

Interim Consolidated Financial Statements (unaudited) of

BSM TECHNOLOGIES INC.

First quarter's results December 31, 2007 and 2006

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 un-audited financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

BSM TECHNOLOGIES INC.
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Three months ended December 31, 2007 and 2006

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BSM TECHNOLOGIES INC.
Interim Consolidated Balance Sheets (unaudited)

As at	December 31, 2007	September 30, 2007
ASSETS		
CURRENT		
Cash and cash equivalent (Note 10)	\$ 424,929	\$ 551,071
Restricted Cash (Note 4a)	460,050	460,050
Accounts receivable	1,088,271	1,017,474
Income taxes recoverable	836,909	163,914
Inventories	689,688	394,881
Loans Receivable (Note 6)	3,375	29,997
Prepaid expenses and other assets	82,445	71,407
	<u>3,585,667</u>	<u>2,688,794</u>
PROPERTY, PLANT AND EQUIPMENT (Note 5)	542,857	497,669
DEFERRED FINANCING COSTS (Note 7)	64,943	93,407
PATENTS	106,591	32,511
GOODWILL (Note 4a and 4b)	3,449,315	2,530,764
	<u>\$ 7,749,373</u>	<u>\$ 5,843,145</u>
LIABILITIES		
CURRENT		
Bank indebtedness (Note 11)	\$ 199,624	\$ 199,621
Accounts payable and accrued liabilities	3,173,252	1,610,421
Purchase consideration payable (Note 4a)	460,050	460,050
Convertible Debentures (Note 7)	1,255,898	1,218,436
Capital Lease current portion	109,873	109,873
Deferred revenue	78,989	54,053
	<u>5,277,686</u>	<u>3,652,454</u>
Capital Lease long term portion	137,348	173,972
	<u>5,415,034</u>	<u>3,826,426</u>
SHARE HOLDERS EQUITY		
SHARE CAPITAL (Note 8)	11,091,027	9,777,771
WARRANTS	997,002	973,508
CONTRIBUTED SURPLUS (Note 17)	243,498	243,498
CONVERTIBLE DEBENTURE (Note 7)	299,692	299,692
DEFICIT	(10,252,053)	(9,235,961)
ACCUMULATED OTHER COMPREHENSIVE INCOME	(44,827)	(41,789)
	<u>2,334,339</u>	<u>2,016,719</u>
	<u>\$ 7,749,373</u>	<u>\$ 5,843,145</u>

APPROVED BY THE BOARD

....."*Lloyd Atkinson*"..... Director

....."*Nick Cirella*"..... Director

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

BSM TECHNOLOGIES INC.

Interim Consolidated Statements of Operations and Deficit (unaudited)

Three months ended December 31, 2007 and 2006

	2007	2006
REVENUE	\$ 2,077,408	\$ 1,400,410
COST OF SALES	1,084,422	666,492
GROSS PROFIT	992,986	733,918
EXPENSES		
Marketing, advertising and promotion	503,539	369,930
Research and development	265,152	262,438
General and administrative	1,067,805	431,892
SR & ED Credit		(85,000)
	1,836,496	979,260
NET LOSS BEFORE INTEREST, AND AMORTIZATION	(843,510)	(245,342)
Interest	10,888	3,937
Interest on debenture (Note 7)	118,355	105,355
Amortization of property, plant and equipment	43,339	13,783
NET LOSS	\$ (1,016,092)	\$ (368,417)
DEFICIT, BEGINNING OF THE PERIOD	(9,235,961)	(6,552,222)
DEFICIT, END OF THE PERIOD	\$ (10,252,053)	\$ (6,920,639)
LOSS PER SHARE - basic and diluted (Note 8(f))	\$ (0.01)	\$ (0.01)
Weighted average number of shares - basic and diluted	73,468,551	49,170,735

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

BSM TECHNOLOGIES INC.
Interim Consolidated Statements of Comprehensive Income
Three months ended December 31, 2007 and 2006

