

Interim Consolidated Financial Statements (Unaudited) of

BSM TECHNOLOGIES INC.

Third quarter results June 30, 2011 and 2010

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 and Nine months ended June 30, 2011 and 2010

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BSM TECHNOLOGIES INC.

Interim Consolidated Balance Sheets (Unaudited)

June 30, 2011 and September 30, 2010

	Note	As at June 30 2011	As at September 30 2010
Assets			
Current assets:			
Cash and cash equivalent	7	\$ 761,398	\$ 917,438
Accounts receivable	14	2,809,374	1,936,874
Current portion of net investment in sales-type leases	15	591,069	677,857
Investment tax credits receivable		138,751	371,690
Inventories	13	632,174	683,429
Prepaid expenses and other assets		174,942	262,628
		5,107,708	4,849,916
Property and equipment	4	276,133	306,777
Long-term investment in sales-type leases	15	554,625	562,242
Intangible assets	3(b)	593,667	818,763
Goodwill	3(a)	1,178,608	1,178,608
		\$ 7,710,741	\$ 7,716,306
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 3,355,986	\$ 3,435,293
Dividends payable on Preferred shares	5(b)	-	196,726
Current portion of capital lease obligations	10(b)	8,528	8,527
Deferred revenue		220,058	191,221
		3,584,572	3,831,767
Capital lease obligations	10(b)	4,264	10,660
Shareholders' equity:			
Share capital:	5		
Preferred shares		-	3,945,333
293,256,117 Common shares		21,299,638	17,354,305
Contributed surplus	12	2,629,415	2,591,915
Deficit		(19,750,908)	(19,961,434)
Accumulated other comprehensive loss		(56,240)	(56,240)
		4,121,905	3,873,879
Commitments	2,10		
Contingencies	16		
		\$ 7,710,741	\$ 7,716,306

See accompanying notes to interim consolidated financial statements - unaudited

On behalf of the Board:

"Frank Maw"

Director "Aly Rahemtulla"

Director

BSM TECHNOLOGIES INC.

Interim Consolidated Statements of Operations and Deficit (Unaudited)

Three and Nine months ended June 30, 2011 and June 30, 2010

	<i>note</i>	Three months ended June 30		Nine months ended June 30	
		2011	2010	2011	2010
Revenue	8	\$ 3,915,077	\$ 3,420,449	\$ 11,085,238	\$ 10,224,224
Cost of revenue		1,473,202	1,272,399	4,312,586	3,916,436
Gross profit		2,441,875	2,148,050	6,772,652	6,307,788
Expenses:					
Marketing, advertising and promotion		411,899	543,538	1,398,114	1,691,084
Research and development, net of investment tax credits		237,930	359,249	956,859	1,269,744
General and administrative		1,499,665	1,083,938	3,915,942	4,209,566
		2,149,494	1,986,725	6,270,915	7,170,394
Income (loss) before the undernoted		292,381	161,325	501,737	(862,606)
Other expenses (income):					
Interest		217	3,577	2,263	13,970
Notional charges preferred shares		-	9,807		24,651
Amortization of property and equipment		29,038	38,219	73,359	114,453
Amortization of intangible assets		44,800	96,945	225,095	290,836
Interest income		(20,830)	(9,669)	(58,272)	(21,832)
		53,225	138,879	242,445	422,078
Income (loss) for the period		239,156	22,446	259,292	(1,284,684)
Deficit, beginning of period		(19,990,064)	(18,054,755)	(19,961,434)	(16,747,625)
Preferred dividends		-	-	(48,766)	-
Deficit, end of period		\$(19,750,908)	\$(18,032,309)	\$(19,750,908)	\$(18,032,309)
Earnings (loss) per share - basic and diluted		\$ 0.001	\$ 0.000	\$ 0.001	\$ (0.006)
Weighted average number of shares - basic and diluted		292,708,302	226,952,747	274,643,589	226,952,747

See accompanying notes to interim consolidated financial statements - unaudited

BSM TECHNOLOGIES INC.

