

Interim Consolidated Financial Statements (unaudited) of

BSM TECHNOLOGIES INC.

Second quarter's results March 31, 2009 and 2008

(Restated August 13, 2009)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, Subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying 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.

Table of Contents

**Three and Six months ended March 31, 2009 and 2008
(Restated August 13, 2009)**

	<u>Page</u>
Consolidated Balance Sheets	1
Consolidated Statements of Operations and Deficit	2
Consolidated Statements of Comprehensive Income	3
Consolidated Statements of Cash Flows	4
Notes to the Consolidated Financial Statements	5-30

BSM TECHNOLOGIES INC.
Interim Consolidated Balance Sheets (unaudited)

As at	March 31, 2009	September 30, 2008
	Restated	
	Note 18	
ASSETS		
CURRENT		
Cash and cash equivalent (Note 9)	\$ 435,200	\$ 618,859
Restricted Cash (Note 5b)		460,050
Accounts receivable	950,726	987,087
Current portion of net investment in sales-type leases	63,664	
Income taxes recoverable	149,705	235,270
Inventories	479,414	910,034
Loans Receivable		2,382
Prepaid expenses and other assets	111,199	88,358
	2,189,908	3,302,040
PROPERTY, PLANT AND EQUIPMENT	372,613	422,374
NET INVESTMENT IN SALES-TYPE LEASES	94,763	
PATENTS	34,240	34,056
DEFERRED PRODUCT COST	7,919	7,439
INTANGIBLE ASSETS (Note 5)	634,868	816,259
GOODWILL (Note 5)	2,029,464	2,530,764
	\$ 5,363,775	\$ 7,112,932
LIABILITIES		
CURRENT		
Bank indebtedness		\$ 199,295
Accounts payable and accrued liabilities	1,759,195	2,680,020
Purchase consideration payable (Note 5b)		460,050
Capital Lease current portion	116,706	116,706
Deferred revenue	61,695	54,988
	1,937,596	3,511,059
CONVERTIBLE DEBENTURE (Note 6)	2,491,202	2,186,978
Capital Lease long term portion	11,111	69,464
	4,439,909	5,767,501
SHARE HOLDERS EQUITY		
SHARE CAPITAL (Note 7)	11,823,032	11,823,032
WARRANTS	538,759	1,269,173
CONTRIBUTED SURPLUS (Note 15)	1,343,270	583,245
CONVERTIBLE DEBENTURE (Note 6)	768,282	768,282
DEFICIT	(13,460,115)	(13,062,251)
ACCUMULATED OTHER COMPREHENSIVE INCOME	(89,362)	(36,050)
	923,866	1,345,431
	\$ 5,363,775	\$ 7,112,932

APPROVED BY THE BOARD

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

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

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

BSM TECHNOLOGIES INC.**Interim Consolidated Statements of Operations and Deficit (unaudited)**

Three and six months ended March 31, 2009 and 2008

	Three months		Six months	
	2009	2008	2009	2008
	Restated Note 18		Restated Note 18	
REVENUE	\$ 2,769,010	\$ 1,643,674	\$ 5,362,954	\$ 3,721,082
COST OF SALES	1,400,160	830,530	2,687,468	1,914,952
GROSS PROFIT	1,368,850	813,144	2,675,486	1,806,130
EXPENSES				
Marketing, advertising and promotion	435,889	361,866	823,036	865,406
Research and development	219,082	326,468	435,703	591,620
General and administrative	507,193	844,817	1,033,457	1,912,621
SR & ED Credit		(71,356)		(71,356)
Stock compensation Expenses	29,611		29,611	
	1,191,775	1,461,795	2,321,807	3,298,291
NET INCOME (LOSS) BEFORE INTEREST, AND AMORTIZATION	177,075	(648,651)	353,679	(1,492,161)
Interest	6,819	9,526	15,231	20,414
Interest on debenture (Note 6)	277,814	161,315	545,725	279,670
Interest on non convertible debenture		11,089		11,089
Amortization of property, plant and equipment	31,859	50,279	65,119	93,618
Amortization of Intangible assets	90,695		181,390	
Interest Income	(55,922)		(55,922)	
NET LOSS	\$ (174,190)	\$ (880,860)	\$ (397,864)	\$ (1,896,952)
DEFICIT, BEGINNING OF THE PERIOD	(13,285,925)	(10,252,053)	(13,062,251)	(9,235,961)
DEFICIT, END OF THE PERIOD	\$ (13,460,115)	\$ (11,132,913)	\$ (13,460,115)	\$ (11,132,913)
LOSS PER SHARE - basic and diluted (Note 7(f))	\$ (0.002)	\$ (0.01)	# \$ (0.005)	\$ (0.02)
Weighted average number of shares - basic and diluted	85,359,830	83,524,922	85,359,830	78,477,624