	2007	2006
NET LOSS	\$ (1,016,092)	\$ (368,417)
Other Comprehensive Income, Net of Tax	(3,038)	-
Change in unrealized gains and losses on available-for-sale financial assets		
COMPREHENSIVE INCOME	\$ (1,019,130)	(368,417)

Interim Consolidated Statements of Other Comprehensive Income
Three months ended December 31, 2007 and 2006

	2007	2006
Balance-Beginning of the Period	\$ (41,789)	-
Other Comprehensive Income, Net of Tax	(3,038)	-
Change in unrealized gains and losses on available-for-sale financial assets		
Balance-end of the period	(44,827)	-

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

BSM TECHNOLOGIES INC.**Interim Consolidated Statements of Cash Flows (unaudited)****Three months ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
NET CASH INFLOW (OUTFLOW) FROM THE FOLLOWING ACTIVITIES		
CONTINUING OPERATIONS		
Loss from continuing operations	\$ (1,019,130)	\$ (368,417)
Add non-cash items:		
Amortization of capital assets	43,339	13,783
Amortization of deferred financing charges	59,855	59,855
	<u>(915,936)</u>	<u>(294,779)</u>
Change in non-cash operating working capital items (Note 9)	725,055	211,648
	<u>(190,881)</u>	<u>(83,131)</u>
INVESTING		
Investment in Subsidiary	(222,355)	-
Cash receipt on acquisition	4,362	-
Acquisition of property, plant and equipment, net	(11,339)	(20,255)
Investment in patent	-	(3,165)
	<u>(229,332)</u>	<u>(23,420)</u>
FINANCING		
Long Term Capital Lease payment	(30,554)	-
Loans received (paid)	26,622	(2,281)
Shares issued pursuant to warrants exercise		120,000
Capital stock Issued	298,000	-
	<u>294,068</u>	<u>117,719</u>
NET CASH INFLOW (OUTFLOW)	(126,145)	11,168
(BANK INDEBTEDNESS) CASH, BEGINNING OF YEAR	351,450	23,317
CASH, END OF YEAR	<u>\$ 225,305</u>	<u>\$ 34,485</u>

CASH IS MADE UP AS FOLLOWS:

Cash and cash equivalents	\$ 424,929	\$ 233,374
Bank indebtedness	(199,624)	(198,889)
	<u>\$ 225,305</u>	<u>\$ 34,485</u>

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

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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 \$ 1,613,030 (September 30, 2007- \$ 909,627) and overall deficit of \$10,252,053 (September 30, 2007 - \$9,235,961). In addition the Company is in default of its debenture covenants (see Note 8). The Company's continued existence is dependent upon its ability to achieve profitable operations and to obtain alternative financing. There can be no assurance that the Company will be able to achieve profitable operations, nor that financing efforts will be successful. Management believes that the growth of the Company's AVL business and the acquisition of SecTrack NV on January 31, 2007 will assist in expanding market presence through Sectrack's distribution channels worldwide, and will improve the Company's profitability.

If the going concern assumption were not appropriate for these financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported net losses, and the balance sheet classifications used.

3. SIGNIFICANT ACCOUNTING POLICIES

The disclosures contained in these un-audited consolidated interim financial statements (the "Statements") have not been made in accordance with the generally accepted accounting principles applicable to annual financial statements. These Statements should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2007.

New pronouncements

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

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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 this new standard will have on its consolidated financial statements.

4. 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:

- a) 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 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”.
- b) Section 3863, “Financial Instruments – Presentation”, establishes standards for presentation of financial instruments and non-financial derivatives.

The additional disclosures, required as a result of the adoption of Sec 3862 and 3863, have been included in Note 16, Financial Instruments.

- c) 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 Sec 1535, have been included in Note 17, Capital management.

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5. 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 December 31, 2007 are summarized as follows:

<u>Classification</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Held-for-trading	\$ 685,355	\$ 685,355
Loans and receivables	1,928,555	1,928,555
Other liabilities	5,136,421	5,136,421

6. GOODWILL

- (a) Effective December 24, 2007, the company acquired all the outstanding shares of Netistix Technologies Corporation (“Netistix”), a Ottawa based Company. Netistix’s inhouse 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. Netistix’s hardware and its integrated firmware also implement a powerful protocol to efficiently and effectively transmit vehicle related information to its central servers. Development of these technologies requires extensive man hours of planning, testing and refinement. Netistix technology and intellectual property is directly relevant to many of BSM current and future clients.

