

*Consolidated Financial Statements of*

**BSM TECHNOLOGIES INC.**

*September 30, 2008 and 2007*

(Restated August 13, 2009)

# **BSM TECHNOLOGIES INC.**

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**September 30, 2008 and 2007**

**(Restated August 13, 2009)**

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## **AUDITORS' REPORT**

To the Shareholders of  
BSM Technologies Inc.:

We have audited the consolidated balance sheet of BSM Technologies Inc. as at September 30, 2008 and 2007 and the consolidated statements of operations and comprehensive income, deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2008 and 2007 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Our original report dated January 10, 2009 has been withdrawn due to the discovery of an error in the consolidated financial statements originally filed. The attached consolidated financial statements have been revised as described in Note 22.

Markham, Ontario  
January 10, 2009  
except Note 22 which is at  
August 13, 2009

*Wasserman Ramsay*

Licensed Public Accountants

**BSM TECHNOLOGIES INC.****Consolidated Balance Sheets**

September 30, 2008 and 2007

	2008	2007
	Restated Note 22	
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalent (Note 11)	\$ 618,859	\$ 551,071
Restricted Cash (Note 5b)	460,050	460,050
Accounts receivable	987,087	1,017,474
Income taxes recoverable	235,270	163,914
Inventories	910,034	394,881
Loans Receivable (Note 7)	2,382	29,997
Prepaid expenses and other assets	88,358	71,407
	3,302,040	2,688,794
PROPERTY, PLANT AND EQUIPMENT (Note 6)	422,374	497,669
DEFERRED FINANCING COSTS (Note 8)		93,407
PATENTS	34,056	32,511
DEFERRED PRODUCT COST	7,439	
INTANGIBLE ASSETS (Note 5)	816,259	
GOODWILL (Note 5)	2,530,764	2,530,764
	\$ 7,112,932	\$ 5,843,145
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Bank indebtedness (Note 12)	\$ 199,295	\$ 199,621
Accounts payable and accrued liabilities	2,680,020	1,610,421
Purchase consideration payable (Note 5B)	460,050	460,050
Convertible Debentures (Note 8)		1,218,436
Capital Lease current portion	116,706	109,873
Deferred revenue	54,988	54,053
	3,511,059	3,652,454
CONVERTIBLE DEBENTURE (Note 8)	2,186,978	
Capital Lease long term portion	69,464	173,972
	5,767,501	3,826,426
<b>SHARE HOLDERS EQUITY</b>		
SHARE CAPITAL (Note 9)	11,823,032	9,777,771
WARRANTS	1,269,173	973,508
CONTRIBUTED SURPLUS (Note 18)	583,245	243,498
CONVERTIBLE DEBENTURE (Note 8)	768,282	299,692
DEFICIT	(13,062,251)	(9,235,961)
ACCUMULATED OTHER COMPREHENSIVE INCOME	(36,050)	(41,789)
	1,345,431	2,016,719
	\$ 7,112,932	\$ 5,843,145

APPROVED BY THE BOARD

..... *"John Bell"* Director

..... *"Aly Rahemtulla"* Director

*The accompanying notes form an integral part of these consolidated financial statements*

# BSM TECHNOLOGIES INC.

## Consolidated Statements of Operations and Deficit

For the years ended September 30, 2008 and 2007

	2008	2007
	Restated Note 22	
REVENUE	\$ 7,827,823	\$ 8,293,177
COST OF SALES	4,074,790	4,572,189
GROSS PROFIT	3,753,033	3,720,988
EXPENSES		
Marketing, advertising and promotion	1,771,434	2,102,702
Research and development	1,160,279	1,219,319
General and administrative	3,519,293	2,607,413
SR & ED Credit	(71,356)	(135,000)
Stock compensation expenses	-	42,050
	6,379,650	5,836,484
NET LOSS BEFORE INTEREST, AND AMORTIZATION	(2,626,617)	(2,115,496)
Interest	55,576	29,826
Interest on debenture (Note 8)	657,330	447,418
Interest on non convertible debenture (Note 19)	11,089	
Amortization of property, plant and equipment	203,592	90,998
Amortization of Intangible assets	272,086	
NET LOSS	\$ (3,826,290)	\$ (2,683,738)
DEFICIT, BEGINNING OF THE PERIOD	(9,235,961)	(6,552,223)
DEFICIT, END OF THE PERIOD	\$ (13,062,251)	\$ (9,235,961)
LOSS PER SHARE - basic and diluted (Note 9(f))	\$ (0.05)	\$ (0.04)
Weighted average number of shares - basic and diluted	81,816,619	63,691,911

**BSM TECHNOLOGIES INC.**  
**Consolidated Statements of Comprehensive Income**  
**For the years ended September 30, 2008 and 2007**

	2008	2007
	Restated Note 22	
NET LOSS	\$ (3,826,290)	\$ (2,683,738)
Other Comprehensive Income, Net of Tax	5,739	(41,789)
Change in unrealized translation gains (loss) on self sustaining operations		
<b>COMPREHENSIVE INCOME</b>	<b>\$ (3,820,551)</b>	<b>\$ (2,725,527)</b>

**Consolidated Statements of Other Comprehensive Income**  
**For the years ended September 30, 2008 and 2007**

	2008	2007
Balance-Beginning of the Period	\$ (41,789)	-
Other Comprehensive Income, Net of Tax	5,739	(41,789)
Change in unrealized translation gains (loss) on self sustaining operations		
<b>Balance-end of the period</b>	<b>(36,050)</b>	<b>(41,789)</b>

*The accompanying notes form an integral part of these consolidated financial statements*

**BSM TECHNOLOGIES INC.**  
**Consolidated Statements of Cash Flows**  
**Years ended September 30, 2008 and 2007**

	2008 Restated Note 22	2007
<b>NET CASH INFLOW (OUTFLOW) FROM THE FOLLOWING ACTIVITIES</b>		
<b>CONTINUING OPERATIONS</b>		
Loss from continuing operations	\$ (3,826,290)	\$ (2,683,738)
Add non-cash items:		
Amortization of capital assets	203,592	90,998
Amortization of deferred financing charges	317,448	239,418
Amortization of Intangible assets	272,086	
Stock compensation expenses	-	42,050
	(3,033,164)	(2,311,272)
Change in non-cash operating working capital items (Note 10)	1,112,404	791,826
	(1,920,760)	(1,519,446)
<b>INVESTING</b>		
Investment in Subsidiary	(222,355)	(2,667,433)
Cash receipt on acquisition	4,362	182,160
Acquisition of property, plant and equipment, net	(48,175)	(78,796)
Investment in patent	(1,545)	(22,257)
	(267,713)	(2,586,326)
<b>FINANCING</b>		
Long Term Capital Lease payment	(101,668)	(37,157)
Loans received (paid)	27,614	(20,623)
Convertible debenture	2,150,000	-
Deferred financing costs	(117,359)	-
Shares issued pursuant to stock options exercises	-	46,171
Exercise of warrants	-	368,000
Warrants Issued	-	730,414
Capital stock Issued	298,000	3,347,100
	2,256,587	4,433,905
<b>NET CASH INFLOW (OUTFLOW)</b>	<b>68,114</b>	<b>328,133</b>
<b>(BANK INDEBTEDNESS) CASH, BEGINNING OF YEAR</b>	<b>351,450</b>	<b>23,317</b>
<b>CASH, END OF YEAR</b>	<b>\$ 419,564</b>	<b>351,450</b>

**CASH IS MADE UP AS FOLLOWS:**

Cash and cash equivalents	\$ 618,859	\$ 551,071
Bank indebtedness	(199,295)	(199,621)
	\$ 419,564	\$ 351,450

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**1. NATURE OF THE BUSINESS**

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.

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.

**2. CONTINUATION OF BUSINESS**

While the financial statements have been prepared on the basis of accounting principles applicable to a going concern, several adverse conditions and events cast substantial doubt upon the validity of this assumption.

