

Interim Consolidated Financial Statements (unaudited) of

BSM TECHNOLOGIES INC.

Third quarter's results June 30, 2008 and 2007

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 and Nine months ended June 30, 2008 and 2007

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BSM TECHNOLOGIES INC.
Interim Consolidated Balance Sheets (unaudited)

As at **June 30, 2008** **September 30, 2007**

ASSETS

CURRENT

Cash and cash equivalent (Note 11)	\$	2,621,285	\$	551,071
Restricted Cash (Note 6b)		460,050		460,050
Accounts receivable		1,269,889		1,017,474
Income taxes recoverable		265,117		163,914
Inventories		409,148		394,881
Loans Receivable (Note 7)		2,383		29,997
Prepaid expenses and other assets		82,677		71,407
		5,110,549		2,688,794

PROPERTY, PLANT AND EQUIPMENT 475,085 497,669

DEFERRED FINANCING COSTS (Note 8) 601,376 93,407

PATENTS 106,941 32,511

GOODWILL (Note 6a and 6b) 3,489,315 2,530,764

\$ 9,783,266 \$ 5,843,145

LIABILITIES

CURRENT

Bank indebtedness (Note 12)	\$	199,264	\$	199,621
Accounts payable and accrued liabilities		3,406,391		1,610,421
Purchase consideration payable (Note 6b)		460,050		460,050
2006 Convertible Debentures (Note 8)		511,854		1,218,436
Capital Lease current portion		116,706		109,873
Deferred revenue		50,362		54,053
		4,744,627		3,652,454

CAPITAL LEASE LONG TERM PORTION 89,249 173,972

2008 CONVERTIBLE DEBENTURES (Note 8) 2,798,814 -

7,632,690 3,826,426

SHARE HOLDERS EQUITY

SHARE CAPITAL (Note 9) 11,796,782 9,777,771

WARRANTS 869,509 973,508

CONTRIBUTED SURPLUS (Note 18) 452,573 243,498

2006 CONVERTIBLE DEBENTURE (Note 8) 115,266 299,692

2008 CONVERTIBLE DEBENTURE (Note 8) 726,177 -

DEFICIT (11,736,147) (9,235,961)

ACCUMULATED OTHER COMPREHENSIVE INCOME (73,584) (41,789)

2,150,576 2,016,719

\$ 9,783,266 \$ 5,843,145

APPROVED BY THE BOARD

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

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

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

BSM TECHNOLOGIES INC.**Interim Consolidated Statements of Operations and Deficit (unaudited)****Three and Nine months ended June 30, 2008 and 2007**

	Three months		Nine months	
	2008	2007	2008	2007
REVENUE	\$ 2,287,695	\$ 2,359,171	\$ 6,008,777	\$ 5,881,454
COST OF SALES	1,201,133	1,426,194	3,116,085	3,252,807
GROSS PROFIT	1,086,562	932,977	2,892,692	2,628,647
EXPENSES				
Marketing, advertising and promotion	514,749	505,136	1,380,155	1,478,494
Research and development	280,864	354,942	872,484	932,663
General and administrative	713,245	736,218	2,625,868	1,698,246
SR & ED Credit	-	(50,000)	(71,356)	(135,000)
Stock compensation Expenses	-	5,587	-	21,286
	1,508,858	1,551,883	4,807,151	3,995,689
NET LOSS BEFORE INTEREST, AND AMORTIZATION	(422,296)	(618,906)	(1,914,459)	(1,367,042)
Interest	8,943	6,162	29,356	15,270
Interest on debenture (Note 6)	121,060	118,355	400,728	329,064
Interest on non convertible debenture (Note 19)	-	-	11,090	-
Amortization of property, plant and equipment	50,935	36,925	144,553	66,582
NET LOSS	\$ (603,234)	\$ (780,348)	\$ (2,500,186)	\$ (1,777,958)
DEFICIT, BEGINNING OF THE PERIOD	(11,132,913)	(7,549,832)	(9,235,961)	(6,552,222)
DEFICIT, END OF THE PERIOD	\$ (11,736,147)	\$ (8,330,180)	\$ (11,736,147)	\$ (8,330,180)
LOSS PER SHARE - basic and diluted (Note 9(f))	\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.03)
Weighted average number of shares - basic and diluted	85,009,830	67,269,869	76,305,744	61,492,182