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

Three and Nine months ended June 30, 2011 and June 30, 2010

	Three months ended June 30		Nine months ended June 30	
	2011	2010	2011	2010
Income (loss) for the period	\$ 239,156	\$ 22,446	\$ 259,292	\$ (1,284,684)
Other comprehensive income (loss):				
Unrealized translation gains (losses) on self-sustaining operations	-	(11,270)	-	(20,191)
Comprehensive loss	\$ 239,156	\$ 11,176	\$ 259,292	\$ (1,304,875)

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

Three and Nine months ended June 30, 2011 and 2010

	Three months ended June 30		Nine months ended June 30	
	2011	2010	2011	2010
Balance, beginning of period	\$ (56,240)	\$ (65,161)	\$ (56,240)	\$ (56,240)
Other Comprehensive income (loss), net of income taxes:				
Unrealized translation gains (losses) on self-sustaining operations	-	(11,270)	-	(20,191)
Balance, end of period	\$ (56,240)	\$ (76,431)	\$ (56,240)	\$ (76,431)

See accompanying notes to interim consolidated financial statements – unaudited

BSM TECHNOLOGIES INC.

Interim Consolidated Statements of Cash Flows (Unaudited)

Three and Nine months ended June 30, 2011 and June 30, 2010

	Three months ended June 30		Nine months ended June 30		
	<i>note</i>	2011	2010	2011	2010
Cash provided by (used in):					
Operating activities:					
Income (loss) for the period		\$ 239,156	\$ 22,446	\$ 259,292	\$ (1,284,684)
Items not involving cash:					
Amortization of property and equipment		29,038	38,219	73,359	114,453
Amortization of intangible assets		44,800	96,945	225,095	290,836
Notional charges preferred shares		-	9,807	-	24,651
Stock-based compensation expense	12	12,500	23,217	37,500	49,862
Change in non-cash operating working capital	6	(32,864)	(406,178)	(457,150)	(754,625)
Net cash provided by (used in) operating activities		292,630	(215,544)	138,096	(1,559,507)
Financing activities:					
Dividends on preferred shares		-	-	(245,492)	(69,359)
Long-term debt		-	(21,799)	-	(18,781)
Capital lease payments		(2,132)	(12,093)	(5,931)	(69,425)
Net cash used in financing activities		(2,132)	(33,892)	(251,423)	(157,565)
Investing activities:					
Acquisition of property and equipment, net		(22,197)	(762)	(42,713)	(5,885)
Net cash provided by (used in) investing activities		(22,197)	(762)	(42,713)	(5,885)
Net increase (decrease) in					
cash and cash equivalents during the period		268,301	(250,198)	(156,040)	(1,722,957)
Cash and cash equivalents, beginning of period		493,097	1,024,429	917,438	2,497,188
Cash and cash equivalents, end of period		\$ 761,398	\$ 774,231	\$ 761,398	\$ 774,231

See accompanying notes to interim consolidated financial statements – unaudited

BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited
Three and Nine months ended June 30, 2011 and 2010

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 interim consolidated financial statements (the "Statements") have been made in accordance with the generally accepted accounting principles ("GAAP") 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, 2010.

(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. The Company has developed 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 includes a timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements, and is on schedule in the implementation process. The Company has made progress in determining the financial statement presentation and impacts of the key differences between the Company's current accounting policies under Canadian GAAP and those it expects to apply in preparing IFRS-compliant financial statements.

BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)
Three and Nine months ended June 30, 2011 and 2010

1. Significant accounting policies (continued):

The Company continues to ensure key staff members attend IFRS update and training sessions as required.

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, consolidated financial statements and non-controlling interests:

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. Section 1601 and 1602 will apply to the Company's interim and annual consolidated financial statements beginning October 1, 2011.

(iii) Multiple deliverable revenue arrangements:

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.

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 does not expect this new Abstract to have a material effect on the Company's consolidated financial statements.

BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)
Three and Nine months ended June 30, 2011 and 2010

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 telematics 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™ 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:

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

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. 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:

BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)
Three and Nine months ended June 30, 2011 and 2010

2. Business combinations (continued):

	As at September 30, 2009	Adjustments	Final purchase price allocation
Assets:			
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
Liabilities:			
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
Total consideration	\$ 4,783,253	\$ –	\$ 4,783,253
Consideration comprises:			
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
Total consideration			\$ 4,783,253

3. Goodwill and intangible assets:

(a) Goodwill:

A summary of the changes to goodwill is as follows:

	30-Jun-2011	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 (i)	–	(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.

BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)
Three and Nine months ended June 30, 2011 and 2010

3. Goodwill and intangible assets (continued):

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:

June 30, 2011	Cost	Accumulated amortization	Net book value
Definite life:			
Trademarks and patents	\$ 110,840	\$ 99,573	\$ 11,267
Customer contracts	1,159,045	576,645	582,400
Acquired technology	751,220	751,220	-
	\$ 2,021,105	\$ 1,427,438	\$ 593,667

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	688,618	62,602
	\$ 2,021,105	\$ 1,202,342	\$ 818,763

4. Property and equipment:

June 30, 2011	Cost	Accumulated amortization	Net book value
Computer equipment	\$ 1,357,242	\$ 1,283,865	\$ 73,377
Leased computer equipment	342,545	243,078	99,467
Furniture and office equipment	563,180	483,047	80,133
Computer software	692,515	678,899	13,616
Leasehold improvements	485,379	475,839	9,540
	\$ 3,440,861	\$ 3,164,728	\$ 276,133

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
	\$ 3,398,148	\$ 3,091,371	\$ 306,777

BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)
Three and Nine months ended June 30, 2011 and 2010

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 June 30, 2011. There were no second preferred shares issued and outstanding at June 30, 2011.

	30-Jun-2011		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 65,755,555 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:

	30-Jun-2011	30-Sep-2010
Preferred shares (i)	\$ -	\$ 3,945,333
Dividends payable on preferred shares (ii)	-	196,726
	\$ -	\$ 4,142,059

BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)
Three and Nine months ended June 30, 2011 and 2010

5. Share capital: (continued)

- (i) The fair value of 65,755,556 Preferred shares issued was determined to be \$0.06 per share, which was the share price for Common shares on the effective date.
- (ii) The principal sum of Preferred shares that required payment of dividends at the rate of 8% until September, 2010 were \$3,287,778. Total dividend payable until September, 2010 were \$196,726.

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

(c) Common shares issued and outstanding:

	30-Jun-2011		30-Sep-2010	
	Number	Amount	Number	Amount
Balance, beginning of period 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(ii)	65,755,555	3,945,333	-	-
Balance, excluding shares to be issued subject to future performance	292,708,302	21,299,638	226,952,747	17,354,305
Shares issued in escrow subject to the Company's performance (i)	547,815	-	-	-
Balance, end of period	293,256,117	\$ 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, 65,755,555 Common shares were issued in exchange for 65,755,556 first preferred shares.

BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)
Three and Nine months ended June 30, 2011 and 2010

5. Share capital: (continued)

(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.

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 and 2011, 1,797,983 and 1,787,335 options, respectively, 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.

BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)

Three and Nine months ended June 30, 2011 and 2010

5. Share capital: (continued)

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:

	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:

	30-Jun-2011		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	(1,787,335)	0.09	(2,748,013)	0.11
Issued	-	-	3,711,725	0.10
Balance, end of period	9,605,298	0.11	11,392,633	0.11

The following table summarizes information about stock options outstanding and exercisable as at June 30, 2011:

Exercise price (i)	Outstanding		Exercisable	
	Number outstanding	Remaining contractual life (years)	Vested options	Remaining contractual life (years)
\$0.1000	8,656,695	2.66	6,585,431	2.66
\$0.0943	459,348	6.18	459,348	6.18
\$0.1768	93,327	5.98	93,327	5.98
\$0.1977	395,928	4.86	395,928	4.86
	9,605,298	3.51	7,534,034	3.05

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Notes to Interim Consolidated Financial Statements – Unaudited (continued)
Three and Nine months ended June 30, 2011 and 2010

5. Share capital: (continued)

As at June 30, 2011, 9,605,298 (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 3.51 years.

