

Interim Consolidated Financial Statements (Unaudited) of

## **BSM TECHNOLOGIES INC.**

First quarter's results December 31, 2010 and 2009

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

UNDER NATIONAL INSTRUMENT 51-102, PART 4, SUBSECTION 4.3 (3) (A), IF AN AUDITOR HAS NOT PERFORMED A REVIEW OF THE INTERIM FINANCIAL STATEMENTS, THEY MUST BE ACCOMPANIED BY A NOTICE INDICATING THAT THE FINANCIAL STATEMENTS HAVE NOT BEEN REVIEWED BY AN AUDITOR. THE ACCOMPANYING UNAUDITED FINANCIAL STATEMENTS OF THE COMPANY HAVE BEEN PREPARED BY AND ARE THE RESPONSIBILITY OF THE COMPANY'S MANAGEMENT. THE COMPANY'S INDEPENDENT AUDITOR HAS NOT PERFORMED A REVIEW OF THESE FINANCIAL STATEMENTS IN ACCORDANCE WITH STANDARDS ESTABLISHED BY THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS FOR A REVIEW OF INTERIM FINANCIAL STATEMENTS BY AN ENTITY'S AUDITOR.

# **BSM TECHNOLOGIES INC.**

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Three months ended December 31, 2010 and 2009

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# BSM TECHNOLOGIES INC.

## Consolidated Balance Sheets (Unaudited)

December 31, 2010 and September 30, 2010

	31-Dec-2010	30-Sep-2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 7)	\$ 451,497	\$ 917,438
Accounts receivable (note 14)	2,060,076	1,936,874
Current portion of net investment in sales-type leases (note 15)	695,893	677,857
Investment tax credits receivable	371,690	371,690
Inventories (note 13)	663,416	683,429
Prepaid expenses and other assets	120,871	262,628
	<u>4,363,443</u>	<u>4,849,916</u>
Property and equipment (note 4)	280,672	306,777
Long-term investment in sales-type leases (note 15)	509,312	562,242
Intangible assets (note 3)	683,267	818,763
Goodwill (note 3)	1,178,608	1,178,608
	<u>\$ 7,015,302</u>	<u>\$ 7,716,306</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,167,976	\$ 3,435,293
Dividends payable on preferred shares (note 5(b))	-	196,726
Current portion of capital lease obligations (note 10(b))	8,527	8,527
Deferred revenue	81,263	191,221
	<u>3,257,766</u>	<u>3,831,767</u>
Capital lease obligations (note 10(b))	7,778	10,660
Shareholders' equity:		
Share capital (note 5):		
Preferred shares	-	3,945,333
293,256,117 common shares	21,299,638	17,354,305
Contributed surplus (note 12)	2,604,415	2,591,915
Deficit	(20,098,055)	(19,961,434)
Accumulated other comprehensive loss	(56,240)	(56,240)
	<u>3,749,758</u>	<u>3,873,879</u>
Commitments (notes 2 and 10)		
Contingencies (note 16)		
	<u>\$ 7,015,302</u>	<u>\$ 7,716,306</u>

See accompanying notes to consolidated financial statements - unaudited

On behalf of the Board:

"John K. Bell" Director "Aly Rahemtulla" Director

# BSM TECHNOLOGIES INC.

## Consolidated Statements of Operations and Deficit (Unaudited)

Three months ended December 31, 2010 and December 31, 2009

	31-Dec-2010	31-Dec-2009
Revenue	\$ 3,268,060	\$ 3,505,130
Cost of revenue	1,236,167	1,432,887
Gross profit	2,031,893	2,072,243
Expenses:		
Marketing, advertising and promotion	470,801	611,370
Research and development	293,534	352,319
General and administrative	1,211,935	1,203,335
	1,976,270	2,167,024
Income (loss) before the undernoted	55,623	(94,781)
Other expenses:		
Interest	600	4,638
Notional charges preferred shares	—	7,422
Amortization of property and equipment	26,105	38,510
Amortization of intangible assets	135,496	96,945
Interest income	(18,723)	(6,242)
	143,478	141,273
Income (loss) for the period	(87,855)	(236,054)
Deficit, beginning of the period	(19,961,434)	(16,747,625)
Preferred dividends	(48,766)	—
Deficit, end of the year	\$ (20,098,055)	\$ (16,983,679)
Loss per share - basic and diluted (note 5(f))	\$ (0.000)	\$ (0.001)
Weighted average number of shares - basic and diluted (note 5(f))	239,103,230	226,952,747