BSM TECHNOLOGIES INC.**Interim Consolidated Statements of Comprehensive Income****Three and Nine months ended June 30, 2008 and 2007**

	Three months		Nine months	
	2008	2007	2008	2007
NET LOSS	\$ (603,234)	\$ (780,348)	\$ (2,500,186)	\$ (1,777,958)
Other Comprehensive Income, Net of Tax Change in unrealized gains and losses on available-for-sale financial assets	35,293	(29,646)	(31,795)	\$ (29,646)
COMPREHENSIVE INCOME	\$ (567,941)	\$ (809,994)	\$ (2,531,981)	\$ (1,807,604)

Interim Consolidated Statements of Other Comprehensive Income**Three and Nine months ended June 30, 2008 and 2007**

	Three months		Nine months	
	2008	2007	2008	2007
Balance-Beginning of the Period	\$ (108,877)	-	\$ (41,789)	-
Other Comprehensive Income, Net of Tax Change in unrealized gains and losses on available-for-sale financial assets	35,293	(29,646)	(31,795)	(29,646)
Balance-end of the period	(73,584)	(29,646)	(73,584)	(29,646)

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

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

Three and Nine months ended June 30, 2008 and 2007

	Three months		Nine months	
	2008	2007	2008	2007
NET CASH INFLOW (OUTFLOW) FROM THE FOLLOWING ACTIVITIES				
CONTINUING OPERATIONS				
Loss from continuing operations	\$ (567,941)	\$ (809,994)	\$ (2,531,981)	\$ (1,807,604)
Add non-cash items:				
Amortization of capital assets	50,935	36,925	144,553	66,582
Amortization of deferred financing charges	61,659	59,855	181,368	179,564
Stock compensation expenses	-	5,587	-	21,286
	(455,347)	(707,627)	(2,206,060)	(1,540,172)
Change in non-cash operating working capital items (Note 10)	377,887	78,746	2,031,942	662,150
	(77,460)	(628,881)	(174,118)	(878,022)
INVESTING				
Investment in Subsidiary			(222,355)	(2,667,433)
Cash receipt on acquisition			4,362	182,160
Acquisition of property, plant and equipment, net	(10,220)	(26,195)	(25,100)	(73,507)
Investment in patent		(13,656)	(350)	(16,821)
	(10,220)	(39,851)	(243,443)	(2,575,601)
FINANCING				
Long Term Capital Lease payment	(25,470)	(14,212)	(82,946)	(14,212)
Convertible debentures	2,350,000	-	2,350,000	-
Deffered Financing cost	(104,536)	-	(104,536)	-
Loans received (paid)	12,587	-	27,614	(5,541)
Shares issued pursuant to options	-	8,300	-	37,871
Shares issued pursuant to warrants exercise	-	-	-	-
Capital stock Issued	-	-	298,000	3,975,063
Warrants	-	-	-	245,641
	2,232,581	(5,912)	2,488,132	4,238,822
NET CASH INFLOW (OUTFLOW)	2,144,901	(674,644)	2,070,571	785,199
(BANK INDEBTEDNESS) CASH, BEGINNING OF YEAR	277,120	1,483,160	351,450	23,317
CASH, END OF YEAR	\$ 2,422,021	\$ 808,516	\$ 2,422,021	\$ 808,516
CASH IS MADE UP AS FOLLOWS:				
Cash and cash equivalents	\$ 2,621,285	\$ 1,005,275	\$ 2,621,285	\$ 1,005,275
Bank indebtedness	(199,264)	(196,759)	(199,264)	(196,759)
	\$ 2,422,021	\$ 808,516	\$ 2,422,021	\$ 808,516

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Three and Nine months ended June 30, 2008 and 2007

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 overall deficit of \$11,736,147 (September 30, 2007 - \$9,235,961). 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The disclosures contained in these un-audited consolidated interim financial statements (the "Statements") have 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 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

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Three and Nine months ended June 30, 2008 and 2007

value of inventories. The new standard applies to fiscal years beginning on or after January 1, 2008. The company will adopt this new standard on October 1, 2008, and is currently assessing the effects of this new standard will have on its consolidated financial statements.