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

BSM TECHNOLOGIES INC.**Interim Consolidated Statements of Comprehensive Income (unaudited)**

Three and six months ended March 31, 2009 and 2008

	Three months		Six months	
	2009	2008	2009	2008
	Restated Note 18		Restated Note 18	
NET INCOME (LOSS)	\$ (174,190)	\$ (880,860)	\$ (397,864)	\$ (1,896,952)
Other Comprehensive Income, Net of Tax Change in unrealized translation gains (loss) on self sustaining operations	(20,605)	(64,050)	(53,311)	(67,088)
COMPREHENSIVE INCOME	\$ (194,795)	\$ (944,910)	\$ (451,175)	\$ (1,964,040)

Interim Consolidated Statements of Other Comprehensive Income

Three and six months ended March 31, 2009 and 2008

	Three months		Six months	
	2009	2008	2009	2008
Balance-Beginning of the Period	\$ (68,757)	(44,827)	(36,050)	(41,789)
Other Comprehensive Income, Net of Tax Change in unrealized translation gains (loss) on self sustaining operations	(20,605)	(64,050)	(53,312)	(67,088)
Balance-end of the period	(89,362)	(108,877)	(89,362)	(108,877)

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

BSM TECHNOLOGIES INC.
Interim Consolidated Statements of Cash Flows (unaudited)

Three and six months ended March 31, 2009 and 2008

	Three months		Six months	
	2009	2008	2009	2008
	Restated		Restated	
	Note 18		Note 18	
NET CASH INFLOW (OUTFLOW) FROM THE FOLLOWING ACTIVITIES				
CONTINUING OPERATIONS				
Loss from continuing operations	\$ (174,190)	\$ (880,860)	\$ (397,864)	\$ (1,896,952)
Add non-cash items:				
Amortization of capital assets	31,859	50,279	65,119	93,618
Amortization of deferred financing charges	157,064	59,854	304,225	119,709
Amortization of Intangible assets	90,695		181,390	
Stock compensation expenses	29,611		29,611	
	135,039	(770,727)	182,481	(1,683,625)
Change in non-cash items related to operations (Note 8)	(443,612)	864,950	(602,062)	1,586,967
	(308,573)	94,223	(419,581)	(96,658)
INVESTING				
Investment in Subsidiary				(222,355)
Restricted cash/Goodwill	501,300		501,300	
Cash receipt on acquisition				4,362
Acquisition of property, plant and equipment, net	(6,683)	(3,541)	(15,358)	(14,880)
Investment in patent		(350)	(184)	(350)
	494,617	(3,891)	485,758	(233,223)
FINANCING				
Long Term Capital Lease payment	(26,696)	(26,924)	(52,924)	(57,478)
Loans received (paid)	2,383	(11,595)	2,383	15,027
Capital stock Issued				298,000
	(24,313)	(38,519)	(50,541)	255,549
NET CASH INFLOW (OUTFLOW)	161,731	51,813	15,636	(74,332)
(BANK INDEBTEDNESS) CASH, BEGINNING OF YEAR	273,469	225,305	419,564	351,450
CASH, END OF YEAR	\$ 435,200	\$ 277,118	\$ 435,200	\$ 277,118
CASH IS MADE UP AS FOLLOWS:				
Cash and cash equivalents	\$ 435,200	\$ 476,576	\$ 435,200	\$ 476,576
Bank indebtedness	-	(199,458)		(199,458)
	\$ 435,200	\$ 277,118	\$ 435,200	\$ 277,118

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

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

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. 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

The disclosures contained in these unaudited consolidated interim financial statements (the "Statements") have been made in accordance with the generally accepted accounting principles applicable to interim financial statements. These Statements should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2008.