See accompanying notes to interim consolidated financial statements - unaudited

# BSM TECHNOLOGIES INC.

## Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

Three months ended December 31, 2010 and December 21, 2009

	31-Dec-2010	31-Dec-2009
Loss for the period	\$ (56,240)	\$ (236,054)
Other comprehensive loss:		
Unrealized translation losses on self-sustaining operations	–	(3,898)
Comprehensive loss	\$ (56,240)	\$ (239,952)

## Consolidated Statements of Accumulated Other Comprehensive Income (Loss) (Unaudited)

Three months ended December 31, 2010 and 2009

	31-Dec-2010	31-Dec-2009
Balance, beginning of period	\$ (56,240)	\$ (56,240)
Other comprehensive loss, net of income taxes:		
Unrealized translation losses on self-sustaining operations	–	(3,898)
Balance, end of period	\$ (56,240)	\$ (60,138)

See accompanying notes to consolidated financial statements - unaudited

# BSM TECHNOLOGIES INC.

## Consolidated Statements of Cash Flows (Unaudited)

Three months ended December 31, 2010 and December 31, 2009

	31-Dec-2010	31-Dec-2009
Cash provided by (used in):		
Operating activities:		
Loss for the period	\$ (87,855)	\$ (236,054)
Items not involving cash:		
Amortization of property and equipment	26,105	38,510
Notional charges preferred shares	–	7,422
Amortization of intangible assets	135,496	96,945
Stock-based compensation expense	12,500	–
Change in non-cash operating working capital (note 6(a))	(304,060)	(762,845)
Net cash used in operating activities	(217,814)	(856,022)
Financing activities:		
Capital lease payments	(2,635)	(28,155)
Preferred dividends	(245,492)	–
Net cash used in financing activities	(248,127)	(28,155)
Investing activities:		
Acquisition of property and equipment, net	-	(4,216)
Net cash provided by (used in) investing activities	-	(4,216)
Increase (decrease) in cash and cash equivalents	(465,941)	(888,393)
Cash and cash equivalents, beginning of period	917,438	2,497,188
Cash and cash equivalents, end of period	\$ 451,497	\$ 1,608,795

Supplemental cash flow information (note 6)

See accompanying notes to interim consolidated financial statements - unaudited

# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited  
Three months ended December 31, 2010 and 2009

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BSM Technologies Inc. (the "Company") designs and develops Global Positioning System ("GPS") based hardware and software solutions that are integrated with anti-theft and Automatic Vehicle Location ("AVL") functions. The manufacturing of the hardware products is subcontracted to third party suppliers, generally located in China and South Asia.

Using technologies such as digital mapping, GPS and wireless communications, the Company designs, develops and integrates AVL systems that enable its customers to monitor assets and/or exchange mission-critical information with mobile units in real time. Its proprietary software and customizable hardware product offers seamless, wireless communications over radio, cellular or satellite networks, geo-fencing and self-monitoring. The Company provides wireless solutions to fleet management, law enforcement agencies, transportation and private customers.

## 1. Significant accounting policies:

The disclosures contained in these unaudited consolidated interim financial statements (the "Statements") have been made in accordance with the generally accepted accounting principles applicable to interim financial statements. These Statements should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2009.

(a) Recent Canadian accounting pronouncements:

(i) International Financial Reporting Standards:

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the changeover to International Financial Reporting Standards ("IFRS") from GAAP will be required for both interim and annual financial statements for profit-oriented publicly accountable entities for fiscal years beginning on or after January 1, 2011. The AcSB stated in their exposure draft that early adoption is permitted. The Company's first annual IFRS financial statements will be for the year ending September 30, 2012 and will include the comparative period of 2011. Starting in the first quarter of 2012, the Company will provide unaudited consolidated financial information in accordance with IFRS, including comparative figures for 2011.

The Company has completed a preliminary assessment of the accounting and reporting differences under IFRS as compared to Canadian GAAP; however, management has not yet finalized its determination of the impact of these differences on the consolidated financial statements.

# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

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## 1. Significant accounting policies (continued):

The Company is in the process of developing a project plan, which includes the project structure and governance, resourcing and training, an analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS, as well as potential IFRS 1 First-time Adoption of International Financial Reporting Standards exemptions. The Company's project scoping will include a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements.

In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period and, as a result, the final impact of IFRS on the Company's consolidated financial statements will only be measured once all the IFRS's applicable at the conversion date are known.