The Company has incurred significant operating losses in each of the last several years, and currently has a working capital deficiency of \$ 154,031 (2007 \$ 909,607) and overall deficit of \$13,062,251 (September 30, 2007 - \$9,235,961). The Company's continued existence is dependent upon its ability to achieve profitable operations and to obtain additional financing. There can be no assurance that the Company will be able to achieve profitable operations, nor that financing efforts will be successful.

**3. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

*(a) Principles of consolidation*

These financial statements consolidate the accounts of the Company and its wholly-owned subsidiaries. All material inter-company account balances and transactions have been eliminated.

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(b) *Property, plant and equipment*

Property, plant and equipment are recorded at cost and are amortized beginning in the month the assets is put into service on the basis of their estimated useful lives using the under noted rates and methods:

Computer equipment	-	30% declining-balance
Furniture and office equipment	-	20% declining-balance
Computer software	-	2 years straight-line
Leasehold improvements	-	2 years straight-line
Warehouse equipment	-	20% declining-balance
Automobile	-	30% declining-balance

(c) *Intangible assets*

Intangible assets are recorded at cost and are amortized at the following rates on a straight line basis:

Trademark and patents	-	3 years straight line
Customer contracts	-	3 years straight line
Acquired technology	-	3 years straight-line

(d) *Goodwill*

The excess of the purchase price over the fair value of the net identifiable assets is recorded as goodwill. Effective October 1, 2002, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants relating to accounting for goodwill, prospectively. Under that standard, goodwill and other intangible assets with indefinite lives are not amortized, but instead are evaluated annually for impairment. Accordingly, there is no amortization of goodwill included in these financial statements. Management believes that the unamortized cost will be recovered through future profitable operations.

The guidance requires that an impairment test date be selected where a two-step process will be performed on an annual basis. The Company has chosen September 30 as its annual impairment testing date. On September 30, 2008, the Company performed the impairment test and determined that there was no impairment of the recorded goodwill.

(e) *Foreign currency translation*

Monetary assets and liabilities of the Company, except those of self-sustaining operations, are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transaction. Foreign exchange gains and losses are included in net income (loss) for the year. The assets and liabilities of the Company's self-sustaining operations having a measurement currency that is not in Canadian dollars are translated into Canadian dollars using the exchange rate in effect at the consolidated balance sheet date, and revenues and

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expenses are translated at the average rate during the year. Exchange gains or losses on translation of the Company's net equity investment in these operations are deferred as a separate component of shareholders' equity. All other foreign exchange gains or losses are included in the consolidated statements of operations.

*(f) Revenue recognition*

The Company's revenue is derived from product sales, support contracts and services. The Company recognizes revenue in accordance with Emerging Issues Committee Abstract ("EIC") 141, "Revenue Recognition", and EIC 142, "Revenue Arrangements with Multiple Deliverables".

The Company derives non-recurring revenue from the sale of vehicle tracking hardware and software as well as professional services associated with installation and customizing its product. Recurring, subscription revenue is derived from location-based and telematics hardware and software.

Revenue from hardware and software sales is recognized when persuasive evidence of an arrangement exists, the fee is fixed and determinable, the hardware and software is shipped and when management has determined that the revenue is collectible. The Company does not offer product warranties other than the warranties offered by the manufacturer, hence it does not provide for the estimated cost of product warranties upon shipment. When other significant obligations remain after products are delivered, revenue is recognized only after such obligations are fulfilled. Shipping and handling costs are included in cost of goods sold.

Recurring revenue from subscription services is recognized on a monthly basis as earned when all significant contractual obligations have been satisfied, the sales price is fixed and determinable and collection is reasonably assured. Certain customer contracts provide for upfront service contract payments. These subscription service fees are deferred and revenue is recognized over the term of the contract.

Finance income related to the sales-type lease is recognized in a manner that produces a constant rate of return on the investment in the lease. The investment in the lease for purposes of income recognition is composed of net minimum lease payments and unearned finance income.

When more than one product or service is provided to a customer under one arrangement the Company allocates revenue to each element of the arrangement based on the relative value of the elements. For arrangements with multiple elements, revenue is allocated to each element of a transaction based upon its fair value. The objective and reliable evidence of fair value for all elements of an arrangement is based upon the normal pricing practice for the product and services when sold separately.

*(g) Inventories*

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis. Inventory consists of goods for resale. Net realizable value is the

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expected selling price in the ordinary course of business minus any costs to complete and dispose.

(h) *Income taxes*

The Company follows the liability method of tax allocation. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Differences between financial reporting and the tax basis of assets and liabilities are measured at the tax rates expected to be in effect when the differences reverse. Valuation allowances are established when necessary to reduce future tax assets to the amounts expected to be realized.

(i) *Investment tax credits*

Investment tax credits arising from qualifying scientific research and experimental development tax credits are recorded as a reduction of operating expenses or capital assets when there is reasonable assurance that the credits will be available to be utilized.

(j) *Use of estimates*

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant areas requiring the use of estimates include the rates of amortization of capital assets and intangible assets, the carrying value of goodwill and intangible assets and the estimation of various accruals and reserves. Actual results could differ from those estimates.

(k) *Guarantees*

The Company follows the guideline issued by the CICA, Accounting Guideline 14 (“AcG 14”), “Disclosure of Guarantees”, which is effective for interim and annual financial statements beginning on or after January 1, 2003. AcG 14 provides assistance regarding the identification of guarantees and requires a guarantor to disclose significant details on guarantees that have been given regardless of whether it will have to make payments under the guarantees.

In the normal course of business, the Company enters into numerous agreements that may contain features which meet the definition of a guarantee pursuant to AcG 14. AcG 14 defines a guarantee to be a contract (including an indemnity) that contingently requires payments to be made (either in cash, financial instruments, other assets, shares of Company stock or provision of services) to a third party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, a liability or an equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or (iii) failure of another third party to pay its indebtedness when due. The maximum potential amount of future payments represents the maximum risk of loss if there were a total default by the guaranteed parties, without

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consideration of possible recoveries under recourse provisions, insurance policies or from collateral held or pledged.

In the normal course of operations, the Company provides indemnifications which are often standard contractual terms to counterparties in transactions such as purchase and sale contracts, service agreements, director/officer contracts and leasing transactions. These indemnification agreements may require the Company to compensate the counterparties for costs incurred as a result of changes in laws and regulations (including tax legislation) or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnification agreements will vary based upon the contract. The nature of the indemnification agreements prevents the Company from making a reasonable estimate of the maximum potential amount we could be required to pay to counterparties. Historically, the Company has not made any significant payments under such indemnifications.

*(l) Stock-based compensation*

The Company has a stock-based compensation plan that is described in Note 9. The CICA Handbook, Section 3870, establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments for goods and or services. The Section requires that awards of stock be measured at fair value

*(m) Loss per share*

Loss per share is calculated by dividing the net loss for the year by the weighted average number of common shares outstanding for that year. The weighted average number of common shares outstanding (basic) is adjusted, to the extent they are dilutive, for outstanding stock options and stock purchase warrants (dilutive). The calculation of diluted loss per share, calculated using the treasury-stock method, excludes any potential conversion of warrants and options that would increase earnings per share or decrease a loss per share.

*(n) Fair value of long-lived assets*

The Company monitors the recoverability of long-lived assets, based on factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the asset exceeds the undiscounted estimate of future cash flows from the asset.

*(o) Change in Accounting Policies*

The Canadian Institute of Chartered Accountants ("CICA") issued the following new Handbook Sections, which were effective for interim periods beginning on or after October 1, 2007:

- (i)* Section 3862, "Financial Instruments – Disclosures", describes the required disclosure for the assessment of the significance of financial instruments for an entity's financial position and

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performance and of the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. This section and Section 3863, “Financial Instruments – Presentation” replaced Section 3861, “Financial Instruments – Disclosure and Presentation”.