(a) *Change in Accounting Policies*

(i) Inventory:

Effective October 1, 2008 the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 3031, Inventory. The adoption of this new inventory standard requires changes for accounting of inventory including the requirement to allocate overhead costs based on normal production levels and changes to the definition of net realizable value. The new inventory standard clarifies the definition of 'cost' to include all costs of purchase, costs of conversion and other costs incurred to bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

value. Declines in replacement cost below carrying values for raw materials inventories do not require write downs if the finished goods in which they will be incorporated are expected to be sold at or above cost. There was no impact of this change to the financial statements of the Company. The adoption of the new standard did not have a material impact to the Company's financial statements.

(ii) Sections 3064 and 1000 – Goodwill and Intangible Assets

Effective October 1, 2008, the Company adopted the Section 3064 "Goodwill and Intangible Assets". The new section states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. As for subsequent measurement of intangible assets, goodwill and disclosure, Section 3064 carries forward the requirements of the old Section 3062 "Goodwill and Other Intangible Assets". The adoption of these guidelines did not have any material effect on the Company's results, financial position or cash flows.

(b) *New pronouncements*

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

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that the changeover to International Financial Reporting Standards ("IFRS") from Canadian Generally Accepted Accounting Principles ("GAAP") will be required for both interim and annual financial statements for all publicly traded companies, effective for fiscal years beginning on or after January 1, 2011. The AcSB stated in their exposure draft that early adoption is permitted. The company has the appropriate resources committed to the development of its IFRS changeover plan during the coming year. Management has yet to identify what if any effects these new standards will have on the company.

(ii) Business combinations.

In January 2009, the CICA issued Handbook Section 1582, "Business combinations," which replaces the existing standards. This section establishes the standards for the accounting of business combinations, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent considerations and contingencies will also be recorded at fair value at the acquisition date. The standard also states that acquisition-related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This standard is equivalent to the International Financial Reporting Standards on business combinations. This standard is applied prospectively to business combinations with acquisition dates on or after January 1, 2011. Earlier adoption is permitted. Management is currently evaluating the impact of adopting this standard on the Company's consolidated financial statements.

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

(iii) Non-controlling interests

In January 2009, the CICA issued Handbook Section 1602, "Non-controlling interests," which establishes standards for the accounting of non-controlling interests of a subsidiary in the preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. This standard is effective for 2011. Earlier adoption is permitted. Management is currently evaluating the impact of adopting this standard on the Company's consolidated financial statements.

(iv) Consolidated financial statements

In January 2009, the CICA issued Handbook Section 1601, "Consolidated financial statements," which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for 2011. Earlier adoption is permitted. Management is currently evaluating the impact of adopting this standard 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 March 31, 2009 are summarized as follows:

<u>Classification</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Held-for-trading assets	\$ 435,200	\$ 435,200
Loans and receivables	1,258,858	1,258,858
Other liabilities	4,378,214	4,378,214

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

5. GOODWILL AND INTANGIBLE ASSETS

- (a) Effective December 24, 2007, the company acquired all the outstanding shares of Netistix Technologies Corporation ("Netistix"). 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
I 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)
Fair value of net assets acquired	\$ 1,222,355

Total consideration is comprised of:

Common shares	1,000,000
Transaction costs	63,202
Loan receivable	159,153

Total consideration as at the date of the transaction \$ 1,222,355

	Cost	Accumulated amortization	Net March 31, 2009	Net September 30, 2008
Trademark and patents	\$ 74,080	\$ 30,867	\$ 43,213	\$ 55,560
Customer contracts	263,045	109,602	153,443	197,284
Acquired technology	751,220	313,008	438,212	563,415
	\$1,088,345	\$ 453,477	\$ 634,868	\$ 816,259

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

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

On closing, the company delivered cash of Euro 1,600,000 (CAD \$ 2,453,600), of which Euro 300,000 (CAD \$ 460,050) was 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.

On February 27, 2009, the arbitrator appointed by Belgian Center for Arbitration and Mediation, in his arbitral award upheld 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 along with interest accrued should not to be released to the vendor but should be returned to the Company. In addition the arbitrator awarded Euro 11,204 towards legal expenses recovery to the Company.