(e) Earnings (loss) per share:

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

	Three months ended June 30		Nine months ended June 30	
	2011	2010	2011	2010
Numerator				
Net income (loss) for the period	\$ 239,156	\$ 22,446	\$ 259,292	\$ (1,284,684)
Denominator				
Weighted average number of common shares				
Outstanding - basic and diluted	292,708,302	226,952,747	274,643,589	226,952,747
Earnings (loss) per share				
- basic and diluted	\$ 0.001	\$ 0.000	\$ 0.001	\$ (0.006)

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 exercise price of the stock options is higher than the market price, the stock options are anti-dilutive, and as such have been excluded from the calculation of the diluted weighted average number of shares outstanding.

(f) A summary of the Common shares and options outstanding at June 30, 2011 is shown in the following table:

Security type	Number	Exercise Price	Expiry	Weighted average life remaining (years)
Common shares:				
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	24-Feb-14	2.66
On April 6, 2010	2,761,695	0.10	24-Feb-14	2.66
Options issued to Datacom option holders	948,603	0.15		5.59
Total shares reserved for issuance on exercise of stock options and preferred shares	302,861,415			

BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)
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6. Cash flow statement:

Change in non-cash operating working capital:

	Three months ended June 30		Nine months ended June 30	
	2011	2010	2011	2010
Accounts receivable	\$ (297,537)	\$ 11,968	\$ (872,500)	\$ 149,821
Net investment in sales-type leases				-
including long term portion	(7,785)	(113,802)	94,405	(453,563)
Investment tax credits receivable	232,939	(42,002)	232,939	(42,002)
Inventories	(77,653)	(98,293)	51,255	(138,095)
Prepaid expenses and other assets	52,689	62,942	87,222	28,925
Accounts payable and accrued liabilities	(92,804)	(243,368)	(79,308)	(206,512)
Deferred revenue	157,287	16,377	28,837	(93,199)
	\$ (32,864)	\$ (406,178)	\$ (457,150)	\$ (754,625)

7. Cash and cash equivalents:

	30-Jun-2011	30-Sep-2010
Cash	\$ 756,398	\$ 912,438
Short-term investments	5,000	5,000
	\$ 761,398	\$ 917,438

8. Segmented information:

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

	Three months ended June 30		Nine months ended June 30	
	2011	2010	2011	2010
Canada	\$2,980,721	\$2,336,987	\$8,000,139	\$7,454,609
United States of America	488,182	661,710	1,762,355	1,330,538
International	446,174	421,752	1,322,744	1,439,077
	\$3,915,077	\$3,420,449	\$11,085,238	\$10,224,224

(b) Revenue by category is as follows:

	Three months ended June 30		Nine months ended June 30	
	2011	2010	2011	2010
Recurring service revenue	\$ 2,438,941	\$ 2,030,270	\$ 6,955,064	\$ 6,023,804
Hardware & software revenue	1,476,136	1,390,179	4,130,174	4,200,420
	\$ 3,915,077	\$ 3,420,449	\$11,085,238	\$10,224,224

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Notes to Interim Consolidated Financial Statements – Unaudited (continued)
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8. Segmented information (continued):

(c) Assets:

	30-Jun-2011	30-Sep-2010
Canada	\$ 7,681,749	\$ 7,283,412
Belgium	28,992	432,894
	<u>\$ 7,710,741</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 and nine months ended June 30, 2011, the Company paid \$2,500 and \$57,500 respectively, (Three months and nine months ended June 30, 2010 - \$25,000 and \$55,000 respectively) 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. During the three and nine months ended June 30, 2011, the company paid \$Nil and \$46,745 respectively to these related parties as preference dividends. (Three and nine months ended June 30, 2010, \$Nil and \$12,892, respectively).
- (c) During the three and nine months ended June 30, 2011, for board compensation, the Company paid \$5,000 and \$30,250, respectively (Three months and nine months ended June 30, 2010 - \$8,250 and \$15,250, respectively) for Mr. John Bell, a director of the board.