- (ii) Section 3863, “Financial Instruments – Presentation”, establishes standards for presentation of financial instruments and non-financial derivatives.
- (iii) Section 1535, “Capital Disclosures”, establishes standards for disclosing information about an entity’s capital and how it is managed. It describes the disclosure requirements of the entity’s objectives, policies and processes for managing capital, the quantitative data relating to what the entity regards as capital, whether the entity has complied with capital requirements, and, if it has not complied, the consequences of such non-compliance.

The additional disclosures, required as a result of the adoption of (i) Sec 3862 and 3863, have been included in Note 16, Financial Instruments and (ii). Sec 1535, have been included in Note 17, Capital management.

*(p) New pronouncements*

- (i) Effective October 1, 2008 the Company will be required to adopt the following new CICA standard. In June 2007, the CICA issued Section 3031, “Inventories”, to harmonize accounting for inventories under Canadian GAAP with IFRS. This standard requires the measurement of inventories at the lower of cost and net realizable value and includes guidance on the determination of cost, including allocation of overheads and other costs to inventory. The standard also requires the consistent use of either first-in, first-out (FIFO) or weighted average cost formula to measure the cost of inventories and requires the reversal of previous write downs to net realizable value when there is a subsequent increase in the value of inventories. The new standard applies to fiscal years beginning on or after January 1, 2008. The company will adopt this new standard on October 1, 2008, and is currently assessing the effects of this new standard will have on its consolidated financial statements.
- (ii) Sections 3064 and 1000 – Goodwill and Intangible Assets

In February 2008, the CICA issued new Section 3064, “Goodwill and intangible assets”, replacing Section 3062, “Goodwill and Other intangible assets”, and Section 3450, “Research and development costs”. Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The Section also issued amendments to Section 1000, “Financial Statement Concepts”. These changes are effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted, and will be adopted by the Company effective October 1, 2008. The objectives of the changes are to reinforce a principles-based approach to the recognition of costs as assets and to clarify the application of the concept of matching revenues and expenses in Section 1000. Collectively, these changes bring Canadian practice closer to International Financial Reporting Standards and U.S. GAAP by eliminating the practice of recognizing as assets a variety of startup, preproduction and similar costs that do not meet the definition and recognition criteria of an asset. The

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Company has determined that adoption of the new standards will not have a significant effect on the Company's financial statements.

(iii) International Financial Reporting Standards ("IFRS")

The CICA plans to require public companies to adopt IFRS effective no later than January 1, 2011. Management is planning to review the transition to IFRS and determine the potential impact, if any, on the Company's consolidated financial statements.

**4. FINANCIAL INSTRUMENTS – Recognition and Measurement**

Under the new standards, 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 period 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 until the instrument is derecognized or impaired. As a result of the adoption of these standards, the Company has classified its cash and cash equivalents and restricted cash as held-for-trading, accounts receivables, loans receivables and income tax recoverable as loans and receivables and accounts payable and accrued liabilities, debentures as other financial liabilities

**Fair value of financial assets and liabilities**

The carrying value and fair value of financial assets and liabilities as at September 30, 2008 are summarized as follows:

Classification	Carrying Value	Fair Value
Held-for-trading assets	\$ 1,078,909	\$ 1,078,909
Held-for-trading liabilities	(199,295)	(199,295)
Loans and receivables	1,224,739	1,224,739
Other liabilities	5,513,218	5,513,218

**5. GOODWILL AND INTANGIBLE ASSETS**

- (a) Effective December 24, 2007, the company acquired all the outstanding shares of Netistix Technologies Corporation ("Netistix"), an Ottawa based Company. Netistix's in-house developed hardware provides a universal interface to cars, light duty trucks, large trucks, and heavy equipment. By implementing the SAE standards for OBDII, J1708 and J1939, Netistix devised an algorithm utilizing data that is available to extrapolate the amount of fuel consumed.

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In exchange, the Company issued 7,142,857 common shares of the Company, valued at \$1,000,000. The legal expenses related to this acquisition were \$63,202.

The acquisition was accounted for under the purchase method of accounting. Total consideration, including costs of acquisition, was allocated based on the estimated fair value of the acquired assets and liabilities on the date of the acquisition as follows:

Net Assets acquired	
Cash and cash equivalents	\$ 4,362
Accounts receivable	63,620
Taxes Recoverable	643,148
Inventory	109,355
Security deposits	8,755
Capital assets	60,440
Patents	60,168
Trademarks	13,912
Customer contracts	263,045
Acquired technology	751,220
Account payable and accrued liabilities	(755,670)
<hr/>	
Fair value of net assets acquired	\$ 1,222,355
<hr/>	
Total consideration is comprised of:	
Common shares	1,000,000
Transaction costs	63,202
Loan receivable	159,153
<hr/>	
Total consideration as at the date of the transaction	\$ 1,222,355

The intangible assets acquired on the acquisition of Netistix were amortised from the date of its acquisition to September 30, 2008:

	Cost	Amortization	Net
Trademark and patents	\$ 74,080	\$ 18,520	\$ 55,560
Customer contracts	263,045	65,761	197,284
Acquired technology	751,220	187,805	563,415
<hr/>		<hr/>	
	\$ 1,088,345	\$ 272,086	\$ 816,259

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- (b) Effective January 31, 2007, the company acquired all the outstanding shares of Sectrack NV (“SecTrack”), a Belgium-based satellite telematics distribution company.

On closing, the company delivered cash of Euro 1,600,000 (CAD \$ 2,453,600), of which Euro 300,000 (CAD \$ 460,050) is held in escrow by the Belgium based escrow agents (the “Escrowed funds”). The release of the Escrowed funds was subject to Sectrack achieving certain revenue and earning targets (“the contingencies”) in the twelve months following the acquisition of Sectrack by BSM.

It is the Company’s contention that SecTrack did not achieve the required revenue and earnings targets as specified in the purchase agreement and therefore the escrowed funds should not to be released to the vendor but should be returned to the Company. It is the vendor’s contention that the targets were met. As of the date of this report the resolution of this disagreement is subject to arbitration in Belgium (as required under the original purchase agreement). The Company expects a decision from the arbitrator in February 2009. The Company’s only exposure in this arbitration is the Euro 300,000 (\$460,500 Cdn) which the Company has already provided. Should the Company be successful adjustments will be required to the purchase price and carrying amount of goodwill.

The acquisition was accounted for under the purchase method of accounting. At the date of this report this contingency has not been resolved and therefore future adjustments may be required to the purchase price and goodwill. Total consideration, including costs of acquisition, was allocated based on the estimated fair value of the acquired assets and liabilities on the date of the acquisition as follows:

Net Assets acquired	
Cash and cash equivalents	\$ 182,160
Accounts receivable	189,449
Inventory	257,416
Security deposits	4,644
Other current assets	29,860
Capital assets	14,591
Goodwill	2,357,269
Account payable and accrued liabilities	(367,956)
<hr/>	
Fair value of net assets acquired	\$ 2,667,433
Total consideration is comprised of:	
Cash	2,453,600
Transaction costs	213,833
<hr/>	
Total consideration as at the date of the transaction	\$ 2,667,433

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The management periodically assesses the carrying value of this asset. On September 30, 2008, the management performed the impairment test and determined that there was no impairment of the recorded goodwill.

- (c) Effective January 2, 2003, the Company acquired from Applied Innovations Group Inc. (“AIG”), all of the outstanding shares of HGI Wireless Inc. (“HGI”), a provider of innovative wireless solutions to law enforcement. AIG is a private company incorporated in Ontario. The controlling shareholder of AIG is also a Director of the Company. The goodwill portion of the acquisition was valued at \$173,495. The management periodically assesses the carrying value of this asset. On September 30, 2008, the management performed the impairment test and determined that there was no impairment of the recorded goodwill.