The acquisition was accounted for under the purchase method of accounting. Upon receipt of the arbitrator's decision, the Company adjusted the purchase price and carrying amount of goodwill by the escrowed amount of \$ 501,300 (Euro 300,000). 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 equivalent	\$ 182,160
Accounts receivable	189,449
Inventory	257,416
Security deposits	4,644
Other current assets	29,860
Property, plant and equipment	14,591
Goodwill	1,855,969
Accounts payable	(367,956)
<hr/>	<hr/>
Fair value of net assets acquired	2,166,133

Total consideration is comprised of

Cash (including escrowed funds euro 300,000)	2,453,600
Recovery of escrowed funds (euro 300,000)	(501,300)
Transaction costs	213,833
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Total consideration	\$2,166,133

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.

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

- (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. CONVERTIBLE DEBENTURE

Convertible debentures consist of:

	December 31, 2008	September 30, 2008
2008 Convertible debenture		
Debt component		
Proceeds and reconstituted debenture amount	\$ 3,450,000	\$ 3,450,000
Less:		
Warrants	(533,410)	(533,410)
Equity component (conversion right)	(795,337)	(795,337)
Amount recorded as liability component	2,121,253	2,121,253
Liability component of financing charges	(72,159)	(72,159)
Accretion of liability component	442,108	137,884
	<u>\$ 2,491,202</u>	<u>\$ 2,186,978</u>
Equity component		
Conversion feature	\$ 795,337	\$ 795,337
Warrants	533,410	533,410
Less equity component of financing charges	(45,200)	(45,200)
	<u>\$ 1,283,547</u>	<u>\$ 1,283,547</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 including the right at the option of the debenture holders to prepayment of the 2006 Convertible Debentures in the

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

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

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

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 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.

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

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 notional interest representing the accretion of the carrying value of the debenture. Interest recorded was as follows:

	Three months ended March		Six months ended March	
	2009	2008	2009	2008
(i) 2008 Convertible debenture				
Interest expense on face value	120,750		241,500	
Notional interest representing accretion.	157,064		304,225	
	<u>\$ 277,814</u>	<u>\$ -</u>	<u>\$ 545,725</u>	<u>\$ -</u>
(ii) 2006 Convertible debenture				
Interest expense on face value		\$ 97,500		\$ 156,000
Notional interest representing accretion.		63,815		123,670
	<u>\$ -</u>	<u>\$ 161,315</u>	<u>\$ -</u>	<u>\$ 279,670</u>
	<u>\$ 277,814</u>	<u>\$ 161,315</u>	<u>\$ 545,725</u>	<u>\$ 279,670</u>

7. 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

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

Common shares

	March 31, 2009		September 30, 2008	
	Number	Amount	Number	Amount
Balance, beginning of the period	85,359,830	\$ 11,823,032	71,938,118	\$ 9,777,771
Excluding shares to be issued subject to future performance				
Acquisition of Netistix			7,142,857	1,000,000
Shares issued for settlement of debt			4,278,855	536,895
Warrants expired				233,860
Shares issued- Non Brokered Private			2,000,000	274,506
<hr/>				
Shares issued excluding shares to be issued subject to future performance	85,359,830	11,823,032	85,359,830	11,823,032
Shares issued in escrow subject to BSM's performance (Note 7 (c) (i))	547,900	-	547,900	-
Total shares outstanding	85,907,730	\$ 11,823,032	85,907,730	\$ 11,823,032

- 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. No shares were issued in the three months ended March 31, 2009.

(d) Warrants

On January 4, 2009, 11,235,000 warrants issued pursuant to January 2007 financing with an average exercise price of \$0.25 per common share expired unexercised.

As of March 31, 2009, the Company had outstanding 57,309,524 warrants to acquire common share at a weighted average exercise price of \$0.10 per share.

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

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

	<u>March 31, 2009,</u>		<u>September 30, 2008</u>	
	<u>Numbers</u>	<u>Weighted Average Exercise Price</u>	<u>Numbers</u>	<u>Weighted Average Exercise Price</u>
Balance, beginning of the period	68,544,524	\$ 0.13	21,702,533	\$ 0.23
Issued			57,309,524	0.10
Exercised				
Expired/Cancelled	(11,235,000)	0.25	(10,467,533)	0.21
Balance, end of the period	57,309,524	\$ 0.10	68,544,524	\$ 0.13

(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.