In exchange, the Company issued 7,142,857 common shares of the Company, valued at \$1,000,000. One half of the share consideration was issued on closing and the balance (“Escrowed Shares”) is subject to a voluntary escrow which will be released on receipt of notice of assessment from Canada Revenue Agency and the Department of Finance Canada determining the amount of the SRED Claim. The number of Escrowed Shares to be released shall be calculated by determining the Net Working Capital effective on the Closing Date taking into consideration the value of the SRED Claim as assessed by Canada Revenue

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Agency and the Department of Finance Canada (the “Actual Net Working Capital”). If the Actual Net Working Capital is positive, all Escrowed Shares shall be released.

The BSM securities issued will be restricted from trading until April 25, 2008. The legal and other acquisition costs 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	72,740
I Taxes Recoverable	672,995
Inventory	109,355
Security deposits	8,755
Capital assets	77,187
Patents	60,168
Trademarks	13,912
Goodwill	918,551
Account payable and accrued liabilities	(715,670)
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Fair value of net assets acquired	\$1,222,355
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Total consideration is comprised of:	
Common shares	1,000,000
Transaction costs	63,202
Loan receivable	159,153
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Total consideration as at the date of the transaction	\$1,222,355
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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 Escrowed funds are to be released subject to Sectrack achieving certain revenue and earning targets (“the contingencies”) in the twelve months following the acquisition of Sectrack by BSM.

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:

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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)
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Fair value of net assets acquired	\$ 2,667,433
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Total consideration is comprised of:	
Cash	2,453,600
Transaction costs	213,833
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Total consideration as at the date of the transaction	\$ 2,667,433
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- (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, who is also the Chief Executive Officer (“CEO”) of the Company, has significant influence over the Company by virtue of AIG’s non-controlling interest. The goodwill portion of the acquisition was valued at \$173,495. The management periodically assesses the carrying value of this asset. On September 30, 2007, the management performed the impairment test and determined that there was no impairment of the recorded goodwill.

7. LOANS RECEIVABLE

	<u>December 31, 2007</u>	<u>September 30, 2007</u>
Loans from AIG	\$ 3,375	\$ 29,997
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	\$ 3,375	\$ 29,997
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Loans payable/receivable to 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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	December 31, 2007	September 30, 2007
Debt component		
Debenture maturing July 7,2008	\$ 1,000,308	\$ 1,000,308
Notional interest representing accretion.	224,769	187,308
Warrants representing debt component	30,821	30,821
	\$ 1,255,898	\$ 1,218,437
Equity component		
Debenture maturing July 7,2008	\$ 299,692	\$ 299,692
Warrants representing equity component	9,234	9,234
	\$ 308,926	\$ 308,926

On July 7, 2006, the Company obtained regulatory approval for non-brokered private placement Convertible debenture financing. 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 and 2,260,869 warrants (the "Warrants"). The Convertible Debentures have a term of two (2) years and are convertible into common shares of BSM at the rate of one common share for each \$0.23 of debt converted. The Convertible Debentures are secured against the assets and undertaking of the Company and bear interest at the rate of 14% per year. Under the terms of the Convertible Debentures interest only is payable monthly. The subscribers received one Warrant for each \$0.575 in principal amount of Convertible Debenture purchased. Each Warrant is exercisable at \$0.23 to acquire a further common share until July 7, 2008. Pursuant to the terms of the Debentures, there are certain covenants of the Company in favor of the Debenture Holders including the right at the option of the debenture holders to prepayment of the Debentures in the event that the Company completes an equity financing of at least \$5,000,000 or there is 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 have pre-emptive rights to participate pro rata in any equity or debt financings and have the right to maintain their current ratio of representation on the board of directors of 2:7. The Company is 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 is also obligated to maintain certain financial covenants pursuant to the Debentures. Commencing with the quarter ending December 31, 2006, the Company shall maintain minimum quarterly sales of \$750,000. In addition, the Company shall maintain 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 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

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the June 2007 EBITDA target and is in default of that covenant. As at December 31, 2007 the Debentures were in default. The Debenture Holders have made demand for payment and have agreed to a Forbearance of their right to exercise their remedies under the Debentures until April 1, 2008 after which date the Debentures will be immediately repayable. If the Debentures are not repaid at that time, the Debenture Holders have available to them all the remedies available at law and under the Debentures to enforce their right to repayment. From December 31, 2007 the 1.5% per month interest rate continues 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.