**6. PROPERTY, PLANT AND EQUIPMENT**

	2008		
	Cost	Accumulated Depreciation	NBV
Computer equipment	\$ 1,175,912	\$ 832,491	\$ 343,421
Furniture and office equipment	269,336	230,042	39,294
Computer software	587,757	578,162	9,595
Automobile	37,196	25,190	12,006
Leasehold improvements	107,644	89,586	18,058
	<u>\$ 2,177,845</u>	<u>\$ 1,755,471</u>	<u>\$ 422,374</u>

  

	2007		
	Cost	Accumulated Depreciation	NBV
Computer equipment	\$ 998,879	\$ 608,481	\$ 390,398
Furniture and office equipment	253,985	207,054	46,931
Computer software	488,024	472,830	15,194
Automobile			-
Leasehold improvements	107,644	62,498	45,146
	<u>\$ 1,848,532</u>	<u>\$ 1,350,863</u>	<u>\$ 497,669</u>

**7. LOANS RECEIVABLE**

September 30,      September 30,

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	<u>2008</u>		<u>2007</u>
Loans from AIG	\$ 2,382	\$	29,997
	<hr/>		
	\$ 2,383	\$	29,997

Loans payable/receivable to former President & CEO, Applied Innovations Group Inc and other companies under his control (“AIG”) are non interest bearing, unsecured and temporary in nature.

**8. CONVERTIBLE DEBENTURE**

Convertible debentures consist of:

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	September 30, 2008	September 30, 2007
<b>(i) 2008 Convertible debenture</b>		
Debt component		
Proceeds and reconstituted debenture amount	\$ 3,450,000	
Less:		
Warrants	(533,410)	
Equity component (conversion right)	(795,337)	
Amount recorded as liability component	<u>2,121,253</u>	
Liability component of financing costs	(72,159)	
2008 accretion of liability component	137,884	
	<u><b>\$ 2,186,978</b></u>	<u><b>\$ -</b></u>
Equity component		
Conversion feature	\$ 795,337	
Warrants	533,410	
Less equity component of financing charges	(45,200)	
	<u><b>\$ 1,283,547</b></u>	<u><b>\$ -</b></u>
<b>(ii) 2006 Convertible debenture</b>		
Debt component		
Debenture maturing July 7,2008		\$ 1,000,308
Notional interest representing accretion.		187,307
Warrants representing debt component		30,821
	<u><b>\$ -</b></u>	<u><b>\$ 1,218,436</b></u>
Equity component		
Debenture maturing July 7,2008		\$ 299,692
Warrants representing equity component		9,234
	<u><b>\$ -</b></u>	<u><b>\$ 308,926</b></u>

On July 7, 2006, the Company issued Convertible Debentures in the aggregate amount of \$1,300,000 (the “**2006 Convertible Debentures**”) and 2,260,869 warrants (the “**OS Warrants**”). The 2006 Convertible Debentures had a term of two (2) years and were convertible into common shares of BSM at the rate of one common share for each \$0.23 of debt converted. The 2006 Convertible Debentures were secured against the assets and undertaking of the Company and bore interest at the rate of 14% per year. Under the terms of the 2006 Convertible Debentures, interest only was payable monthly. The subscribers received one Warrant for each \$0.575 in principal amount of 2006 Convertible Debentures purchased. Each Warrant was exercisable at \$0.23 to acquire a further common share until July 7, 2008. Pursuant to the terms of the 2006 Convertible Debentures, there were certain covenants of the Company in favour of the Debenture Holders

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including the right at the option of the debenture holders to prepayment of the 2006 Convertible Debentures in the event that the Company completed an equity financing of at least \$5,000,000 or there was a change of control. A change of control occurs where any Person (other than Nick Cirella or Onbelay Partners Limited) acquires control directly or indirectly of 20% or more of the voting shares of the Company except pursuant to a bona fide arm's length amalgamation, merger or acquisition transaction approved by the Debenture Holders (a "Permitted Change of Control") or where Nick Cirella becomes the direct or indirect beneficial owner of less than 30% of the voting shares of the Company, except in the circumstances of a Permitted Change of Control. The Debenture Holders had pre-emptive rights to participate pro rata in any equity or debt financings and had the right to maintain their current ratio of representation on the board of directors of 2:7. The Company was restricted from issuing shares at less than \$0.23 or at more than a 10% discount between \$0.23 and \$0.50 without the consent of the Debenture Holders. The Company was also obligated to maintain certain financial covenants pursuant to the 2006 Convertible Debentures. Commencing with the quarter ending December 31, 2006, the Company was to have maintained minimum quarterly sales of \$750,000. In addition, the Company was to have maintained minimum quarter ending EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) as follows: September 2006: (\$250,000); December 2006: (\$245,342) (as amended February 28, 2007); March 2007: (\$502,795) (as amended May 25, 2007); and June 2007: \$150,000. As consideration for the May 25, 2007 amendment to the terms of the 2006 Convertible Debentures, the Company agreed to pay the Debenture Holders an additional 0.333% interest per month for the three (3) months ended June 30, 2007 increasing monthly interest from 1.167% to 1.5% for an aggregate additional cost for interest for Q3 of \$13,000. The Company did not meet the June 2007 EBITDA target and was in default of that covenant. As at December 31, 2007 the 2006 Convertible Debentures were in default. The Debenture Holders made demand for payment and agreed to a Forbearance of their right to exercise their remedies under the 2006 Convertible Debentures until April 1, 2008 after which date the 2006 Convertible Debentures became immediately repayable, and the Debenture Holders had available to them all the remedies available at law and under the 2006 Convertible Debentures to enforce their right to repayment. From December 31, 2007 the 1.5% per month interest rate continued to apply. The Company paid a 3% interest penalty to the Debenture Holders, representing a payment of approximately \$40,000, as consideration for the Forbearance.

On June 30, 2008 (as to \$2,350,000) and on July 2, 2008 (as to \$300,000), the Company closed a total of \$2,650,000 in new Convertible Debentures (the "**2008 Convertible Debentures**"). The 2008 Convertible Debentures have a term of two (2) years and are convertible into common shares of the Company at the rate of one common share for each \$0.06 of debt converted. The 2008 Convertible Debentures are secured against the assets and undertaking of the Company (including security over all subsidiaries of the Company) and bear interest at the rate of 14% per year. The 2008 Convertible Debentures have standard terms and conditions that are typical for a financing instrument of this nature and such standard terms are substantially the same as the terms of the 2006 Convertible Debentures except that there are no financial covenants. The subscribers received warrants ("**Warrants**") to acquire common shares of the Company equal in number to the number of common shares convertible upon exercise of the conversion feature of the 2008 Convertible Debentures. Each Warrant is exercisable at \$0.10 to acquire a further common share for two (2) years from closing. \$500,000 of the funds from the 2008 Convertible Debentures was used to repay \$500,000 of the 2006 Convertible Debentures with the balance used for working capital.

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\$300,000 of the 2006 Convertible Debentures were replaced with Reconstituted Debentures and Warrants on the same terms as the 2008 Convertible Debentures. \$500,000 of the 2006 Convertible Debentures, held by Company Insiders (“**Insiders**”), were replaced with Insider Reconstituted Debentures at a conversion rate of one common share for each \$0.07 of debt converted and the Insiders also received Warrants equal in number to the number of common shares convertible upon exercise of the conversion feature of the Insider Reconstituted Debentures. The 2008 Convertible Debentures, Reconstituted Debentures and Warrants underlying securities were restricted from trading until October 31, 2008, with respect to \$2,350,000 of the 2008 Convertible Debentures and the Reconstituted Debentures, and until November 3, with respect to the remaining \$300,000 of the 2008 Convertible Debentures.

The Company had identified (a) Onbelay Partners Ltd, a company controlled by Mr. John Bell and Mr. Aly Rahemtulla, both directors of BSM, (b) Onbelay Capital Inc, a company controlled by Mr. John Bell a director of BSM and (c) ANR Solutions Inc, a company controlled by Mr. Aly Rahemtulla, as related parties. Onbelay Partners Ltd, Onbelay Capital Inc and ANR Solutions Inc acquired an aggregate of \$500,000 of Reconstituted Debentures and 7,142,857 Warrants in replacement for the \$500,000 of 2006 Convertible Debentures and 869,565 Warrants (part of the 2006 Convertible debentures) they held previously.

