowance	15,505,754	14,869,111	15,285,000
Less: valuation allowance	(8,005,754)	(7,369,111)	(15,285,000)
Future income tax asset	$ 7,500,000	$ 7,500,000	$ —

8. RELATED PARTY TRANSACTIONS

The Company leases premises from a company controlled by the Chairman of the Board of Directors, under terms and conditions reflecting prevailing market conditions at the time the lease was entered into. In November 2005, the Company renegotiated an extension of the lease agreement with the landlord for five years expiring February 2011. For the nine-month period ended September 30, 2007, the Company paid $27,500 (nine-month period ended September 30, 2006 — $15,000; year ended December 31, 2006 — $15,000; December 31, 2005 — $2,537; December 31, 2004 — $NIL) for consulting services received from a Company controlled by the Chairman of the Board.

For the nine-month period ended September 30, 2007, the Company earned revenue of $3,432,767 (nine-month period ended September 30, 2006 — $961,861; year ended December 31, 2006 — $3,141,659; December 31, 2005 — $2,168,400; December 31, 2004 — $NIL) on sales to a related company that owns 23% of the Company's issued and outstanding shares and has representation on the Company's Board of Directors. As at September 30, 2007, deferred revenue includes $181,233 (December 31, 2006 — $1,359,370; December 31, 2005 — $29,646) related to these sales and accounts receivable include $179,146 (December 31, 2006 — $1,929,916; December 31, 2005 — $1,268,228). These transactions were entered into the normal course of operations and are recorded at the exchange amount.

9. FINANCIAL INSTRUMENTS

Currency risk

The Company is exposed to currency rate fluctuations related primarily to its future net cash flows of US dollars from operations. 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. With unrealized gains or losses recorded on the balance sheet as other assets or liabilities and on the consolidated statement of earnings and deficit as a foreign exchange gain or loss. Foreign exchange gains or losses from the evaluation 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 and deficit as a foreign exchange gain or loss.

The Company's foreign exchange contracts mature within one to four months from the date of inception. For the nine-month period ended September 30, 2007, the Company had an unrealized foreign exchange gain of $105,800, (September 30, 2006 — $NIL). For the year ended of December 31, 2006, the Company had an unrealized foreign exchange loss of $NIL (2005 — $6,095). As of September 30, 2007, the Company had US$2,000,000 foreign exchange contracts requiring the Company to exchange US dollars for Canadian dollars (2006 — $NIL).

Credit risk

The Company is exposed to credit risk from its customers. The Company's business is mostly with large corporations. The Company has credit evaluation, approval and monitoring processes intended to mitigate potential credit risk.

For the nine-month periods ended September 30, 2007 and 2006, the Company had 3 customers that each accounted for greater than ten percent of revenue for a total of $17,166,000 and $11,367,000 respectively.

For the years ended December 31, 2006, 2005 and 2004, the Company had 4, 3 and 2 customers that each accounted for greater than ten percent of revenue for a total of $20,029,000, $10,857,000 and $6,170,000 respectively.

Fair values

The carrying amounts for cash and cash equivalents, note receivable, accounts and other accounts receivables, investment tax credits receivable and accounts payable approximate fair market value because of the short maturity of these instruments.

10. CHANGES IN NON-CASH OPERATING WORKING CAPITAL

	Sept. 30, 2007	Sept. 30, 2006	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
	(9 months)	(9 months)	(12 months)	(12 months)	(12 months)
Accounts receivable	$(1,039,099)	$(2,395,832)	$ (646,131)	$(1,971,218)	$ (889,984)
Investment tax credits receivable	(284,954)	(906,212)	(145,153)	(333,345)	378,046
Unbilled and other receivables	(1,471,485)	(2,895,304)	(1,135,828)	(2,122,380)	(47,423)
Prepaid expenses	(727,625)	190,372	93,468	(227,814)	107,755
Accounts payable and accrued liabilities	(1,066,424)	1,814,142	2,397,054	296,020	(532,215)
Deferred revenue	(583,864)	4,444,126	3,486,166	982,507	1,309,989
	$(5,173,451)	$ 251,292	$ 4,049,576	$(3,376,230)	$ 326,168

11. OTHER ASSET

As at December 31, 2005 the Company held an other asset in the amount of $467,715 related to leasehold improvements of new office space that was recorded as a capital asset in 2006.