### (ii) Business combinations:

In January 2009, the CICA issued Handbook Section 1582, Business Combinations ("Section 1582") concurrently with Handbook Sections 1601, Consolidated Financial Statements ("Section 1601"), and 1602, Non-Controlling Interests ("Section 1602"). Section 1582, which replaces Handbook Section 1581, Business Combinations establishes standards for the measurement of a business combination, and the recognition and measurement of assets acquired and liabilities assumed. Section 1602 establishes standards for the treatment of non-controlling interests subsequent to acquisition through a business combination. Section 1601, which replaces Handbook Section 1600, carries forward the existing Canadian guidance on aspects of the preparation of consolidated financial statements subsequent to acquisition other than non-controlling interests. These new standards are applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. Management is currently evaluating the impact of adopting this standard on the Company's consolidated financial statements.

### (iii) Multiple deliverable revenue arrangement:

In December 2009, the EIC issued a new abstract concerning multiple deliverable revenue arrangements, EIC Abstract No. 175, Multiple Deliverable Revenue Arrangements ("EIC-175"), which amended EIC Abstract No. 142, Revenue Arrangements with Multiple Deliverables ("EIC-142"). These amendments require a vendor to allocate arrangement consideration at the inception of the arrangement to all deliverables using the relative selling price method, thereby eliminating the use of the residual value method. The amendments also change the level of evidence of the standalone selling price required to separate deliverables when more objective evidence of the selling price is not available.

# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

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## 1. Significant accounting policies (continued):

EIC-175 should be adopted prospectively for revenue arrangements entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011, with early adoption permitted. EIC-142 continues to be effective until that date. Management is currently evaluating the impact of adopting this standard on the Company's consolidated financial statements.

## 2. Business combinations:

On September 25, 2009, the Company acquired all the outstanding shares of Datacom Wireless Corporation ("Datacom"), a Montreal-based company. Datacom is a telematic service provider that supplies strategic-data acquisition, transmission, organization, distribution and integration services for various business sectors, especially in the sectors of transportation, industrial inventory management and public utility services.

Datacom was established in 1999 and offers a range of products and services for commercial and consumer markets. Datacom provides high-quality fleet and vehicle management services and products for the commercial market. Fleet managers use the Mobicom<sup>TM</sup> product line on a 24/7 basis to track vehicle positions in real time on a computerized map and to acquire important management information.

As consideration for the acquisition, the Company: (i) issued 118,571,871 common shares of the Company, valued at \$4,150,015; and (ii) issued 4,533,921 options valued at \$243,003 to acquire common shares in exchange for 1,068,791 outstanding Datacom options. The acquisition costs related to this acquisition were \$390,235 and are included in accounts payable and accrued liabilities at September 30, 2009.

The weighted average value of each option granted is estimated on the date of the grant being the acquisition date of September 25, 2009, using the Black-Scholes option pricing model with the following weighted average assumptions:

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	2009
Risk-free rate	1.27%
Expected volatility	125%
Expected life in years	7.91
Expected dividend yield	–

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The acquisition was accounted for under the purchase method of accounting and the results of operations have been included in these consolidated financial statements from the date of acquisition.

# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

## 2. Business combinations (continued):

During the year ended September 30, 2010, the Company finalized the purchase price allocation. This resulted in an increase in intangible assets of \$896,000, a decrease in accounts receivable of \$94,990, a decrease in net investment in sales-type leases of \$30,917 and a decrease in goodwill of \$770,093.

The adjustments had the following effects on the purchase price allocation from the amounts recorded and disclosed in the 2009 consolidated financial statements:

	As at September 30, 2009	Adjustments	Final purchase price allocation
<b>Assets:</b>			
Cash and cash equivalents	\$ 2,398,829	\$ –	\$ 2,398,829
Accounts receivable	934,979	(94,990)	839,989
Research and development credits receivable	105,132	–	105,132
Inventories	362,365	–	362,365
Prepaid expenses and deposits	126,045	–	126,045
Net investment in sales-type leases	497,563	(30,917)	466,646
Property and equipment	127,861	–	127,861
Intangible assets	–	896,000	896,000
Goodwill	1,775,206	(770,093)	1,005,113
	6,327,980	–	6,327,980
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	1,273,315	–	1,273,315
Deferred revenue	206,199	–	206,199
Current portion of long-term debt	23,248	–	23,248
Other long-term liabilities	41,965	–	41,965
	1,544,727	–	1,544,727
<b>Total consideration</b>	<b>\$ 4,783,253</b>	<b>\$ –</b>	<b>\$ 4,783,253</b>
<b>Consideration comprises:</b>			
118,571,871 common shares issued at \$0.035/share			\$ 4,150,015
4,533,921 options to acquire common shares			243,003
Acquisition costs			390,235
<b>Total consideration</b>			<b>\$ 4,783,253</b>

# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

## 3. Goodwill and intangible assets:

### (a) Goodwill:

A summary of the changes to goodwill is as follows:

	31-Dec-2010	30-Sep-2010
Goodwill, beginning of period	\$ 1,178,608	\$ 3,804,670
Adjustment to Datacom goodwill (note 2)	-	(770,093)
Write-off of SecTrack goodwill	-	(1,855,969)
Goodwill, end of period	\$ 1,178,608	\$ 1,178,608

(i) On January 31, 2007, the Company acquired all the outstanding shares of SecTrack, a Belgium-based satellite telematics distribution company.