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. Onbelay Partners Ltd, Onbelay Capital Inc and ANR Solutions Inc acquired an aggregate of \$500,000 of Convertible debenture and 869,565 Warrants.

In connection with the Convertible debenture financing, the Company also incurred costs of \$139,089 that were charged to deferred financing and are being amortized over the term of the Debenture.

In determining the amount of the debt and equity components of the convertible 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 this private placement have been valued at \$40,055 using a Black Scholes model with the following weighted average assumptions; dividend yield of 0%, volatility of 6.77%, risk free rate of interest of 4.5% and expected life of 2 years. The fair value of the warrants, being \$40,055 was charged to other paid-in capital and Debenture and is accreted to interest expense over the term of the loan consistent with the classification of the debt and equity components of the convertible debentures

Interest and other expense on the debentures is composed of the interest calculated on the face value of the debentures, an quarterly notional interest representing the accretion of the carrying value of the debentures, non-cash accreted notional interest related to the fair value of the warrants and the amortization of deferred financing costs. Interest recorded was as follows:

	December 31, 2007	December 31, 2006
Financial liability component	58,500	\$ 45,500
Notional interest representing accretion.	37,462	37,462
Amortization of Warrants	5,007	5,007
Amortization of deferred financing costs	17,386	17,386
	\$ 118,355	\$ 105,355

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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

	December 31, 2007		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 performance				
Acquisition of Netistix (Note 9 (c) (iv))	7,142,857	1,000,000		
Shares issued for settlement of debt (Note 9 (c) (ii))	276,785	38,750	357,474	85,705
Options exercised			392,852	46,171
Warrants exercised			3,040,000	406,640
Shares issued- Brokered Private placement			22,470,000	3,763,586
Less Share issuance expenses				(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	81,357,760	11,091,027	71,938,118	9,777,771
Shares issued in escrow subject to BSM's performance (Note 9 (c) (i))	547,900	-	547,900	-
Total shares outstanding	81,905,660	\$ 11,091,027	72,486,018	\$ 9,777,771

- 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

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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.

- 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 \$2000 leaving net cash proceeds of \$298,000. These share issue expenses have been deducted from issued capital.
- iv. For the acquisition of Netistix, the Company issued 7,142,857 common shares of the Company, valued at \$1,000,000. One half of the share consideration was issued on closing and the balance ("Escrowed Shares") is subject to a voluntary escrow which will be released on receipt of notice of assessment from Canada Revenue Agency and the Department of Finance Canada determining the amount of the SRED Claim. The number of Escrowed Shares to be released shall be calculated by determining the Net Working Capital effective on the Closing Date taking into consideration the value of the SRED Claim as assessed by Canada Revenue Agency and the Department of Finance Canada (the "Actual Net Working Capital"). If the Actual Net Working Capital is positive, all Escrowed Shares shall be released.

(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

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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. As of December 31, 2007, the Company had outstanding 22,702,533 warrants to acquire common share at a weighted average exercise price of \$0.23 per share.

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

	<u>December 31, 2007</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	1,000,000	0.20	11,235,000	0.25
Exercised			(3,040,000)	(0.12)
Expired			(805,556)	(0.12)
Balance, end of the period	22,702,533	\$ 0.23	21,702,533	\$ 0.23

(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.

As at December 31, 2007, 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 and have a weighted average life of 1.22 years.

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

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	<u>December 31, 2007</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
Balance, end of the period	1,856,133	\$ 0.20	2,068,049	\$ 0.20

The following table summarizes information about stock options outstanding and exercisable as at December 31, 2007.