12. 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:

	Sept. 30, 2007	Sept. 30, 2006	Dec. 31, 2006	Dec. 31, 2005	Dec. 31, 2004
	(9 months)	(9 months)	(12 months)	(12 months)	(12 months)
Canada	$ 3,919,507	$ 1,726,716	$ 4,178,137	$ 2,794,024	$ 1,546,069
United States	22,741,362	16,529,377	23,757,412	16,037,593	11,777,590
U.K.	1,568	2,070,451	1,827,025	2,002,378	222,478
Other foreign	760,246	1,100,798	1,199,783	320,662	145,293
	$27,422,683	$21,427,342	$30,962,357	$21,154,657	$13,691,430

Assets are primarily located in Canada.

13. COMPARATIVE FIGURES

Effective fiscal 2007, the Company revised its classification of sales commission expenses. The revision resulted in a reclassification of comparative figures from cost of sales to sales and marketing expenses of $1,175,598 for the nine months ended September 30, 2006 and $1,838,607, $1,336,135 and $809,657 for the years ended December 31, 2006, 2005 and 2004. The Company also revised its presentation and calculation of earnings before undernoted items to exclude foreign exchange gain (loss).

14. SUBSEQUENT EVENTS

Under the terms of an underwriting agreement, dated ● , 2007, the Company agreed to issue common shares for net cash proceeds estimated to be $ ● million (the "Offering").

Immediately prior to completion of the Offering, a share capital reorganization will occur pursuant to which the existing outstanding Class B Non-Voting Common Shares will be converted into Class A Voting Common Shares and the Class A Voting Common Shares will be re-designated as Common Shares.

Immediately prior to the closing of the Offering, the existing stock option plans described in Note 6 will be amended, restated and consolidated into a single Amended and Restated Stock Option Plan (the "Amended Plan"). All existing options granted under the existing Plans and all new options granted under the Amended Plan will be governed by the terms of the Amended Plan. The maximum number of Common Shares under the Amended Plans will be 4,109,034. As options are exercised or expired, 50% of the Common Shares previously issued will be 'reloaded' so that they are again available for future grant. This practice will continue until the number of Common Shares granted under the Amended Plan is 15% of our outstanding common shares.

The Amended Plan also provides for an extension to the expiry date of option grants for option holders who would be subject to a lock-up agreement and those options that expire within 6 months of the termination of the lock-up agreement. The option grants would be modified to extend the expiry date for nine months from the termination of the lock-up agreement if the option holder enters into a programmed exercise arrangement.

CERTIFICATE OF THE ISSUER

Dated: November 5, 2007

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the Securities Act (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act,* 1988 (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Part 6 of the *Securities Act* (New Brunswick), by Section 63 of the Securities Act (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of the *Securities Act,* 1990 (Newfoundland and Labrador), by the *Securities Act,* (Yukon), by the *Securities Act* (Northwest Territories), and by the *Securities Act* (Nunavut), and the respective regulations thereunder. This prospectus does not contain any misrepresentation likely to affect the value or market price of the securities to be distributed within the meaning of the *Securities Act* (Québec) and the regulations thereunder.

By: (Signed) Ed Ogonek
President and Chief Executive Officer

By: (Signed) Kim Butler
Chief Financial Officer

On behalf of the Board of Directors

By: (Signed) Terry Matthews
Director

By: (Signed) Ken Wigglesworth
Director

CERTIFICATE OF THE UNDERWRITERS

Dated: November 5, 2007

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 9 of the Securities Act (British Columbia), by Part 9 of the *Securities Act* (Alberta), by Part XI of *The Securities Act,* 1988 (Saskatchewan), by Part VII of *The Securities Act* (Manitoba), by Part XV of the *Securities Act* (Ontario), by Part 6 of the *Securities Act* (New Brunswick), by Section 64 of the Securities Act (Nova Scotia), by Part II of the *Securities Act* (Prince Edward Island), by Part XIV of the *Securities Act* (Newfoundland and Labrador), by the *Securities Act* (Yukon), by the *Securities Act* (Northwest Territories) and by the *Securities Act* (Nunavut), and the respective regulations thereunder. For the purposes of the Province of Quebec, to the best of our knowledge, this prospectus does not contain any misrepresentation likely to affect the value or market price of the securities to be distributed within the meaning of the *Securities Act* (Québec) and the regulations thereunder.

CIBC World Markets Inc.	Genuity Capital Markets G.P.
By: (Signed) Kevin Li	By: (Signed) Sanjiv Samant

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