(ii) Management periodically assesses the carrying value of goodwill of the Company. On September 30, 2010, management performed the impairment test and determined that there was an impairment of the recorded goodwill, and the SecTrack goodwill of \$1,855,969 was written down to zero. The impairment was determined by considering the Company's share value and market comparables.

### (b) Intangible assets:

Details of intangible assets are as follows:

December 31, 2010	Cost	Accumulated amortization	Net book value
Definite life:			
Trademarks and patents	\$ 110,840	\$ 99,573	\$ 11,267
Customer contracts	1,159,045	487,045	672,000
Acquired technology	751,220	751,220	-
	\$ 2,021,105	\$ 1,337,838	\$ 683,267

September 30, 2010	Cost	Accumulated amortization	Net book value
Definite life:			
Trademarks and patents	\$ 110,840	\$ 93,400	\$ 17,440
Customer contracts	1,159,045	420,324	738,721
Acquired technology	751,220	686,618	62,602
	\$ 2,021,105	\$ 1,202,342	\$ 818,763

# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

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## 4. Property and equipment:

December 31, 2010	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 1,332,324	\$ 1,267,198	\$ 65,126
Leased computer equipment	342,545	225,716	116,829
Furniture and office equipment	563,180	474,790	88,390
Computer software	679,420	678,551	869
Leasehold improvements	480,679	471,221	9,458
	<u>\$ 3,398,148</u>	<u>\$ 3,117,476</u>	<u>\$ 280,672</u>

September 30, 2010	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 1,332,324	\$ 1,263,864	\$ 68,460
Leased computer equipment	342,545	216,243	126,302
Furniture and office equipment	563,180	470,661	92,519
Computer software	679,420	671,690	7,730
Leasehold improvements	480,679	468,913	11,766
	<u>\$ 3,398,148</u>	<u>\$ 3,091,371</u>	<u>\$ 306,777</u>

## 5. Share capital:

### (a) Common shares:

Authorized:

Unlimited common shares

### (b) Preferred shares:

Authorized:

Unlimited first and second preferred shares issuable in series. The directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

Issued and outstanding:

65,755,556 non-cumulative 8% first preferred shares issued and outstanding as on September 30, 2010. On December 15, 2010, the first preferred shares were converted into 65,755,556 common shares. As a result, there are no first preferred shares outstanding as at December 31, 2010. There were no second preferred shares issued and outstanding at December 31, 2010.

# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

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## 5. Share capital: (continued)

	31-Dec-2010		30-Sep-2010	
	Number	Amount	Number	Amount
Balance, beginning of period	65,755,556	\$ 3,945,333	65,755,556	\$ 3,945,333
Common shares issued in exchange for \$3,945,333) first preferred shares	(65,755,556)	(3,945,333)	-	-
Balance, end of period	-	\$ -	65,755,556	\$ 3,945,333

On September 25, 2009, 65,755,556 first preferred shares were issued in exchange for an aggregate principal amount of convertible debentures of \$3,287,778. Each preferred share is convertible into one common share (i) at any time based on the written request of the holder of a preferred share; or (ii) at the Company's request after July 1, 2010. On December 15, 2010, the first preferred shares were converted into 65,755,556 common shares. The preferred shareholders had pre-emptive rights to participate pro rata in any equity or debt financings. While any preferred shares are outstanding, the Company is prohibited from incurring senior debt, other than debt from a Schedule 1 or Schedule 2 bank for the purpose of inventory and accounts receivable financing

These preferred shares were issued pursuant to a condition of the business combination with Datacom, which required the 2008 Convertible Debentures to be converted into preferred shares of the Company. The fair value of the consideration paid was determined as follows:

	31-Dec-2010	30-Sep-2010
Preferred shares (i)	\$ -	\$ 3,945,333
Dividends payable on preferred shares (ii)	-	196,726
	\$ -	\$ 4,142,059

The company paid the final preferred share dividends at the time of conversion to common shares on December 15, 2010.

# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

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## 5. Share capital: (continued)

(c) Common shares issued and outstanding:

	31-Dec-2010		30-Sep-2010	
	Number	Amount	Number	Amount
Balance, beginning of year excluding shares to be issued subject to future performance	226,952,747	\$ 17,354,305	226,952,747	\$ 17,354,305
Shares issued for Preferred shares	65,755,556	3,945,333	-	-
Balance, excluding shares to be issued subject to future performance	292,702,303	21,299,638	226,952,747	17,354,305
Shares issued in escrow subject to the Company's performance (i)	547,815	-	547,815	-
Balance, end of year	293,256,118	\$ 21,299,638	227,500,562	\$ 17,354,305

- (i) During the year ended September 30, 1998, the Company entered into an agreement with the former President of the Company and certain other parties whereby 1,509,900 common shares were issued in escrow and would only be released if the Company attained certain cash flow levels. During the years ended September 30, 2001, 2002 and 2003, the Company cancelled 962,085 of these shares pursuant to settlements reached with these parties. As part of these settlements, the Company also paid \$80,000, which had been recorded as an increase to the accumulated deficit. The remaining 547,815 common shares remain in escrow subject to these performance targets.
- (ii) On December 15, 2010, 65,755,556 Common shares were issued in exchange for 65,755,556 first preferred shares.

(d) Stock options:

The February 26, 2006 stock option plan (the "2006 Stock Option Plan") provides for 6,790,475 common shares as a maximum number of common shares in the capital of the Company that are reserved for issuance under the 2006 Stock Option Plan. Any options granted subject to the 2006 Stock Option Plan that are cancelled or terminated without having been exercised shall again be available to be granted under the 2006 Stock Option Plan. Options granted under the 2006 Stock Option Plan may be exercised during a period not exceeding five years from the date of grant. The vesting period is set by the Board of Directors.

# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

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## 5. Share capital: (continued)

On June 10, 2008, the shareholders passed a resolution, increasing the number of shares under the 2006 Stock Option Plan by 6,484,456 common shares to an aggregate of 12,755,788 common shares, by replacing 519,143 common shares issued on the exercise of stock options and adding an additional 5,965,313 common shares to the 2006 Stock Option Plan for a total of 12,755,788 common shares reserved under the 2006 Stock Option Plan.

In October 2008, December 2008, and October 2009, 200,000 options, 1,376,133 options, and 280,000 options, respectively, to acquire common shares at a weighted average exercise price of \$0.20 per share expired unexercised.

During Fiscal 2010, 1,797,983 options issued to Datacom employees to acquire common shares at a weighted average price of \$0.11 per share were forfeited upon the termination of employment.

On January 14, 2010, the Company's Board of Directors approved amendments to the 2006 Stock Option Plan. The principal amendments were:

- (i) to increase the maximum number of common shares issuable upon exercise of the options granted to key employees, officers, directors and consultants of the Company pursuant to the 2006 Stock Option Plan from 12,755,788 to 22,500,000, representing less than 10% of the total number of shares currently issued and outstanding; and
- (ii) to increase the exercise period of stock options to a maximum of 10 years.

On April 6, 2010, the Company granted 3,711,725 options to its directors and employees with an exercise price of \$0.10 per common share, expiring February 24, 2014. One fourth of these options vested on the date of the grant, and the remaining options vest equally at the half yearly anniversary of the date of the grant. 200,000 of these options were granted to the Chairman of the board; 2,161,695 of these options were granted to seven other directors; and the balance of 1,350,000 options was granted to the employees.

On February 24, 2009, the Company granted 5,895,000 options to four of its directors with an exercise price of \$0.10 per common share, expiring February 24, 2014. One fourth of these options vested on the date of the grant, and the remaining options vest equally at the half yearly anniversary of the date of the grant. 4,295,000 of these options were granted to the President and CEO in his capacity as President and CEO; 800,000 of these options were granted to the Chairman of the board in his capacity as Chairman and board member; and the other two independent directors were granted 400,000 options each in their capacity as board members.

The weighted average value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

## 5. Share capital: (continued)

	30-Sep-2010
Risk-free rate	2.72%
Expected volatility	115%
Expected life in years	3.89
Expected dividend yield	–

A summary of the Company's stock options is presented below:

	31-Dec-2010		30-Sep-2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	11,392,633	\$ 0.11	10,708,921	\$ 0.11
Cancelled/expired	-	-	(280,000)	0.20
Forfeited	-	-	(2,748,013)	0.11
Issued	-	-	3,711,725	0.10
<b>Balance, end of period</b>	<b>11,392,633</b>	<b>0.11</b>	<b>11,392,633</b>	<b>0.11</b>

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2010:

Exercise price (i)	Outstanding		Exercisable	
	Number outstanding	Remaining contractual life (years)	Vested options	Remaining contractual life (years)
\$0.1000	8,656,695	3.16	6,585,431	3.16
\$0.0471	1,272,630	7.66	1,272,630	7.66
\$0.0943	476,317	6.68	476,317	6.68
\$0.1768	93,327	6.48	93,327	6.48
\$0.1977	893,664	5.36	893,664	5.36
	<b>11,392,633</b>	<b>4.01</b>	<b>9,321,369</b>	<b>4.20</b>

# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

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## 5. Share capital: (continued)

As at December 31, 2010, 11,392,633 (September 30, 2010 - 11,392,633) options were outstanding at a weighted average exercise price of \$0.11. These options have a weighted average life of 4.01 years.