In determining the amount of the debt and equity components of the 2008 Debentures, the carrying amount of the financial liability is first determined by discounting the stream of future payments of interest at the rate of interest prevailing at the date of issuance for instruments of similar term and risk. The equity component equals the amount determined by deducting from the carrying amount of the compound instrument the amount of the debt component.

The warrants issued with the 2008 Debentures (as to \$2,350,000) and the Reconstituted Debentures have been valued at \$533,410 using a Black Scholes model with the following weighted average assumptions; dividend yield of 0%, volatility of 40.78%, risk free rate of interest of 4.5% and expected life of 2 years.

The Company has determined the fair market value of the liability portion of the convertible debenture upon issuance to be \$2,121,253 which amount will be accreted to its face value of \$3,450,000 through interest expense charges computed at 26.92% per annum through to July 2, 2010. The balance of the convertible debenture approximating \$1.5 million has been credited to equity and represents the values ascribed to the obligation to issue warrants and the convertible feature of the debenture.

In connection with the 2008 Convertible Debentures financing and Reconstituted Debentures (hereinafter collectively called “**2008 Debentures**”), the Company incurred costs of \$117,359 that was charged to the liability and equity portions.

Interest and other expense on the 2008 Debentures was composed of the interest calculated on the face value of the convertible debentures, and an annual notional interest representing the accretion of the carrying value of the debenture. Interest recorded was as follows:

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	September 30, 2008	September 30, 2007
<b>(i) 2008 Convertible debenture</b>		
Interest expense on face value	121,421	
Notional interest representing accretion.	137,884	
	<u>\$ 259,305</u>	<u>\$ -</u>
<b>(ii) 2006 Convertible debenture</b>		
Interest expense on face value	\$ 214,500	\$ 208,000
Notional interest representing accretion.	183,525	239,418
	<u>\$ 398,025</u>	<u>\$ 447,418</u>
	<u>\$ 657,330</u>	<u>\$ 447,418</u>

**9. SHARE CAPITAL**

*(a) Authorized*

An unlimited number of 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.

An unlimited number of common shares.

*(b) Preferred shares*

Authorized: unlimited number of preference shares.

Issued: None

*(c) Common shares issued and outstanding*

Common shares

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	September 30, 2008		September 30, 2007	
	Number	Amount	Number	Amount
Balance, beginning of the period	71,938,118	\$ 9,777,771	45,677,792	\$ 6,075,613
Excluding shares to be issued subject to future performamnce				
Acquisition of Netistix (Note 9 ( c ) ( iv ) )	7,142,857	1,000,000		
Shares issued for settlement of debt (Note 9 ( c ) ( ii ) )	4,278,855	536,895	357,474	85,705
Options excercised			392,852	46,171
Warrants expired (Note 9 ( d ) ( ii ) )		233,860	3,040,000	406,640
Shares issued- Brokered Private placement Less Share issuance expenses			22,470,000	3,763,586 (599,944)
Shares issued- Non Brokered Private placement (Note 9 ( c ) ( iii ) )	2,000,000	274,506		
Shares issued excluding shares to be issued subject to future performance	85,359,830	11,823,032	71,938,118	9,777,771
Shares issued in escrow subject to BSM's performance (Note 9 ( c ) ( i ) )	547,900	-	547,900	-
<b>Total shares outstanding</b>	<b>85,907,730</b>	<b>\$ 11,823,032</b>	<b>72,486,018</b>	<b>\$ 9,777,771</b>

- i. During the year ended September 30, 1998, the Company entered into an agreement with the former President 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 962,000 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 547,900 common shares remain in escrow subject to these performance targets
- ii. During the quarter ended December 31, 2007, the Company obtained regulatory approval for settlement of certain accounts payable by issuance of common shares. Pursuant to this approval a total of 276,785 common shares were issued at \$0.14. The Company had identified Onbelay Partners Ltd, a company controlled by Mr. John Bell and Mr. Aly Rahemtulla, both directors of the BSM Technologies Inc as related party. Pursuant to this share for debt settlement, Onbelay Partners Ltd acquired 142,857 common shares for consulting services provided by them during the year ended September 30, 2007, \$20,000 of this amount was outstanding as of September 30, 2007.

During the quarter ended March 31, 2008, the Company obtained regulatory approval for settlement of certain accounts payable comprising of debts of 10 former employees of Netistix

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by issuance of common shares. Pursuant to this approval a total of 3,652,070 common shares were issued at \$0.13.

During the quarter ended September 30, 2008, the Company obtained regulatory approval for settlement of certain accounts payable by issuance of common shares. Pursuant to this approval a total of 350,000 common shares were issued at \$0.075.

- iii. On November 22, 2007, the Company obtained regulatory approval for a non-brokered private placement of 2,000,000 units at a price of \$0.15 per unit ("Unit"). Each Unit is comprised of one common share and one half-share purchase warrant ("Warrant"). Each whole Warrant entitles the holder to acquire one common share upon payment of \$0.20 per common share and expires November 23, 2009. The transaction was completed on December 11, 2007. The warrants issued with this private placement have been valued at \$23,494 using a Black Scholes model with the following weighted average assumptions; dividend yield of 0%, volatility of 40.78%, risk free rate of interest of 4.5% and expected life of 2 years. Total cash cost associated with this private placement for TSX V fees amounted to \$2,000 leaving net cash proceeds of \$298,000. These share issue expenses have been deducted from issued capital.
- iv. On December 24, 2007, the Company issued 7,142,857 common shares of the Company, valued at \$1,000,000 for the acquisition of Netistix.

*(d) Warrants*

- i. On November 22, 2007, the Company obtained regulatory approval for a non-brokered private placement of 2,000,000 units at a price of \$0.15 per unit ("Unit"). Each Unit is comprised of one common share and one half-share purchase warrant ("Warrant"). Each whole Warrant entitles the holder to acquire one common share upon payment of \$0.20 per common share and expires November 23, 2009. The transaction was completed on December 11, 2007. The warrants issued with this private placement have been valued at \$23,494 using a Black Scholes model with the following weighted average assumptions; dividend yield of 0%, volatility of 40.78%, risk free rate of interest of 4.5% and expected life of 2 years.
- ii. On January 23, 2008, 8,206,664 warrants issued pursuant to January 2006 financing with an average exercise price of \$0.20 per common share expired unexercised.
- iii. On June 30, 2008, (as to \$2,350,000) and on July 2, 2008 (as to \$300,000), the Company closed a total of \$2,650,000 in new Convertible Debentures (the "**2008 Convertible Debentures**"). The 2008 Convertible Debentures have a term of two (2) years and are convertible into common shares of the Company at the rate of one common share for each \$0.06 of debt converted. The subscribers received 44,166,667 warrants to acquire common shares of the Company upon payment of \$0.10 per common share which expire June 30, 2010 as to \$2,350,000 of 2008 Convertible Debentures and July 2, 2010 as to \$300,000 of 2008 Convertible Debentures .

On June 30, 2008, the company replaced \$300,000 of the 2006 Convertible Debentures with Reconstituted Debentures and Warrants on the same terms as the 2008 Convertible Debentures. The holders of the \$300,000 Reconstituted Debentures received 5,000,000 warrants to acquire common shares of the Company upon payment of \$0.10 per common

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share which expire June 30, 2010. The 521,739 warrants issued in July 2006 to the holders of the Reconstituted Debentures pursuant to the 2006 Convertible Debentures, were cancelled.