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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Notes to the Interim Consolidated Financial Statements (unaudited)

Three and Nine months ended June 30, 2008 and 2007

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 June 30, 2008 are summarized as follows:

<u>Classification</u>	<u>Carrying Value</u>	<u>Fair Value</u>
Held-for-trading	\$ 2,882,071	\$ 2,882,071
Loans and receivables	1,537,389	1,537,389
Other liabilities	4,584,250	4,584,250

6. GOODWILL

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

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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	958,551
Account payable and accrued liabilities	(755,670)
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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
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Total consideration as at the date of the transaction	\$ 1,222,355

- (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:

BSM TECHNOLOGIES INC.

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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

- (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 a Director 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>June 30, 2008</u>	<u>September 30, 2007</u>
Loans from AIG	\$ 2,383	\$ 29,997
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	\$ 2,383	\$ 29,997

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

8. CONVERTIBLE DEBENTURE

Convertible debentures consist of:

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three and Nine months ended June 30, 2008 and 2007

	June 30, 2008	September 30, 2007
(i) 2006 Convertible debenture		
Debt component		
Debenture maturing July 7,2008	\$ 384,734	\$ 1,000,308
Notional interest representing accretion.	115,266	187,307
Warrants representing debt component	11,854	30,821
	\$ 511,854	\$ 1,218,436
Equity component		
Debenture maturing July 7,2008	\$ 115,266	\$ 299,692
Warrants representing equity component	3,552	9,234
	\$ 118,818	\$ 308,926
(ii) 2008 Convertible debenture		
Debt component		
Debenture maturing June 30, 2010	\$ 2,423,823	
Notional interest representing accretion.	995	
Warrants representing debt component	373,996	
	\$ 2,798,814	\$ -
Equity component		
Debenture maturing June 30, 2010	\$ 726,177	
Warrants representing equity component	112,049	
	\$ 838,226	\$ -

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 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

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

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

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Debentures, Reconstituted Debentures and Warrants underlying securities will be 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 connection with the 2008 Convertible Debentures financing and Reconstituted Debentures (hereinafter collectively called “**2008 Debentures**”), the Company incurred costs of \$104,537 that were charged to deferred financing and are being amortized over the term of the 2008 Debentures.

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 \$486,046 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 fair value of the warrants, being \$486,046 was charged to other paid-in capital and 2008 Debentures and is accreted to interest expense over the term of the loan consistent with the classification of the debt and equity components of the 2008 Debentures.

Interest and other expense on the 2008 Debentures is composed of the interest calculated on the face value of the convertible debentures, a quarterly notional interest representing the accretion of the carrying value of the convertible debentures, non-cash accreted notional interest related to the fair value of the warrants, amortization of deferred financing costs and ongoing legal expenses related to the convertible debentures. Interest recorded was as follows:

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	June 30, 2008	June 30, 2007
(i) 2006 Convertible debenture		
Financial liability component	\$ 58,193	\$ 58,500
Notional interest representing accretion.	37,462	37,462
Amortization of Warrants	5,007	5,007
Amortization of deferred financing costs	17,386	17,386
	\$ 118,048	\$ 118,355
(ii) 2008 Convertible debenture		
Financial liability component	1,208	
Notional interest representing accretion.	995	
Amortization of Warrants	666	
Amortization of deferred financing costs	143	
	\$ 3,012	\$ -
	\$ 121,060	\$ 118,355

9. SHARE CAPITAL

(a) Authorized

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

An unlimited number of common shares.

(b) Preferred shares

Authorized: unlimited number of preference shares.

Issued: None

(c) Common shares issued and outstanding

Common shares

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	June 30, 2008		September 30, 2007	
	Number	Amount	Number	Amount
Balance, beginning of the period	71,938,118	\$ 9,777,771	45,677,792	\$ 6,075,613
Excluding shares to be issued subject to future performance				
Acquisition of Netistix (Note 9 (c) (iv))	7,142,857	1,000,000		
Shares issued for settlement of debt (Note 9 (c) (ii))	3,928,855	510,645	357,474	85,705
Options exercised			392,852	46,171
Warrants expired (Note 9 (d) (ii))		233,860	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	85,009,830	11,796,782	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	85,557,730	\$ 11,796,782	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 escrow and would only be released if the Company attained certain cash flow levels. During the years ended September 30, 2001, 2002 and 2003, the Company cancelled 962,000 of these shares pursuant to settlements reached with these parties. As part of these settlements, the Company also paid \$80,000, which had been recorded as an increase to the accumulated deficit. The remaining 547,900 common shares remain in escrow subject to these performance targets
- ii. During the quarter ended December 31, 2007, the Company obtained regulatory approval for settlement of certain accounts payable by issuance of common shares. Pursuant to this approval a total of 276,785 common shares were issued at \$0.14. The Company had identified Onbelay Partners Ltd, a company controlled by Mr. John Bell and Mr. Aly Rahemtulla, both directors of the BSM Technologies Inc as related party. Pursuant to this share for debt settlement, Onbelay Partners Ltd acquired 142,857 common shares for consulting services provided by them during the year ended September 30, 2007, \$20,000 of this amount was outstanding as of September 30, 2007.

