

Interim Consolidated Financial Statements (unaudited) of

## **BSM TECHNOLOGIES INC.**

First quarter's results December 31, 2009 and 2008

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, Subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor. The accompanying unaudited financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

# BSM TECHNOLOGIES INC.

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Three months ended December 31, 2009 and 2008

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# BSM TECHNOLOGIES INC.

Consolidated Balance Sheets (Unaudited)

December 31, 2009 and September 30, 2009

	31-Dec-09	30-Sep-09
<b>Assets</b>		
Current Assets:		
Cash and cash equivalent (Note 8)	\$ 1,608,795	\$ 2,497,188
Accounts receivable(note 16)	1,940,562	1,837,304
Current portion of net investment in sales-type leases (note 17)	492,534	423,503
Investment tax credits receivables	363,526	363,526
Inventories (note 15)	798,784	707,942
Prepaid expenses and other assets	268,389	252,042
	<u>5,472,590</u>	<u>6,081,505</u>
Property and equipment	390,234	424,528
Long-term investment in sales-type leases (note 17)	600,981	468,792
Intangible Assets (note 4)	393,292	490,237
Goodwill (note 4)	3,804,670	3,804,670
	<u>\$ 10,661,767</u>	<u>\$ 11,269,732</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,426,522	\$ 3,693,179
Current portion of long-term debt (note 14)	23,248	23,248
Dividends payable on Preferred shares (note 6)	184,453	177,031
Current portion of capital lease obligations (note 11(b))	40,287	69,464
Deferred revenue	191,754	271,355
	<u>3,866,264</u>	<u>4,234,277</u>
Long-term debt (note 14)	42,045	42,045
Shareholder's equity:		
Share capital (note 6):		
65,755,556 Preferred shares	3,945,333	3,945,333
227,500,562 Common shares	17,354,305	17,354,305
Contributed surplus (note 13)	2,497,637	2,497,637
Deficit	(16,983,679)	(16,747,625)
Accumulated other comprehensive loss	(60,138)	(56,240)
	<u>6,753,458</u>	<u>6,993,410</u>
Commitments (notes 3 and 11)		
Contingencies (note 18)		
	<u>\$ 10,661,767</u>	<u>\$ 11,269,732</u>

See accompanying notes to consolidated financial statements

On behalf of the Board:

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

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

# BSM TECHNOLOGIES INC.

## Consolidated Statement of Operations and Deficit (Unaudited)

Three months ended December 31, 2009 and December 31, 2008

	31-Dec-09	31-Dec-08
Revenue	\$ 3,505,130	\$ 2,593,944
Cost of revenue	1,432,887	1,287,308
Gross profit	2,072,243	1,306,636
Expenses:		
Marketing, advertising and promotion	611,370	387,147
Research and development, net of Investment tax credits	352,319	216,621
General and administrative	1,203,335	526,264
	2,167,024	1,130,032
Income (loss) before the undernoted	(94,781)	176,604
Other expenses (income):		
Interest	4,638	8,412
Interest on convertible debentures (note 5)	-	267,911
Notional charges preferred shares	7,422	-
Amortization of property and equipment	38,510	33,260
Interest Income	(6,242)	-
Amortization of Intangible assets	96,945	90,695
	141,273	400,278
Loss for the year	(236,054)	(223,674)
Deficit, beginning of the period	(16,747,625)	(13,062,251)
Deficit, end of the period	\$ (16,983,679)	\$ (13,285,925)
Loss per share - basis and diluted (note 6(f))	\$ (0.001)	\$ (0.003)
Weighted average number of shares - basic and diluted (note 6(f))	226,952,747	85,359,830

See accompanying notes to consolidated financial statements

# BSM TECHNOLOGIES INC.

## Consolidated Statement of Comprehensive Income (Loss) (Unaudited)

Three months ended December 31, 2009 and December 31, 2008

	31-Dec-09	31-Dec-08
Loss for the year	\$ (236,054)	\$ (223,674)
Other Comprehensive Income (loss):		
Unrealized translation gains (losses) on self-sustaining operations	(3,898)	(32,707)
<b>Comprehensive loss</b>	<b>\$ (239,952)</b>	<b>\$ (256,381)</b>

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

Quarter ended December 31, 2009 and December 31, 2008

	31-Dec-09	31-Dec-08
Balance, beginning of the Period	\$ (56,240)	(36,050)
Other Comprehensive Income (loss), net of income taxes:		
Unrealized translation gains (losses) on self-sustaining operations	(3,898)	(32,707)
<b>Balance, end of the period</b>	<b>(60,138)</b>	<b>(68,757)</b>

See accompanying notes to consolidated financial statements

# BSM TECHNOLOGIES INC.

## Consolidated Statements of Cash Flows (Unaudited)

Three months ended December 31, 2009 and December 31, 2008

	31-Dec-09	31-Dec-08
Cash provided by (used in):		
Operating activities:		
Loss for the period	(236,054)	(223,674)
Items not involving cash:		
Amortization of property and equipment	38,510	33,260
Interest accretion on convertible debentures		147,161
Notional charges preferred shares	7,422	-
Amortization of intangible assets	96,945	90,695
Change in non-cash operating working capital (note 7)	(762,845)	(158,449)
	(856,022)	(111,007)
Financing activities:		
Capital lease payments	(28,155)	(26,229)
	(28,155)	(26,229)
Investing activities:		
Acquisition of property and equipment, net	(4,216)	(8,675)
Investment in patent		(184)
	(4,216)	(8,859)
Increase in cash and cash equivalents	(888,393)	(146,095)
Cash and cash equivalents, beginning of period	2,497,188	419,564
Cash and cash equivalents, end of period	1,608,795	273,469

Supplemental cash flow information (note 7)

See accompanying notes to consolidated financial statements

# BSM TECHNOLOGIES INC.

## Notes to the Interim Consolidated Financial Statements

Three months ended December 31, 2009 and 2008

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### 1. Nature of 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. The manufacturing of the hardware products is subcontracted to third party suppliers, generally located in China and South Asia.