On June 30, 2008, the Company replaced \$500,000 of the 2006 Convertible Debentures held by Company Insiders (“**Insiders**”), with Insider Reconstituted Debentures having a term of two (2) years and convertible into common shares of the Company at the rate of one common share for each \$0.07 of debt converted. The holders of the Insider Reconstituted Debentures received 7,142,857 warrants to acquire common shares of the Company upon payment of \$0.10 per common share which expire June 30, 2010. The 869,565 warrants issued in July 2006 to the holders of the Insiders Reconstituted Debentures pursuant to the 2006 Convertible Debentures, were cancelled.

- iv. As of September 30, 2008, the Company had outstanding 68,544,524 warrants to acquire common share at a weighted average exercise price of \$0.13 per share.

A summary of the Company's warrants is presented below:

	<u>September 30, 2008</u>		<u>September 30, 2007</u>	
	<u>Numbers</u>	<u>Weighted Average Exercise Price</u>	<u>Numbers</u>	<u>Weighted Average Exercise Price</u>
Balance, beginning of the period	21,702,533	\$ 0.23	14,313,089	\$ 0.18
Issued	57,309,524	0.10	11,235,000	0.25
Exercised			(3,040,000)	(0.12)
Expired/Cancelled	(10,467,533)	0.21	(805,556)	(0.12)
<b>Balance, end of the period</b>	<b>68,544,524</b>	<b>\$ 0.13</b>	<b>21,702,533</b>	<b>\$ 0.23</b>

(e) *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 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 shareholder’s 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 Plan.

As at September 30, 2008, a total of 1,856,133 options were outstanding at a weighted average price of \$0.20. These options expire December 2008, October 2009 and April 2010

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and have a weighted average life of 0.72 years.

No options were issued during the current year.

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

	<u>September 30, 2008</u>		<u>September 30, 2007</u>	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Balance, beginning of the period	2,068,049	\$ 0.20	1,792,330	\$ 0.17
Cancelled	(211,916)	0.20	(61,429)	0.11
Exercised			(392,852)	0.12
Issued			730,000	0.22
<b>Balance, end of the period</b>	<b>1,856,133</b>	<b>\$ 0.20</b>	<b>2,068,049</b>	<b>\$ 0.20</b>

The following table summarizes information about stock options outstanding and exercisable as at September 30, 2008.

<u>Exercise price</u>	<u>Outstanding</u>		<u>Exercisable</u>	
	<u>Number Outstanding</u>	<u>Remaining Contractual life (years)</u>	<u>Vested options</u>	<u>Exercise price</u>
\$ 0.185	1,376,133	-	1,376,133	\$ 0.185
0.200	280,000	-	210,000	0.200
0.300	200,000	-	200,000	0.300
	<b>1,856,133</b>	<b>0.72</b>	<b>1,786,133</b>	

In addition the syndicate of agents was granted 2,247,000 compensation options (the "Compensation Options") equal to 10% of the total number of 22,470,000 Units sold pursuant to the January 2007 private placement. Each Compensation Option entitles the holder to acquire one Unit at a price of \$0.20 per Unit. Each Unit consisted of one common share (the "Common Share") and one Common Share purchase warrant. Each Warrant entitles the holder to acquire one Common Share at an exercise price of \$0.25 per share until January 4, 2009.

A summary of the Company's Compensation Options is presented below:

	<u>September 30, 2008</u>		<u>September 30, 2007</u>	
	<u>Numbers</u>	<u>Weighted Average Exercise Price of Compensation options</u>	<u>Numbers</u>	<u>Weighted Average Exercise Price of Compensation options</u>
Opening Balance	2,247,000	\$0.20	-	
Issued			2,247,000	0.20
<b>Closing Balance</b>	<b>2,247,000</b>	<b>\$0.20</b>	<b>2,247,000</b>	<b>\$0.20</b>

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(f) *Weighted average number of shares outstanding*

The weighted average number of common shares outstanding was 81,816,619 for the year ended September 30, 2008 (2007-63,691,911). 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 and warrants are anti-dilutive, they have been excluded from the calculation of the diluted weighted average number of shares outstanding.

(g) *A summary of the securities in place at September 30, 2008 is shown in the table below:*

Security type	Number	Exercise Price	Expiry
<b>Common shares</b>			
Common shares issued and outstanding	85,907,730		
<b>Shares reserved for issuance on exercise of Stock Options, Warrants, Convertible debenture conversion and Compensation Options</b>			
Warrants issued pursuant to:			
Brokered Private placement on January 4,2007	11,235,000	\$ 0.25	4-Jan-09
Private placement on November 22,2007	1,000,000	\$ 0.20	23-Nov-09
Private placement of 2008 Convertible Debenture Financing	39,166,667	\$ 0.10	30-Jun-10
Reconstituted Debentures on June 30, 2008	5,000,000	\$ 0.10	30-Jun-10
Insider Reconstituted Debentures on June 30, 2008	7,142,857	\$ 0.10	30-Jun-10
Options issued under the Stock Option Plan			
on December 22, 2005	1,376,133	\$ 0.19	22-Dec-08
on November 1, 2006	280,000	\$ 0.20	1-Oct-09
on April 12, 2007	200,000	\$ 0.30	12-Apr-10
2008 Debentures Conversion: Reserved for issuance on conversion of the :			
Private placement of 2008 Convertible Debenture Financing	44,166,667	\$ 0.06	30-Jun-10
Reconstituted Debentures on June 30, 2008	5,000,000	\$ 0.06	30-Jun-10
Insider Reconstituted Debentures on June 30, 2008	7,142,857	\$ 0.07	30-Jun-10
<b>Compensation options</b>			
Pursuant to the Brokered Private placement on January 4,2007			
Common shares reserved for exercise of broker options	2,247,000	\$ 0.20	4-Jan-09
Warrants to be received on exercise of broker options	2,247,000	\$ 0.25	4-Jan-09
<b>Total Shares reserved for issuance on exercise of Stock Options, Warrants, Convertible debenture conversion and Compensation Options</b>	<b>126,204,181</b>		
<b>Total Shares issued and reserved for issuance on exercise of Stock Options, Warrants,Convertible debenture conversion and Compensation Options</b>	<b>212,111,911</b>		

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**10. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

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

	<u>2008</u>	<u>2007</u>
Accounts receivable	\$ 99,745	\$ 385,570
Inventories	(405,798)	256,799
Prepaid expenses and other assets	2,345	37,685
Income taxes payable (recoverable)	571,792	(50,563)
Deferred revenue	(52,515)	(16,449)
Deferred product cost	(7,439)	-
Accounts payable and accrued liabilities	904,274	178,784
	<u>\$ 1,112,404</u>	<u>\$ 791,826</u>

(b) Non cash investing and financing activities:

	<u>2008</u>	<u>2007</u>
Shares issued for debt settlement	\$ 536,895	\$ 85,705
Acquisition of property, plant and equipment under capital lease	\$ 19,683	\$ 294,774
Non cash compensation options issued		\$ 183,458
Shares issued for Netistix acquisition	\$ 1,000,000	\$ -
Warrants issued for 2008 convertible debenture financing	\$ 533,410	\$ -

(c) Interest paid:

	<u>2008</u>	<u>2007</u>
Interest paid	\$ 377,945	\$ 229,203
Capital lease, interest paid	16,506	8,623

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**11. CASH AND CASH EQUIVALENT**

	<b>September 30, 2008</b>	<b>September 30, 2007</b>
Cash at Bank	\$418,895	\$ 351,071
Short term investments	200,000	200,000
	<hr/>	<hr/>
	\$618,895	\$551,071
	<hr/>	<hr/>

Short-term investments consist of Prime-Linked Cashable GIC's with the Scotia Bank for \$200,000. The principal amount of the GIC has provided the necessary security in terms of the cash collateral agreement referred to in Note 12.

**12. CREDIT FACILITIES**

The Company has a credit facility with a Canadian Chartered Bank for \$200,000, which allows for a borrowing limit of up to \$ 200,000. The balance of advances outstanding at June 30, 2008 was \$ 199,264 (September 30, 2007: 199,621). Security for the borrowings of the Company has been provided to the bank in the form of cash collateral agreement assigning GIC in the amount of \$200,000.