During the three months ended December 31, 2008, 1,576,133 options to acquire common share at a weighted average exercise price of \$0.20 per share expired unexercised.

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

As at March 31, 2009, a total of 6,175,000 options were outstanding at a weighted average price of \$0.10. These options expire April 2010 and February 2014 and have a weighted average life of 4.2 years.

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

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

	March 31, 2009		September 30, 2008	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of the period	1,856,133	\$ 0.20	2,068,049	\$ 0.20
Cancelled	(1,576,133)	0.20	(211,916)	0.20
Issued	5,895,000	0.10		
Balance, end of the period	6,175,000	\$ 0.10	1,856,133	\$ 0.20

The following table summarizes information about stock options outstanding and exercisable as at March 31, 2009.

Exercise price	Outstanding		Exercisable	
	Number Outstanding	Remaining Contractual life (years)	Vested options	Exercise price
0.200	280,000	0.50	280,000	0.200
0.100	5,895,000	4.91	1,473,750	0.100
	6,175,000	4.20	1,753,750	

On January 4, 2009, 2,247,000 compensation options (the "Compensation Options") issued pursuant to the January 2007 private placement expired unexercised. Each Compensation Option entitled 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 entitled 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:

	March 31, 2009		September 30, 2008	
	Numbers	Weighted Average Exercise Price of Compensation options	Numbers	Weighted Average Exercise Price of Compensation options
Balance, beginning of the period	2,247,000	\$0.20	2,247,000	\$0.20
Expired/Cancelled	(2,247,000)	\$0.20		
Balance, end of the period	-		2,247,000	\$0.20

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

(f) *Weighted average number of shares outstanding*

The weighted average number of common shares outstanding was 85,359,830 for the three months ended March 31, 2009 (three months ended March 31, 2008-83,524,922). The weighted average number of common shares outstanding for the six months ended March 31, 2009 was 85,359,830 (six months ended March 31, 2008-78,477,624). 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 March 31, 2009 is shown in the table below:*

Security type	Number	Exercise Price	Expiry
Common shares			
Common shares issued and outstanding	85,907,730		
Shares reserved for issuance on exercise of Stock Options, Warrants, Convertible debenture conversion and Compensation Options			
Warrants issued pursuant to:			
Private placement on November 22, 2007	1,000,000	\$ 0.20	23-Nov-09
Private placement of 2008 Convertible Debenture Financing	44,166,667	\$ 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 November 1, 2006	280,000	\$ 0.20	1-Oct-09
on February 24, 2009	5,895,000	\$ 0.10	24-Feb-14
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
Total Shares reserved for issuance on exercise of Stock Options, Warrants, and Convertible debenture conversion	119,794,048		
Total Shares issued and reserved for issuance on exercise of Stock Options, Warrants, and Convertible debenture conversion	205,701,778		

8. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

(a) Net changes in non-cash items related to operations:

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

	Three months ended March 31,		Six months ended March 31,	
	2009	2008	2009	2008
Accounts receivable	\$ (7,919)	\$ 178,367	\$ 36,362	\$ 180,308
Inventories	414,168	215,410	430,619	29,957
Prepaid expenses and other assets	(48,472)	(16,339)	(28,269)	(18,620)
Advances from customers	(289,000)			
Income taxes Payable (recoverable)	85,565	571,792	85,565	571,792
Deferred revenue	38,802	(16,675)	6,707	(45,189)
Deferred product cost	(7,919)		(480)	
Accounts payable and accrued liabilities	(590,714)	(67,605)	(974,139)	868,719
Net investment in sales-type leases	(38,123)		(158,427)	
including long term portion				
	\$ (443,612)	\$ 864,950	\$ (602,062)	\$ 1,586,967

(b) Non cash investing and financing activities:

	Three months ended March 31,		Six months ended March 31,	
	2009	2008	2009	2008
Shares issued for debt settlement	\$ -	\$ 29,386		\$ 510,645
Non cash compensation options issued	\$ 29,611	-	\$ 29,611	-