(f) Loss per share:

The following table sets forth the calculation of basic and diluted loss per share:

	31-Dec-2010	31-Dec-2009
Numerator:		
Loss for the period	\$ (87,855)	\$ (236,054)
Denominator:		
Weighted average number of common shares outstanding	239,103,230	226,952,747
Weighted average number of diluted common shares outstanding	239,103,230	226,952,747
Loss per share - basic and diluted	\$ (0.000)	\$ (0.001)

The effects of any shares that are subject to performance conditions are not included in the calculation of the weighted average number of common shares outstanding. As the stock options are anti-dilutive, they have been excluded from the calculation of the diluted weighted average number of shares outstanding.

# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

## 5. Share capital: (continued)

- (g) A summary of the Common shares and options outstanding at December 31, 2010 is shown in the following table:

Security type	Number	Exercise price	Expiry	Weighted average remaining life (years)
Common shares:				
Issued and outstanding	227,500,562			
Issued on conversion of preferred shares	65,755,555			
	293,256,117			
Shares reserved for issuance on exercise of stock options and preferred shares conversion:				
Options issued under the 2006 Stock Option Plan:				
On February 24, 2009	5,895,000	\$ 0.10	February 24, 2014	3.16
On April 6, 2010	2,761,695	0.10	February 24, 2014	3.16
Options issued to holders of Datacom option holders	2,735,938	0.11		6.70
Total shares reserved for issuance on exercise of stock options and preferred shares	304,648,750			

## 6. Cash flow statement:

- (a) Change in non-cash operating working capital:

	31-Dec-2010	31-Dec-2009
Accounts receivable	\$ (123,203)	\$ (103,258)
Inventories	20,014	(90,841)
Net investment in sales-type leases, including long-term portion	34,894	(201,219)
Prepaid expenses and other assets	141,511	(17,371)
Deferred revenue	(109,958)	(79,602)
Accounts payable and accrued liabilities	(267,317)	(270,554)
	\$ (304,060)	\$ (762,845)

# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

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## 6. Cash flow statement (continued):

(b) Interest paid:

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	31-Dec-2010	31-Dec-2009
Interest paid	\$ 600	\$ 4,638
Interest received	18,723	6,242

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## 7. Cash and cash equivalents:

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	31-Dec-2010	30-Sep-2010
Cash	\$ 446,497	\$ 912,438
Short-term investments	5,000	5,000

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	\$ 451,497	\$ 917,438
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## 8. Segmented information:

(a) Revenue by geographic segment, based upon customer location, is as follows:

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	31-Dec-2010	31-Dec-2009
Canada	\$ 2,418,875	\$ 2,652,959
United States of America	364,172	291,903
Mexico	96,767	–
South America	17,900	85,376
Asia	165,775	219,368
Europe	115,691	134,817
Australia	27,960	105,501
Africa	60,920	15,206

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	\$ 3,268,060	\$ 3,505,130
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# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

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## 8. Segmented information (continued):

(b) Revenue by category is as follows:

	31-Dec-2010	31-Dec-2009
Service	\$ 2,204,365	\$ 2,004,122
Hardware and software	1,063,695	1,501,008
	<u>\$ 3,268,060</u>	<u>\$ 3,505,130</u>

(c) Assets:

	31-Dec-2010	30-Sep-2010
Canada	\$ 6,661,681	\$ 7,283,412
Belgium	353,621	432,894
	<u>\$ 7,015,302</u>	<u>\$ 7,716,306</u>

## 9. Related party transactions:

- (a) The Company had previously identified Nick Cirella, a director and former President and CEO of the Company, Applied Innovations Group Inc. and other companies under Mr. Cirella's control as related parties. The related parties are considered to have significant influence over the Company as defined under CICA Handbook Section 3840, Related Party Transactions. During the three months ended December 31, 2010, the Company paid \$15,000 (Three months ended December 31, 2009 - \$15,000) to a company under Mr. Cirella's control as consulting fees under a management contract between the Company and Mr. Cirella.
- (b) The Company has also identified (i) Onbelay Partners Ltd., a company controlled by Mr. John Bell, a director and Mr. Aly Rahemtulla, director and CEO of the Company, (ii) Onbelay Capital Inc., a company controlled by Mr. John Bell, and (iii) ANR Solutions Inc., a company controlled by Mr. Aly Rahemtulla, as related parties.