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**13. SEGMENTED INFORMATION**

*Sales by Geographic segment are as follows:*

	<b>2008</b>	<b>2007</b>
Canada	\$ 3,517,630	\$ 3,123,750
United States of America	904,484	1,192,646
South America	679,341	1,000,962
Asia	1,316,235	1,519,794
Europe	568,216	701,781
Australia	220,636	406,332
Africa	621,281	347,912
	<hr/> \$ 7,827,823	<hr/> \$ 8,293,177

*Sales by category are as follows:*

	<b>2008</b>	<b>2007</b>
Recurring service revenue	\$ 3,907,082	\$ 2,398,302
Non recurring hardware and software revenue	3,920,741	5,894,875
	<hr/> \$ 7,827,823	<hr/> \$ 8,293,177

Assets

	<b>2008</b>	<b>2007</b>
Canada	\$ 5,248,848	\$ 5,060,662
Belgium	1,864,084	782,483
	<hr/> \$ 7,112,932	<hr/> \$ 5,843,145

**14. RELATED PARTY TRANSACTIONS**

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- i) The Company had previously identified Nick Cirella, a director and former President & CEO, 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 section 3840 of the CICA Handbook. During the year ended September 30, 2008, the Company paid \$ 137,327 to a company under Mr. Cirella's control as management fee under a Management contract between the Company and Mr. Cirella for his role as CEO ( 2007- \$ 208,747). During the year ended September 30, 2008, the Company paid \$ 32,500 to a company under Mr. Cirella's control as consulting fee under a management consulting contract between the Company and Mr. Cirella (2007- \$ Nil).

During the year ended September 30, 2008, the company had received loan repayment \$ 27,614 from the director and former President & CEO of the Company and companies under his control (2007-loan advance of \$20,623).

- ii) The Company had identified (a) Onbelay Partners Ltd, a company controlled by Mr. John Bell and Mr. Aly Rahemtulla, both directors of the BSM Technologies Inc, (b) Onbelay Capital Inc, a company controlled by Mr. John Bell a director of BSM Technologies Inc and (c) ANR Solutions Inc, a company controlled by Mr. Aly Rahemtulla, as related parties. On May 9, 2006, the Company proposed to issue up to \$1,500,000 in Convertible Debentures. TSX Venture Exchange's approval was obtained on July 7, 2006. Pursuant to this approval, the Company closed the debenture financing on July 7, 2006 and issued Convertible Debentures in the aggregate amount of \$1,300,000 (the "**2006 Convertible Debentures**") and 2,260,869 warrants (the "Warrants"). The 2006 Convertible Debentures had a term of two (2) years and were convertible into common shares of BSM at the rate of one common share for each \$0.23 of debt converted. The 2006 Convertible Debentures were secured against the assets and undertaking of the Company and bear interest at the rate of 14% per year. The subscribers received one Warrant for each \$0.575 in principal amount of 2006 Convertible Debentures purchased. Each Warrant was exercisable at \$0.23 to acquire a further common share until July 7, 2008. Onbelay Partners Ltd, Onbelay Capital Inc and ANR Solutions Inc acquired an aggregate of \$500,000 of 2006 Convertible Debentures and 869,565 Warrants.

As part of 2008 Convertible Debentures financing completed on June 30, 2008, Onbelay Partners Ltd, Onbelay Capital Inc and ANR Solutions Inc acquired an aggregate of \$500,000 of Reconstituted Debentures and 7,142,857 Warrants in replacement for the \$500,000 of 2006 Convertible Debentures and 869,565 Warrants (part of 2006 Convertible Debenture) they held previously.

During the year ended September 30, 2008, the Company paid \$100,000 to the related parties as interest on the 2006 Convertible debenture and 2008 Convertible debenture (2007-\$80,000).

During the year ended September 30, 2008, the Company provided for \$35,000 as amount payable to ANR Solutions Inc, for consulting services provided by them. As at September 30, 2008, \$10,000 was unpaid (2007-\$Nil). During the year ended September 30, 2008, the Company paid \$ 51,042 (2007-\$Nil) to a company under Mr. Aly Rahemtulla control as management fee for his new role as the CEO of the company with effect from 16<sup>th</sup> June, 2008.

Pursuant to the shares for debt settlement Completed during the three months ended December 31, 2007, Onbelay Partners Ltd acquired 142,857 common shares for consulting services provided by

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them during the year ended September 30, 2007, \$20,000 of this amount was outstanding as of September 30, 2007.

- (iii) On January 14, 2008, the Company completed a private placement of a \$450,000 Debenture Financing with a Company controlled by the former acting chairman of the Company. The interest rate on the debenture was 14% per annum. The debenture was repaid on January 28, 2008.

**15. COMMITMENTS**

- (i) Operating lease:  
The Company has entered into leases for premises with the following total minimum annual payments:

2009	237,709
2010	246,634
2011	80,621

- (ii) Capital lease:  
The Company has obtained lease financing to facilitate the purchase of computer equipment. The following is a schedule of annual minimum lease payments:

2009	116,706
2010	69,464
	<hr/> \$186,170
Less: current portion:	(116,706)
	<hr/> \$ 69,464 <hr/>

**16. FINANCIAL INSTRUMENTS**

- (a) *Fair values*

The carrying values of accounts receivable, income taxes recoverable, bank indebtedness, accounts payable and accrued liabilities and customer deposits approximate their fair values due to the short-term maturity of these instruments. The loans from unrelated parties are stated at fair value because they were negotiated shortly before year end are of a short term nature. The loans from related parties are carried at cost because the fair value is not determinable.

- (b) *Credit risk*

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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. As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies. The types of foreign exchange risk can be categorized as follows:

Translation exposure

All of the Company's foreign operations are considered self-sustaining. Accordingly, assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates. Unrealized translation gains and losses are deferred and included in accumulated other comprehensive income. Foreign currency based earnings are translated into Canadian dollars each period. As a result, fluctuations in the value of the Canadian dollar relative to these other currencies will impact reported net income. 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.

Transaction exposure

The Company, through its subsidiaries, generates significant revenues in major foreign currencies, primarily U.S. dollars, which exceed the natural hedge provided by purchases of goods and services in those currencies. Currently company does not enter into foreign exchange contracts to manage this exposure, but may do so in the future.

d) *Liquidity rate 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. 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.

**17. CAPITAL MANAGEMENT**

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. The capital structure of the Company consists of long-term debt, cash and cash equivalents and shareholders' equity comprising of retained earnings and capital stock. The basis for the

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Company's capital structure is dependent on the Company's expected business growth and changes in the business environment. The Company was subject to certain covenants on its existing convertible debenture (the "**2006 Convertible Debentures**"). Pursuant to the terms of the 2006 Convertible Debentures, there were certain covenants of the Company in favour of the Debenture Holders including the right at the option of the debenture holders to prepayment of the 2006 Convertible Debentures in the event that the Company completed an equity financing of at least \$5,000,000 or there was a change of control. The Debenture Holders had pre-emptive rights to participate pro rata in any equity or debt financings and had the right to maintain their current ratio of representation on the board of directors of 2:7. The Company was restricted from issuing shares at less than \$0.23 or at more than a 10% discount between \$0.23 and \$0.50 without the consent of the Debenture Holders. The Company was also obligated to maintain certain financial covenants pursuant to the 2006 Convertible Debentures. These covenants are described in detail in note 8 to these financial statements. The Company monitors the covenants on a quarterly basis. The ratios are also reviewed by the Company's Board of Directors on a quarterly basis. Other than the covenants required for the 2006 Convertible Debentures and 2008 Convertible Debentures, the Company is not subject to any externally imposed capital requirements. The Company did not meet the June 2007 EBITDA target and was in default of that covenant. As at December 31, 2007 the 2006 Convertible Debentures were in default. The Debenture Holders made demand for payment and agreed to a Forbearance of their right to exercise their remedies under the 2006 Convertible Debentures until April 1, 2008 after which date the 2006 Convertible Debentures became immediately repayable, and the Debenture Holders had available to them all the remedies available at law and under the 2006 Convertible Debentures to enforce their right to repayment. From December 31, 2007 the 1.5% per month interest rate continued to apply. The Company paid a 3% interest penalty to the Debenture Holders, representing a payment of approximately \$40,000, as consideration for the Forbearance.