During the quarter ended March 31, 2008, the Company obtained regulatory approval for settlement of certain accounts payable comprising of debts of 10 former employees of Netistix by issuance of common shares. Pursuant to this approval a total of 3,652,070 common shares were issued at \$0.13.

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- 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 model with the following weighted average assumptions; dividend yield of 0%, volatility of 40.78%, risk free rate of interest of 4.5% and expected life of 2 years.
- ii. On January 23, 2008, 8,206,664 warrants issued pursuant to January 2006 financing with an average exercise price of \$0.20 per common share expired unexercised.
- iii. On June 30, 2008, the Company closed a \$2,350,000 of new Convertible Debentures financing (the "**2008 Convertible Debentures**"). The 2008 Convertible Debentures have a term of two (2) years and are convertible into common shares of the Company at the rate of one common share for each \$0.06 of debt converted. The subscribers received 39,166,667 warrants to acquire common shares of the Company upon payment of \$0.10 per common share which expire June 30, 2010.

On June 30, 2008, the company replaced \$300,000 of the 2006 Convertible Debentures with Reconstituted Debentures and Warrants on the same terms as the 2008 Convertible

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Debentures. The holders of the \$300,000 Reconstituted Debentures received 5,000,000 warrants to acquire common shares of the Company upon payment of \$0.10 per common share which expire June 30, 2010. The 521,739 warrants issued in July 2006 to the holders of the Reconstituted Debentures pursuant to the 2006 Convertible Debentures, were cancelled.

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

- iv. As of June 30, 2008, the Company had outstanding 64,414,089 warrants to acquire common share at a weighted average exercise price of \$0.13 per share.

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

	<u>June 30, 2008</u>		<u>September 30, 2007</u>	
	<u>Numbers</u>	<u>Weighted Average Exercise Price</u>	<u>Numbers</u>	<u>Weighted Average Exercise Price</u>
Balance, beginning of the period	21,702,533	\$ 0.23	14,313,089	\$ 0.18
Issued	52,309,524	0.10	11,235,000	0.25
Exercised			(3,040,000)	(0.12)
Expired/Cancelled	(9,597,968)	0.20	(805,556)	(0.12)
Balance, end of the period	64,414,089	\$ 0.13	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. On June 10, 2008, the shareholder’s passed a resolution, increasing the number of shares under the 2006 Stock Option Plan by 6,484,456 common shares to an aggregate of 12,755,788 common shares, by replacing 519,143 common shares issued on the exercise of stock options and adding an additional 5,965,313 common shares to the 2006 Stock Option Plan for a total of 12,755,788 common shares reserved under the Plan.

As at June 30, 2008, a total of 1,856,133 options were outstanding at a weighted average price of \$0.20. These options expire December 2008, October 2009 and April 2010 and have a weighted average life of 0.72 years.

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

	<u>June 30, 2008</u>		<u>September 30, 2007</u>	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Balance, beginning of the period	2,068,049	\$ 0.20	1,792,330	\$ 0.17
Cancelled	(211,916)	0.20	(61,429)	0.11
Excercised			(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 June 30, 2008.