<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	0.98	1,376,133	\$ 0.185
0.200	280,000	1.75	210,000	0.200
0.300	200,000	2.28	200,000	0.300
	1,856,133	1.22	1,786,133	

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>Numbers</u>	<u>Weighted Average Exercise Price of Compensation options</u>
Opening Balance, October 1, 2006	-	
Issued	2,247,000	0.20
Balance, September 30, 2007	2,247,000	\$0.20

(f) *Weighted average number of shares outstanding*

The weighted average number of common shares outstanding for the three months ended December 31, 2007 was 73,468,551 (three months ended December 31, 2006-47,190,735).

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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.

10. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

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

	December 31, 2007	December 31, 2006
Accounts receivable	\$ 1,941	\$ 67,823
Inventories	(185,453)	(53,579)
Prepaid expenses and other assets	(2,281)	(12,286)
Income taxes payable (recoverable)	-	(85,000)
Deferred revenue	(28,514)	(14,728)
Accounts payable and accrued liabilities	939,362	309,418
	<u>\$ 725,055</u>	<u>\$ 211,648</u>

(b) Non cash investing and financing activities:

	December 31, 2007	December 31, 2006
Shares issued for debt settlement	\$ 38,750	\$ 18,820

(c) Interest paid:

	December 31, 2007	December 31, 2006
Interest paid	\$ 63,317	\$ 49,437
Capital lease, interest portion	6,071	-

11. CASH AND CASH EQUIVALENT

	December 31, 2007	September 30, 2007
Cash at Bank	\$ 224,929	\$ 351,071
Short term investments	200,000	200,000
	<u>\$424,929</u>	<u>\$551,071</u>

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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 December 31, 2007 was \$ 199,624 (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.

13. SEGMENTED INFORMATION

Revenues can be split into the two categories of recurring service revenues and non recurring hardware and software sales.

Sales by Geographic segment are as follows:

	Three months ended	
	December 31, 2007	December 31, 2006
Canada	\$ 809,650	\$ 1,205,032
United States of America	198,261	195,378
South America	265,721	-
Asia	332,740	-
Europe	326,691	-
Australia	59,130	-
Africa	85,215	-
	<hr/>	<hr/>
	\$ 2,077,408	\$ 1,400,410

Sales by category are as follows:

	Three months ended	
	December 31, 2007	December 31, 2006
Recurring service revenue	\$ 904,763	\$ 265,382
Non recurring hardware and software revenue	1,172,645	1,135,028
	<hr/>	<hr/>
	\$ 2,077,408	\$ 1,400,410
Assets		
	<hr/>	<hr/>
	December 31, 2007	September 30, 2007
Canada	\$ 6,836,463	\$ 5,060,662
Belgium	912,910	782,483
	<hr/>	<hr/>
	\$ 7,749,373	\$ 5,843,145

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14. RELATED PARTY TRANSACTIONS

- i) The Company had previously identified Nick Cirella, 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 three months ended December 31, 2007, the Company paid \$ 43,750 to a company under Mr. Cirella's control as management fee under a Management contract between the Company and Mr. Cirella (three months ended December 31, 2006-\$43,750).

During the three months ended December 31, 2007, the company was repaid \$ 26,622 by President & CEO of the Company and companies under his control (three months ended December 31, 2006-loan advance of \$2,281).

- 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 and 2,260,869 warrants (the "Warrants"). The Convertible Debentures have a term of two (2) years and are convertible into common shares of BSM at the rate of one common share for each \$0.23 of debt converted. The Convertible Debentures are 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 Convertible Debenture purchased. Each Warrant is 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 Convertible debenture and 869,565 Warrants.

During the three months ended December 31, 2007, The Company paid \$22,500 to the related parties as interest on the Convertible debenture (three months ended December 31, 2006-\$16,461).