On June 30, 2008 (as to \$2,350,000) and on July 2, 2008 (as to \$300,000), the Company closed a total of \$2,650,000 in new Convertible Debentures (the "**2008 Convertible Debentures**"). The 2008 Convertible Debentures have a term of two (2) years and are convertible into common shares of the Company at the rate of one common share for each \$0.06 of debt converted. The 2008 Convertible Debentures are secured against the assets and undertaking of the Company (including security over all subsidiaries of the Company) and bear interest at the rate of 14% per year. The 2008 Convertible Debentures have standard terms and conditions that are typical for a financing instrument of this nature and such standard terms are substantially the same as the terms of the 2006 Convertible Debentures except that there are no financial covenants. The subscribers received warrants ("**Warrants**") to acquire common shares of the Company equal in number to the number of common shares convertible upon exercise of the conversion feature of the 2008 Convertible Debentures. Each Warrant is exercisable at \$0.10 to acquire a further common share for two (2) years from closing. \$500,000 of the funds from the 2008 Convertible Debentures was used to repay \$500,000 of the 2006 Convertible Debentures with the balance used for working capital.

\$300,000 of the 2006 Convertible Debentures was replaced with Reconstituted Debentures and Warrants on the same terms as the 2008 Convertible Debentures. \$500,000 of the 2006 Convertible Debentures, held by Company Insiders ("**Insiders**"), were replaced with Insider Reconstituted Debentures at a conversion rate of one common share for each \$0.07 of debt converted and the Insiders also received Warrants equal in number to the number of common shares convertible upon exercise of the conversion feature of the Insider Reconstituted Debentures. The 2008 Convertible

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Debentures, Reconstituted Debentures and Warrants underlying securities were restricted from trading until October 31, 2008, with respect to \$2,350,000 of the 2008 Convertible Debentures and the Reconstituted Debentures, and until November 3, with respect to the remaining \$300,000 of the 2008 Convertible Debentures.

**18. CONTRIBUTED SURPLUS**

	<b>September 30, 2008</b>	<b>September 30, 2007</b>
	<u>          </u>	<u>          </u>
Balance beginning of the year	\$ 243,498	\$ 17,990
Stock-based compensation expenses	-	42,050
Reconstitution of 2006 convertible debenture	324,341	-
Expiry of warrants	15,406	-
Broker options expenses	-	183,458
<b>Balance end of the period</b>	<b>\$ 583,245</b>	<b>\$243,498</b>

**19. INTEREST ON NON CONVERTIBLE DEBENTURES**

On January 14, 2008, the Company completed a private placement of a \$450,000 debenture financing (“2008 Debenture”) with a Company controlled by the former acting chairman of the Company. The interest rate on the debenture was 14% per annum. The debenture was repaid on January 28, 2008.

Interest and other expense on the 2008 Debentures are composed of the interest calculated on the face value of the debentures and the financing costs such as legal expenses associated with it. Interest recorded was as follows

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	Sept 30, 2008	Sept 30, 2007
Financial liability component	2,953	
Legal and other expenses	8,136	
	<u>\$ 11,089</u>	<u>\$ -</u>

**20. INCOME TAXES**

As at September 30, 2008, the Company has non-capital losses in Canada of approximately \$ 13,549,165 that can be used to reduce future taxable income. The potential tax benefits relating to the losses have not been reflected in the Company's accounts. These losses will expire, if unused, as follows:

2009	\$ 1,124,300
2010	973,819
2014	2,208,657
2015	2,148,560
2026	3,138,564
2027	2,365,508
2028	1,589,757
	<u>\$ 13,549,165</u>

In addition to above, the Company's Belgium based wholly owned subsidiary has accumulated losses of \$7,142,898 (Euro 4,786,503). Under the Belgium tax laws, these losses are carried forward indefinitely.

The Company has future income tax assets (liabilities) as follows:

	<u>2008</u>	<u>2007</u>
Tax benefit of loss carry-forward	4,753,000	4,770,200
Goodwill and intangibles	(1,176,700)	(914,000)
Valuation allowance	(3,576,300)	(3,856,200)
	<u>-</u>	<u>-</u>

**21. COMPARATIVE FIGURES**

Certain of the comparative figures have been reclassified to conform with the current year's presentation.

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**22. RESTATEMENT**

The Company has a Convertible Debenture liability as described in note 8. The company now believes that the measurement and presentation of the liability and equity portion of the Convertible Debenture for the year ended September 30, 2008 was incorrect and that certain balance sheet items were misstated and misclassified for the year ended September 30, 2008. The Company has corrected these errors and restated the audited financial statements for the year ended September 30, 2008.

The net effect of the restatement on the audited financial statements of the company as to September 30, 2008 is as follows:

The carrying value of the debt portion and equity portion of the Convertible Debenture was adjusted to its fair value.

The carrying value of portion of the warrants issued in connection with the Convertible Debenture was moved from the convertible debenture to the Equity.

**Summary of restatement-Consolidated Balance sheet**

	<b>Originally Reported September 30, 2008</b>	<b>Restatement</b>	<b>Restated Amount September 30, 2008</b>
<b>ASSETS</b>			
Deferred financing costs	568,596	(568,596)	-
<b>Total Assets</b>	<b>568,596</b>	<b>(568,596)</b>	<b>-</b>
<b>LIABILITIES</b>			
Convertible debenture	3,165,517	(978,539)	2,186,978
<b>SHARE HOLDERS EQUITY</b>			
Warrants	876,876	392,297	1,269,173
Convertible debenture	795,337	(27,055)	768,282
Deficit	(13,106,952)	44,701	(13,062,251)
<b>Total liabilities and shareholders equity</b>	<b>(11,434,739)</b>	<b>409,943</b>	<b>(11,024,796)</b>
	(8,269,222)	(568,596)	(8,837,818)

The interest expense on the 2008 Debentures was adjusted as to the notional interest representing the accretion of the carrying value of the debenture. Interest expense and net loss is decreased by the interest expense restatement. As there were no other income statement effects, this figure carries to the balance sheet as an adjustment to deficit.

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**Summary of restatement-Consolidated Statements of Operations and Deficit**

	<b>Originally Reported September 30, 2008</b>	<b>Restatement</b>	<b>Restated Amount September 30, 2008</b>
Interest on debenture	702,031	(44,701)	657,330
<b>Net Income (loss) effect for the year ended September 30, 2008</b>		<u>(44,701)</u>	
<b>Basic and diluted (loss) earnings per share</b>	\$ (0.05)	\$ (0.00)	\$ (0.05)

**Summary of restatement-Consolidated Statements of Comprehensive Income**

	<b>Originally Reported September 30, 2008</b>	<b>Restatement</b>	<b>Restated Amount September 30, 2008</b>
Net Loss	(3,870,991)	44,701	(3,826,290)
<b>Net Comprehensive income (loss) effect for the year ended September 30, 2008</b>		<u>44,701</u>	

There was no change to the statement of cash flows, as the interest expense adjustment related to the notional interest representing the accretion of the carrying value of the debenture is a non-cash item.

**Summary of restatement-Consolidated Statements of Cash Flows**

	<b>Originally Reported September 30, 2008</b>	<b>Restatement</b>	<b>Restated Amount September 30, 2008</b>
Loss from continuing operations	(3,870,991)	44,701	(3,826,290)
Amortization of deferred financing charges	362,149	(44,701)	317,448
<b>Net cash inflow (outflow)</b>		<u>-</u>	