The company paid preferred dividends of \$46,745 to related parties and converted 12,222,222 preferred shares held by them into commons shares of the company.

# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

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## 9. Related party transactions (continued):

- (c) During the three months ended December 31, 2010, for board compensation, the Company provided \$8,000 (Three months ended December 31, 2009 - \$7,000) for Mr. John Bell, a director and Chairman of the board.

## 10. Commitments:

### (a) Operating leases:

The Company has entered into leases for premises with the following total minimum annual payments:

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2011 (9 months)	\$	212,092
2012		127,147
2013		211,143
2014		211,143
2015		228,738
	\$	990,263

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### (b) Capital leases:

The Company entered into 36-month capital lease agreements with third parties for computer hardware. Interest expense for the three months ended December 31, 2010 of \$246 (three months ended December 31, 2009 - \$1,021) has been recognized in the consolidated statements of operations and deficit.

The obligations under capital leases are secured by a lien on the equipment leased. Future minimum capital lease payments are as follows:

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2011 (9 months)	\$	5,646
2012		8,528
2013		2,131
Present value of future minimum lease payments, including imputed interest of \$965		16,305
Less current portion		8,527
Long-term portion of lease payments	\$	7,778

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# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

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## 11. Financial instruments and capital disclosures:

### (a) Fair values:

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included on the consolidated balance sheets and are measured at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Held-for-trading financial investments are subsequently measured at fair value and all gains and losses are included in net income (loss) in the year in which they arise. Available-for-sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income (loss) until the instrument is derecognized or impaired. The Company has classified its cash and cash equivalents as held-for-trading; accounts receivable, loans receivable and investment tax credits receivable as loans and receivables; and accounts payable and accrued liabilities and convertible debentures as other financial liabilities.

Classification and fair values of financial assets and liabilities:

The Company has classified its financial assets and liabilities as at December 31, 2010 and September 30, 2010 as follows:

Classification	31-Dec-2010		30-Sep-2010	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Held-for-trading:				
Cash and cash equivalents	\$ 451,497	\$ 451,497	\$ 917,438	\$ 917,438
Loans and receivables:				
Accounts receivable	2,060,076	2,060,076	1,936,874	1,936,874
Investment tax credits receivable	371,690	371,690	371,690	371,690
Net investment in sale-type leases	1,205,205	1,048,115	1,240,099	1,134,479
Financial liabilities:				
Other financial liabilities:				
Accounts payable and accrued liabilities	3,167,976	3,167,976	3,435,293	3,435,293
Capital lease obligations	16,305	16,305	19,187	19,187
Dividends payable on preferred shares	-	-	196,726	196,726

# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

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## 11. Financial instruments and capital disclosures (continued):

The carrying values of accounts receivable, investment tax credits receivable and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments.

The fair value of long-term debt and net investment in sales-type leases is calculated based on the present value of future principal and interest cash flows discounted at the market rate of interest at the balance sheet dates.

Effective September 30, 2010, the Company adopted the CICA amended Section 3862, Financial Instruments - Disclosures, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require disclosure of the three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three levels of fair value hierarchy based on the reliability of inputs are as follows:

- Level 1 - inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 - inputs are based on observable market data, either directly or indirectly other than the quoted prices; and
- Level 3 - inputs are not based on observable market data.

In the table below, the Company has segregated all financial assets and financial liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy, based on the inputs used to determine the fair value at the measurement date. The Company has no financial assets or financial liabilities measured using level 2 or level 3 inputs.

Financial assets measured at fair value as at September 30, 2010 and 2009 in the consolidated financial statements are summarized below. The Company has no financial liabilities measured at fair value.

31-Dec-2010	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 451,497	\$ –	\$ –	\$ 451,497

  

30-Sep-2010	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 917,438	\$ –	\$ –	\$ 917,438

# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

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## 11. Financial instruments and capital disclosures (continued):

### (b) Credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily accounts receivable. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. Additionally, the Company is not subject to any significant credit risk in view of the Company's large and diversified client base.