(c) Interest paid:

	Three months ended March 31,		Six months ended March 31,	
	2009	2008	2009	2008
Interest Paid	\$ 125,089	\$ 103,912	\$ 251,303	\$ 167,229
Capital lease Interest Paid	2,481	6,067	5,428	12,138
	\$ 127,570	\$ 109,979	\$ 256,731	\$ 179,367

9. CASH AND CASH EQUIVALENT

	March 31, 2009	September 30, 2008
Cash at Bank	\$435,200	\$418,895
Short term investments		200,000

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

\$435,200

\$618,895

10. SEGMENTED INFORMATION

Sales by Geographic segment are as follows:

	Three months ended		Six months ended	
	March 31, 2009	March 31, 2008	March 31, 2009	March 31, 2008
Canada	\$ 958,462	\$ 874,070	\$ 2,162,866	\$ 1,683,720
United States of America	462,123	208,368	725,564	406,629
South America	109,310	145,817	231,697	478,558
Asia	750,020	149,359	1,143,864	415,081
Europe	175,568	67,796	377,047	394,488
Africa	302,696	128,342	688,577	213,557
Australia	10,831	69,922	33,339	129,049
	<u>\$ 2,769,010</u>	<u>\$ 1,643,674</u>	<u>\$ 5,362,954</u>	<u>\$ 3,721,082</u>

Sales by category are as follows:

	Three months ended		Six months ended	
	March 31, 2009	March 31, 2008	March 31, 2009	March 31, 2008
Recurring service revenue	\$ 1,371,209	\$ 984,154	\$ 2,534,311	\$ 1,888,917
Non recurring hardware and software revenue	1,397,801	659,520	2,828,643	1,832,165
	<u>\$ 2,769,010</u>	<u>\$ 1,643,674</u>	<u>\$ 5,362,954</u>	<u>\$ 3,721,082</u>

Assets

	March 31, 2009	September 30, 2008
Canada	\$ 4,375,572	\$ 5,248,848
Belgium	988,203	1,864,084
	<u>\$ 5,363,775</u>	<u>\$ 7,112,932</u>

11. RELATED PARTY TRANSACTIONS

- 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 three months ended March 31, 2009, the

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

Company paid \$ 40,000 to a company under Mr. Cirella's control as consulting fee under a management consulting contract between the Company and Mr. Cirella (three months ended March 31, 2008- \$ Nil). During the three months ended March 31, 2009, the Company paid \$ Nil 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 (three months ended March 31, 2008- \$ 43,750).

During the three months ended March 31, 2009, the company received \$ 2,383 from a company under Mr. Cirella's control as repayment of loan (three months ended March 31, 2008-loan advance of \$11,595).

- 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 three months ended March 31, 2009, the Company paid \$17,500 to the related parties as interest on the Convertible debenture (three months ended March 31, 2008-\$37,500).

During the three months ended March 31, 2009, the Company paid \$ 43,750 (three months ended March 31, 2008-\$Nil) to a company under Mr. Aly Rahemtulla's control as management fee for his role as the CEO of the company.

During the three months ended March 31, 2009, the Company expensed \$Nil as amount payable to ANR Solutions Inc, for consulting services provided by them (three months ended March 31, 2008-\$20,000).

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

During the three months ended March 31, 2009, the Company granted 4,295,000 options with an exercise price of \$0.10 per Common share, expiring February 24, 2014 to Mr. Rahemtulla in his capacity as President and CEO. One fourth of these options vested on the date of the grant, and the remaining options vests equally at the half yearly anniversary of the date of the grant.

During the three months ended March 31, 2009, the Company granted 800,000 options with an exercise price of \$0.10 per Common share, expiring February 24, 2014 to Mr. Bell in his capacity as Chairman and board member. One fourth of these options vested on the date of the grant, and the remaining options vests equally at the half yearly anniversary of the date of the grant.

- iii) The Company had identified Mr. Frank Maw and Mr. Gary J West, both member of board of directors of the company, as insiders.

During the three months ended March 31, 2009, the Company granted 400,000 options with an exercise price of \$0.10 per Common share, expiring February 24, 2014 to each of Mr. Maw and Mr. West in their capacity as board members. One fourth of these options vested on the date of the grant, and the remaining options vests equally at the half yearly anniversary of the date of the grant.