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

15. COMMITMENTS

- (i) Operating lease:
The Company has entered into leases for premises with the following total minimum annual payments:
- | | |
|------|---------|
| 2008 | 186,889 |
| 2009 | 236,705 |
| 2010 | 245,881 |
| 2011 | 181,397 |

- (ii) Capital lease:

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The Company has obtained lease financing to facilitate the purchase of property, plant and equipment. The following is a schedule of annual minimum lease payments:

	2008	109,873
	2009	109,873
	2010	27,468
		<hr/>
		\$247,214
	Less: current portion:	(109,873)
		<hr/>
		\$137,341

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*

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*

Certain of the Company's sales and purchases are denominated in US dollars. Any increases or decreases to the foreign exchange rates could increase or decrease the Company's earnings. The Company does not use derivative instruments to manage this risk.

(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 Company's capital structure is dependent on the Company's expected business growth and

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changes in the business environment. The Company is subject to certain covenants on its existing convertible debenture. Pursuant to the terms of the Debentures, there are certain covenants of the Company in favor of the Debenture Holders including the right at the option of the debenture holders to prepayment of the Debentures in the event that the Company completes an equity financing of at least \$5,000,000 or there is a change of control. The Debenture Holders have preemptive rights to participate pro rata in any equity or debt financings and have the right to maintain their current ratio of representation on the board of directors of 2:7. The Company is 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 is also obligated to maintain certain financial covenants pursuant to the 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 convertible debenture, the Company is not subject to any externally imposed capital requirements. The Company did not meet all externally imposed capital requirements at the end of the period. The Company did not meet the June 2007 EBITDA target and is in default of that covenant. As at December 31, 2007 the Debentures were in default. The Debenture Holders have made demand for payment and have agreed to a Forbearance of their right to exercise their remedies under the Debentures until April 1, 2008 after which date the Debentures will be immediately repayable. If the Debentures are not repaid at that time, the Debenture Holders have available to them all the remedies available at law and under the Debentures to enforce their right to repayment. From December 31, 2007 the 1.5% per month interest rate continues 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.

18. CONTRIBUTED SURPLUS

	December 31, 2007	September 30, 2007
Balance beginning of the year	\$ 243,498	\$ 17,990
Stock-based compensation expenses		42,050
Broker options expenses		183,458
Balance end of the period	\$ 243,498	\$ 243,498

19. SUBSEQUENT EVENTS

- i) On January 14, 2008, the Company completed a private placement of a \$450,000 Debenture Financing with a Company controlled by the acting chairman of the Company. The Debenture is secured against the assets of Netistix, and repayable upon the earlier of July 28, 2008 or receipt by Netistix of the funds evidenced by the notice of assessment from Canada Revenue Agency and the Department of Finance Canada determining the amount of the Investment tax credit refund claim (the "SRED Claim"). The Debenture bears an interest rate of 14% per annum. Upon Netistix's receipt of the funds and notice of assessment from Canada Revenue Agency the Debenture was repaid on January 28, 2008.

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- ii) On January 18, 2008, the Company announced settlement of the debts of 10 former employees (the “Former Employees”) of Netistix (the “Debt Settlement”), for shares of BSM. The Debt Settlement comprises the issuance of 3,652,070 BSM common shares, valued at \$0.13 per share, as settlement of the Former Employees’ cumulative debt of \$474,769 for outstanding wages and expenses. TSX Venture Exchange approval was obtained on February 4, 2008 and the transaction was completed on February 5, 2008.

- iii) On February 14, 2008 the Company announced that its wholly-owned subsidiary, SecTrack NV (“SecTrack”) had reached a full and final settlement of all outstanding legal claims with its key supplier, Satamatics Limited (“Satamatics”) and a former employee. SecTrack and Satamatics have reached the terms of a comprehensive agreement that will see Satamatics continue to be a strategic supplier of D+ and IsatM2M products and airtime to SecTrack. Both companies will work closely together on market collaboration – with particular focus on customer development and new product deployment. Each party agreed to bear its own legal costs in relation to the Action. The agreement also provides a mechanism for customer protection and enhances the product and network services offering that allows SecTrack to expand its Global network.

With this settlement agreement, the causes of action and claims in the litigation commenced on July 3, 2007, by SecTrack by obtaining a without notice Order for Injunction from the High Court of Justice of England and Wales will come to an end.

20. COMPARATIVE FIGURES

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