<u>Exercise price</u>	<u>Outstanding</u>		<u>Exercisable</u>	
	<u>Number Outstanding</u>	<u>Remaining Contractual life (years)</u>	<u>Vested options</u>	<u>Exercise price</u>
\$ 0.185	1,376,133	0.48	1,376,133	\$ 0.185
0.200	280,000	1.25	210,000	0.200
0.300	200,000	1.78	200,000	0.300
	1,856,133	0.72	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>June 30, 2008</u>		<u>September 30, 2007</u>	
	<u>Numbers</u>	<u>Weighted Average Exercise Price of Compensation options</u>	<u>Numbers</u>	<u>Weighted Average Exercise Price of Compensation options</u>
Opening Balance	2,247,000	\$0.20	-	
Issued			2,247,000	0.20
Closing Balance	2,247,000	\$0.20	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 June 30, 2008 was 85,009,830 (three months ended June 30, 2007-67,269,869). The weighted

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average number of common shares outstanding for the nine months ended June 30, 2008 was 76,305,744 (nine months ended June 30, 2007-61,492,182). 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 June 30, 2008 is shown in the table below:

Security type	Number	Exercise Price	Expiry
Common shares			
Common shares issued and outstanding	85,557,730		
Shares reserved for issuance on exercise of Stock Options, Warrants, Convertible debenture conversion and Compensation Options			
Warrants issued			
Pursuant to the Private placement of 2006 convertible debenture financing	869,565	\$ 0.23	7-Jul-08
Pursuant to the Brokered Private placement on January 4,2007	11,235,000	\$ 0.25	4-Jan-09
Pursuant to the Private placement on November 22,2007	1,000,000	\$ 0.20	23-Nov-09
Pursuant to the Private placement of 2008 Convertible Debenture Financing	39,166,667	\$ 0.10	30-Jun-10
Pursuant to the Reconstituted Debentures on June 30, 2008	5,000,000	\$ 0.10	30-Jun-10
Pursuant to the Insider Reconstituted Debentures on June 30, 2008	7,142,857	\$ 0.10	30-Jun-10
Options issued under the Stock Option Plan			
on December 22, 2005	1,376,133	\$ 0.19	22-Dec-08
on November 1, 2006	280,000	\$ 0.20	1-Oct-09
on April 12, 2007	200,000	\$ 0.30	12-Apr-10
2008 Debentures Conversion: Reserved for issuance on conversion of the			
Private placement of 2008 Convertible Debenture Financing	39,166,667	\$ 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
Compensation options			
Pursuant to the Brokered Private placement on January 4,2007			
Common shares reserved for exercise of broker options	2,247,000	\$ 0.20	4-Jan-09
Warrants to be received on exercise of broker options	2,247,000	\$ 0.25	4-Jan-09
Total Shares reserved for issuance on exercise of Stock Options, Warrants, Convertible debenture conversion and Compensation Options	122,073,746		
Total Shares issued and reserved for issuance on exercise of Stock Options, Warrants, Convertible debenture conversion and Compensation Options	207,631,476		

10. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

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

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	Three months ended June 30, 2008		2007		Nine months ended June 30, 2008		2007	
Accounts receivable	\$	(359,984)	\$	318,737	\$	(179,676)	\$	303,385
Inventories		65,130		309,190		95,087		193,532
Prepaid expenses and other assets		16,107		(4,172)		(2,513)		45,702
Income taxes Payable (recoverable)		-		(50,000)		571,792		(135,000)
Deferred revenue		(11,952)		(1,429)		(57,141)		(6,750)
Accounts payable and accrued liabilities		668,586		(493,580)		1,604,394		261,281
	\$	377,887	\$	78,746	\$	2,031,943	\$	\$662,150

(b) Non cash investing and financing activities:

	Three months ended June 30, 2008		2007		Nine months ended June 30, 2008		2007	
Shares issued for debt settlement	\$	-	\$	-	\$	510,645	\$	48,205

(c) Interest paid:

	Three months ended June 30, 2008		2007		Nine months ended June 30, 2008		2007	
Interest Paid	\$	64,637	\$	60,562	\$	231,867	\$	160,670
Capital lease Interest Paid		3,706		4,100		15,845		4,100
	\$	68,343	\$	64,662	\$	247,712	\$	164,770

11. CASH AND CASH EQUIVALENT

	June 30, 2008	September 30, 2007
Cash at Bank	\$ 2,421,285	\$ 351,071
Short term investments	200,000	200,000
	\$2,621,285	\$551,071

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.