10. Commitments:

(a) Operating leases:

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

2011 (3 months)	\$ 52,786
2012	225,147
2013	383,810
2014	409,476
2015 and subsequent years	1,957,310
	<u>\$ 3,028,529</u>

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10. Commitments (continued):

(b) Capital leases:

The Company entered into 36-month capital lease agreements with third parties for computer hardware. Interest expense for the three months and nine months ended June 30, 2011 is \$192 and \$657 respectively (Three months and nine months ended June 30, 2010 - \$354 and \$2,214 respectively) 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:

2011 (3 months)	\$	2,132
2012		8,528
2013		2,132
Present value of future minimum lease payments, including imputed interest of \$555		12,792
Less current portion		8,528
Long-term portion of lease payments	\$	4,264

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 June 30, 2011 and September 30, 2010 as follows:

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Notes to Interim Consolidated Financial Statements – Unaudited (continued)
Three and Nine months ended June 30, 2011 and 2010

11. Financial instruments and capital disclosures (continued):

Classification	30-Jun-2011		30-Sep-2010	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Held-for-trading:				
Cash and cash equivalents	\$ 761,398	\$ 761,398	\$ 917,438	\$ 917,438
Loans and receivables:				
Accounts receivable	2,809,374	2,809,374	1,936,874	1,936,874
Investment tax credits receivable	138,751	138,751	371,690	371,690
Net investment in sale-type leases	1,145,694	957,873	1,240,099	1,134,479
Financial liabilities:				
Other financial liabilities:				
Accounts payable and accrued liabilities	3,355,986	3,355,986	3,435,293	3,435,293
Capital lease obligations	12,792	12,792	19,187	19,187
Dividends payable on preferred shares	-	-	196,726	196,726

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.

BSM TECHNOLOGIES INC.

Notes to Interim Consolidated Financial Statements – Unaudited (continued)
Three and Nine months ended June 30, 2011 and 2010

11. Financial instruments and capital disclosures (continued):

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.

30-Jun-2011	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 761,398	\$ –	\$ –	\$ 761,398

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

(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.

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Notes to Interim Consolidated Financial Statements – Unaudited (continued)
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11. Financial instruments and capital disclosures (continued):

(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.

(e) Capital disclosure:

The Company considers its share capital and contributed surplus as capital, the total book value of which is \$23,929,053 as at June 30, 2011.

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.

The Company is not subject to any externally imposed capital requirements.

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Notes to Interim Consolidated Financial Statements – Unaudited (continued)
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12. Contributed surplus:

	30-Jun-2011	30-Sep-2010
Balance, beginning of period	\$ 2,591,915	\$ 2,497,637
Stock-based compensation expense	37,500	94,278
Balance, end of period	\$ 2,629,415	\$ 2,591,915

13. Inventories:

During the three and nine months ended June 30, 2011, the Company recorded product cost of revenue of \$893,684 and \$2,515,263 respectively (Three and nine months ended June 30, 2010 - \$626,825 and \$1,767,547 respectively) related to the sale of inventories. There were no reversals of prior year inventory write-downs during the year.

	30-Jun-2011	30-Sep-2010
Finished goods	\$ 118,364	\$ 80,760
Raw materials	534,210	706,069
Provision for obsolescence	(20,400)	(103,400)
	\$ 632,174	\$ 683,429

14. Accounts receivable:

For the three and nine months ended June 30, 2011, general and administrative expenses includes bad debts of \$75,967 and \$208,743, respectively (Three and nine months ended June 30, 2010 - \$73,191 and \$326,087 respectively).

	30-Jun-2011	30-Sep-2010
Accounts receivable	\$ 3,040,522	\$ 2,125,026
Allowance for doubtful accounts	(231,148)	(188,152)
	\$ 2,809,374	\$ 1,936,874

15. Net investment in sales-type leases:

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

	30-Jun-2011	30-Sep-2010
Total minimum sales-type lease payments receivable	\$ 1,303,470	\$ 1,426,517
Less amount representing interest	157,776	186,418
	1,145,694	1,240,099
Less current portion of net investment in sales-type leases	591,069	677,857
	\$ 554,625	\$ 562,242

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Notes to Interim Consolidated Financial Statements – Unaudited (continued)

Three and Nine months ended June 30, 2011 and 2010

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

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

2011 (3 months)	\$	154,490
2012		666,457
2013		372,809
2014		109,714
	\$	1,303,470

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 June 30, 2011 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.