### (c) Foreign exchange risk:

The Company transacts business in multiple currencies, the most significant of which are the Canadian dollar, the U.S. dollar and the Euro. The Company, through its subsidiary, generates significant revenue in major foreign currencies, primarily U.S. dollars, which exceed the natural hedge provided by purchases of goods and services in those currencies. Currently, the Company does not enter into foreign exchange contracts to manage this exposure, but may do so in the future. As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies. Foreign currency-based earnings are translated into Canadian dollars using the average exchange rate each year. As a result, fluctuations in the value of the Canadian dollar relative to these other currencies will impact reported net loss. Foreign currency risks arising from the translation of assets and liabilities of foreign operations into the Company's functional currency are generally not hedged; however, the Company may decide to hedge this risk under certain circumstances.

### (d) Liquidity risk:

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company's growth is financed through a combination of the cash flows from operations, the issuance of debt and the issuance of equity. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows.

On November 15, 2010, the Company obtained a secured revolving, demand facility with a Canadian chartered bank, which allows for a borrowing limit of up to \$1,500,000, subject to certain conditions. The facility is secured by a first ranking security interest over all personal property of the Company. In addition, the facility contains certain covenants that the Company is required to comply with. Notwithstanding the Company's positive working capital position and the line of credit, the Company may require future financing in order to satisfy future growth activities.

# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

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## 11. Financial instruments and capital disclosures (continued):

### (e) Capital disclosure:

The Company considers its share capital and contributed surplus as capital, the total book value of which is \$24,904,053 as at December 31, 2010.

The Company manages its capital structure with the objective of providing sufficient resources to meet day-to-day operating requirements; to allow it to enhance existing product offerings as well as develop new ones; and to have the financial ability to expand the size of its operations by taking on new customers.

In managing its capital structure, the Company takes into consideration various factors, including the growth of its business and related infrastructure and the up-front cost of taking on new customers. The Company's officers and senior management are responsible for managing the Company's capital and do so through quarterly meetings and regular review of financial information. The Company's Board of Directors is responsible for overseeing this process. The Company manages its capital to ensure that there are adequate capital resources while maximizing the return to shareholders through the optimization of the debt and equity balance.

Pursuant to the terms of the preferred shares, there are certain covenants of the Company in favour of the preferred shareholders, including the pre-emptive rights to participate pro rata in any equity or debt financings. While any preferred shares are outstanding, the Company is prohibited from incurring senior debt, other than debt from a Schedule 1 or Schedule 2 bank for the purpose of inventory and accounts receivable financing.

Except for the rights related to the preferred shares, the Company is not subject to any externally imposed capital requirements.

## 12. Contributed surplus:

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	31-Dec-2010	30-Sep-2010
Balance, beginning of period	\$ 2,591,915	\$ 2,497,637
Stock-based compensation expense	12,500	94,278
Balance, end of period	\$ 2,604,415	\$ 2,591,915

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# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

## 13. Inventories:

	31-Dec-2010	30-Sep-2010
Finished goods	\$ 47,570	\$ 80,760
Raw materials	735,246	706,069
Provision for obsolescence	(119,400)	(103,400)
	<u>\$ 663,416</u>	<u>\$ 683,429</u>

During the year three months ended December 31, 2010, the Company recorded product cost of revenue of \$676,191 (Three months ended December 31, 2009 - \$623,131) related to the sale of inventories. There were no reversals of prior year inventory write-downs during the year.

## 14. Accounts receivable:

	31-Dec-2010	30-Sep-2010
Accounts receivable	\$ 2,195,910	\$ 2,125,026
Allowance for doubtful accounts	(135,834)	(188,152)
	<u>\$ 2,060,076</u>	<u>\$ 1,936,874</u>

For the year three months ended December 31, 2010, general and administrative expenses includes bad debts provision of \$57,300 (Three months ended December 31, 2009 - \$56,801).

## 15. Net investment in sales-type leases:

The Company's net investment in sales-type leases includes the following:

	31-Dec-2010	30-Sep-2010
Total minimum sales-type lease payments receivable	\$ 1,392,513	\$ 1,426,517
Less amount representing interest	187,308	186,418
	<u>1,205,205</u>	<u>1,240,099</u>
Less current portion of net investment in sales-type leases	695,893	677,857
	<u>\$ 509,312</u>	<u>\$ 562,242</u>

# BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)  
Three months ended December 31, 2010 and 2009

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## 15. Net investment in sales-type leases (continued):

Future minimum lease payments receivable under the sales-type leases are as follows:

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2011 (9 months)	\$	584,579
2012		493,189
2013		269,427
2014		45,318
	\$	1,392,513

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## 16. Contingencies:

In the normal course of its operations, the Company becomes involved in various legal claims and lawsuits. The Company intends to vigorously defend these claims. While the final outcome with respect to any actions outstanding or pending at December 31, 2010 cannot be predicted with certainty, it is the opinion of management that the outstanding actions will not have a material adverse effect on the Company's financial position.