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12. CREDIT FACILITIES

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

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		Nine months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Canada	\$ 962,790	\$ 621,931	\$ 2,646,510	\$ 2,388,081
United States of America	269,030	268,405	675,659	881,780
Asia	488,371	419,629	966,929	1,041,470
South America	150,041	529,709	565,122	844,866
Europe	173,201	216,687	567,689	332,865
Africa	184,779	152,283	398,336	203,300
Australia	59,483	150,527	188,532	189,092
	<u>\$ 2,287,695</u>	<u>\$ 2,359,171</u>	<u>\$ 6,008,777</u>	<u>\$ 5,881,454</u>

Sales by category are as follows:

	Three months ended		Nine months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Recurring service revenue	\$ 1,007,095	\$ 706,787	\$ 2,896,013	\$ 1,539,827
Non recurring hardware and software revenue	1,280,600	1,652,384	3,112,764	4,341,627
	<u>\$ 2,287,695</u>	<u>\$ 2,359,171</u>	<u>\$ 6,008,777</u>	<u>\$ 5,881,454</u>

Assets	June 30, 2008	September 30, 2007
Canada	\$ 8,909,576	\$ 5,060,662
Belgium	873,690	782,483
	<u>\$ 9,783,266</u>	<u>\$ 5,843,145</u>

14. RELATED PARTY TRANSACTIONS

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- i) The Company had previously identified Nick Cirella, a director and former President & CEO, Applied Innovations Group Inc and other companies under Mr. Cirella's control as related parties. The related parties are considered to have significant influence over the Company as defined under section 3840 of the CICA Handbook. During the three months ended June 30, 2008, the Company paid \$ 54,826 to a company under Mr. Cirella's control as management fee under a Management contract between the Company and Mr. Cirella (three months ended June 30, 2007- \$ 57,372).

During the three months ended June 30, 2008, the company had received loan repayment \$ 12,587 from the director and former President & CEO of the Company and companies under his control (three months ended June 30, 2007-loan advance of \$Nil).

- 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 June 30, 2008, the Company provided \$22,500 to the related parties as interest on the 2006 Convertible debenture and 2008 Convertible debenture (three months ended June 30, 2007-\$22,500).

During the three months ended June 30, 2008, the Company provided for \$25,000 as amount payable to ANR Solutions Inc, for consulting services provided by them. As at June 30, 2008, this amount was unpaid (three months ended June 30, 2007-\$Nil). During the three months ended June 30, 2008, the Company paid \$ 7,291.67 (three months ended June 30, 2007-\$Nil) to a company under Mr. Aly Rahemtulla control as management fee for his new role as the new CEO of the company with effect from 16th June, 2008.

15. COMMITMENTS

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

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2008	58,300
2009	236,705
2010	245,881
2011	181,397

(ii) Capital lease:

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	29,176
2009	116,706
2010	60,073
	<hr/>
	\$205,955
Less: current portion:	(116,706)
	<hr/>
	\$ 89,249

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.

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

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

18. CONTRIBUTED SURPLUS

	<u>June, 30</u> <u>2008</u>	<u>September 30,</u> <u>2007</u>
Balance beginning of the year	\$ 243,498	\$ 17,990
Stock-based compensation expenses		42,050
Reconstitution of 2006 convertible debenture	209,075	
Broker options expenses		183,458
Balance end of the period	<u>\$ 452,573</u>	<u>\$ 243,498</u>

19. INTEREST ON NON CONVERTIBLE DEBENTURES

On January 14, 2008, the Company completed a private placement of a \$450,000 Debenture Financing (“2008 Debenture”) with a Company controlled by the acting chairman of the Company. The Debenture was 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.

Interest and other expense on the 208 Debentures are composed of the interest calculated on the face value of the debentures and the financing costs such as legal’s etc associated with it. Interest recorded was as follows

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

BSM TECHNOLOGIES INC.

Notes to the Interim Consolidated Financial Statements (unaudited)

Three and Nine months ended June 30, 2008 and 2007

20. SUBSEQUENT EVENTS

On July 2, 2008, the Company closed the remaining \$300,000 balance of the total \$2,650,000 Convertible Debentures (the “2008 Convertible Debentures”) financing. Particulars of the 2008 Convertible Debentures are provided in detail in note 8 to these financial statements.

From the proceeds of the 2008 Convertible Debenture financing, \$500,000 was used to repay \$500,000 of the 2006 Convertible Debentures with the balance used for working capital.

21. COMPARATIVE FIGURES

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