12. COMMITMENTS

- (i) Operating lease:

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

2009	130,799
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	58,353
2010	69,464
	<hr/>
	\$127,817
Less: current portion:	(116,706)
	<hr/>
	\$11,111

13. FINANCIAL INSTRUMENTS

- (a) Fair values

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

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*

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*

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

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.

14. 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 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

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

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 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.

15. CONTRIBUTED SURPLUS

	<u>March 31,</u> <u>2009</u>	<u>September 30,</u> <u>2008</u>
Balance beginning of the year	\$ 583,245	\$ 243,498
Stock-based compensation expenses	29,611	
Reconstitution of 2006 convertible debenture		324,341
Expiry of warrants	730,414	15,406
Balance end of the period	<u>\$ 1,343,270</u>	<u>\$ 583,245</u>

16. SUBSEQUENT EVENTS

The company has been informed that it has been named as a defendant along with one of its law enforcement customers, in a potential civil lawsuit. The quantum of damages has not been specified in the lawsuit. Management will vigorously defend this action.

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

17. COMPARATIVE FIGURES

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

18. RESTATEMENT

- a. The Company has a Convertible Debenture liability as described in note 6. 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 and three and six months ended March 31, 2009 was incorrect and that certain balance sheet items were misstated and misclassified for the year ended September 30, 2008 and three months ended March 31, 2009. The Company has corrected these errors and restated the audited financial statements for the year ended September 30, 2008 and three and six months ended March 31, 2009.

The net effect of the restatement on the audited financial statements of the company as to and three and six months ended March 31, 2009 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.

- b. The company now believes that its accounting for certain sales transactions in the quarter was incorrect. During the quarter the Company instituted a program under which is sold certain products on an "all-inclusive" (hardware and service) basis that allowed customers to pay a fixed monthly rate for the all-inclusive package. All of this revenue was initially recognized on a monthly basis. The Company now believes that the hardware portion of the all-inclusive plan should have been recognized as a sales-type lease, as under the arrangement substantially all the benefits and risks incident to ownership of hardware are transferred to the customer and, at the inception the fair value of the hardware is greater or less than its carrying amount. The portion related to the service provided was correctly recognized on a monthly basis. The allocation of the sales between the hardware and service sales has, in accordance with the Company's accounting policy related to multiple deliverables, been determined based on the relative fair value of the elements of the arrangement based upon the normal pricing practice for the product and service when sold separately.

Under CICA 3065, when a lease is a sales-type lease, a sale should be recorded with the manufacturers or dealer's profit or loss being recognized at the time of the transaction. Initial direct costs should be expensed at the inception of the lease and unearned finance income should be deferred and taken into income over the lease term to produce a constant rate of return on the investment in the lease.

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

The primary criteria which the Company used to classify the hardware sales as sales-type and not as operating leases are (1) a review of the term to determine if it is equal to or greater than 75% of the economic life of the equipment and (2) a review of the present value of the minimum payments to determine if they are equal to or greater than 90% of the fair market value of the equipment at the inception. (3) a determination as to whether or not a reasonable assurance exists that the customer will obtain ownership of the leased property by the end of the term. Reasonable assurance that the lessee will obtain ownership of the leased property would be present when the terms of the lease would result in ownership being transferred to the lessee by the end of the lease term or when the lease provides for a bargain purchase option. Based on this analysis it was determined that the hardware sales meet the criteria for sales-type lease accounting.

The company's sales-type lease portfolios contain only normal credit and collection risks and have no important uncertainties with respect to future costs.

The net effect of the restatement on the financial statements of the company as to the three and six months ended March 31, 2009 is as follows:

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

Summary of restatement-Consolidated Balance sheet

	Originally Reported March 31, 2009	Restatement	Restated Amount March 31, 2009
ASSETS			
Current			
Current portion of net investment in sales-type leases	-	63,664	63,664
	-	63,664	63,664
Deferred financing costs	405,904	(405,904)	-
Net investment in sales-type leases	-	94,763	94,763
Deferred Product costs	80,400	(72,481)	7,919
Total Assets	486,304	(319,958)	166,346
LIABILITIES			
Current			
Deferred revenue	64,110	(2,415)	61,695
	64,110	(2,415)	61,695
Convertible debenture	3,364,351	(873,149)	2,491,202
SHARE HOLDERS EQUITY			
Warrants	146,462	392,297	538,759
Convertible debenture	795,337	(27,055)	768,282
Deficit	(13,650,479)	190,364	(13,460,115)
	(12,708,680)	555,606	(12,153,074)
Total liabilities and shareholders equity	(9,280,219)	(319,958)	(9,600,177)

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.

Revenue, Cost of goods sold were increased to account for the hardware revenue from sales-type lease accounting and gross profit was increased as a result.

Net loss for the three and six months ended March 31, 2009 is decreased by the total of the two figures above. As there were no other income statement effects, this figure carries to the balance sheet as an adjustment to deficit.

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

Summary of restatement-Consolidated Statements of Operations and Deficit

	Originally Reported Three months ended 31-Mar-09	Restatement	Restated Amount Three months ended 31-Mar-09
Revenue	2,734,399	34,611	2,769,010
Cost of sales	1,383,391	16,769	1,400,160
Restated Gross Profit	1,351,008	17,842	1,368,850
Interest	6,820	(1)	6,819
Interest on debenture (Note 8)	301,513	(23,699)	277,814
Amortization of Intangible assets	90,696	(1)	90,695
Net Income (loss) effect for the three months ended March 31, 2009		<u>41,543</u>	
Basic and diluted (loss) earnings per share	\$ (0.003)	\$ 0.0005	\$ (0.002)

Summary of restatement-Consolidated Statements of Comprehensive Income

	Originally Reported Three months ended 31-Mar-09	Restatement	Restated Amount Three months ended 31-Mar-09
Net Loss	(215,733)	41,543	(174,190)
Net Comprehensive income (loss) effect for the three months ended March 31, 2009		<u>41,543</u>	

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

Summary of restatement-Consolidated Statements of Operations and Deficit

	Originally Reported Six months ended 31-Mar-09	Restatement	Restated Amount Six months ended 31-Mar-09
Revenue	5,202,113	160,841	5,362,954
Cost of sales	2,614,987	72,481	2,687,468
Restated Gross Profit	2,587,126	88,360	2,675,486
Interest	15,232	(1)	15,231
Interest on debenture (Note 8)	603,026	(57,301)	545,725
Amortization of Intangible assets	181,391	(1)	181,390
Net Income (loss) effect for the six months ended March 31, 2009		<u>145,663</u>	
Basic and diluted (loss) earnings per share	\$ (0.010)	\$ 0.002	\$ (0.005)

	Originally Reported Six months ended 31-Mar-09	Restatement	Restated Amount Six months ended 31-Mar-09
Summary of restatement-Consolidated Statements of Comprehensive Income			
Net Loss	(543,527)	145,663	(397,864)
Net Comprehensive income (loss) effect for the six months ended March 31, 2009		<u>145,663</u>	

There was no change to the statement of cash flows, as (i) the interest expense adjustment related to the notional interest representing the accretion of the carrying value of the debenture and (ii) accounting for sales-type leases adjustment, were non-cash items.

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements

Three and Six months ended March 31, 2009 and 2008

(Restated August 13, 2009)

Summary of restatement-Consolidated Statements of Cash Flows

	Originally Reported Three months ended 31-Mar-09	Restatement	Restated Amount Three months ended 31-Mar-09
Loss from continuing operations	(215,733)	41,543	(174,190)
Amortization of deferred financing charges	180,763	(23,699)	157,064
Net change in non-cash items related to op	(425,768)	(17,844)	(443,612)
Net cash inflow (outflow)		<u>-</u>	

Summary of restatement-Consolidated Statements of Cash Flows

	Originally Reported Six months ended 31-Mar-09	Restatement	Restated Amount Six months ended 31-Mar-09
Loss from continuing operations	(543,527)	145,663	(397,864)
Amortization of deferred financing charges	361,526	(57,301)	304,225
Net change in non-cash items related to op	(513,700)	(88,362)	(602,062)
Net cash inflow (outflow)		<u>-</u>	