Using technologies such as digital mapping, GPS and wireless communications, the Company designs, develops and integrates AVL systems that enable its customers to monitor assets and/or exchange mission-critical information with mobile units in real time. Its proprietary software and customizable hardware product offers seamless, wireless communications over radio, cellular or satellite networks, geo-fencing and self-monitoring. The Company provides wireless solutions to fleet management, law enforcement agencies, transportation and private customers.

### 2. 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, 2009.

#### (a) Recent Canadian accounting pronouncements:

##### (i) International Financial Reporting Standards :

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the changeover to International Financial Reporting Standards ("IFRS") from GAAP will be required for both interim and annual financial statements for profit-oriented publicly accountable entities for fiscal years beginning on or after January 1, 2011. The AcSB stated in their exposure draft that early adoption is permitted. The Company's first annual IFRS financial statements will be for the year ending September 30, 2012 and will include the comparative period of 2011. Starting in the first quarter of 2012, the Company will provide unaudited consolidated financial information in accordance with IFRS, including comparative figures for 2011.

Although the Company has not completed development of its IFRS changeover plan, when finalized it will include project structure and governance, resourcing and training, an analysis of key GAAP differences and a phased plan to assess accounting policies under IFRS, as well as potential IFRS 1 exemptions. The Company's project scoping will include a

# **BSM TECHNOLOGIES INC.**

## **Notes to the Interim Consolidated Financial Statements**

**Three months ended December 31, 2009 and 2008**

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timetable for assessing the impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements.

In the period leading up to the changeover, the AcSB will continue to issue accounting standards that are converged with IFRS, thus mitigating the impact of adopting IFRS at the changeover date. The International Accounting Standards Board will also continue to issue new accounting standards during the conversion period and, as a result, the final impact of IFRS on the Company's consolidated financial statements will only be measured once all the IFRS applicable at the conversion date are known.

(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 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.

(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 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.

(v) Financial instruments - disclosures

In June 2009, the CICA amended Handbook Section 3862, Financial Instruments - Disclosures, to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level

# BSM TECHNOLOGIES INC.

## Notes to the Interim Consolidated Financial Statements

Three months ended December 31, 2009 and 2008

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hierarchy that reflects the significance of the inputs used in making the fair value measurements. Fair value of financial assets and financial liabilities included in Level 1 are determined by reference to quoted prices in active markets for identical assets and liabilities. Assets and liabilities in Level 2 include valuations using inputs other than the quoted prices for which all significant inputs are based on observable market data, either directly or indirectly. Level 3 valuations are based on inputs that are not based on observable market data. This amended standard is effective for annual financial statements relating to fiscal years ending after September 30, 2009. Management is currently evaluating the impact of adopting this standard on the Company's consolidated financial statements.

### 3. Business combinations

On September 25, 2009, the Company acquired all the outstanding shares of Datacom Wireless Corporation ("Datacom"), a Montreal-based company. Datacom is a telematic service provider that supplies strategic-data acquisition, transmission, organization, distribution and integration services for various business sectors, especially in the sectors of transportation, industrial inventory management and public utility services.

Datacom was established in 1999 and offers a range of products and services for commercial and consumer markets. Datacom provides high-quality fleet and vehicle management services and products for the commercial market. Fleet managers use the Mobicom<sup>TM</sup> product line on a 24/7 basis to track vehicle positions in real time on a computerized map and to acquire important management information.

As consideration for the acquisition, the Company: (i) issued 118,571,871 Common shares of the Company, valued at \$4,150,015; and (ii) committed to issue 4,533,921 options valued at \$243,003 to acquire Common shares in exchange of 1,068,791 outstanding Datacom options. The acquisition costs related to this acquisition were \$390,235.

The weighted average value of each option granted is estimated on the date of the grant being the acquisition date of September 25, 2009, using the Black-Scholes pricing model with the following weighted average assumptions:

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	2010	2009
Risk-free rate	%	1.27%
Expected volatility	%	125%
Expected life in years	—	7.91
Expected dividend yield	—	—

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## BSM TECHNOLOGIES INC.

### Notes to the Interim Consolidated Financial Statements

Three months ended December 31, 2009 and 2008

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The acquisition was accounted for under the purchase method of accounting. The purchase price allocation is preliminary pending finalization of valuations of the net identifiable assets acquired. As a result, the residual value, after identifying and valuing the monetary assets and liabilities, has been shown as goodwill and intangible assets. Consequently, the tax accounting related to acquisition, which consists of future tax assets and liabilities relating to the intangible assets, have not been determined and, accordingly, are not reflected in the preliminary purchase price allocation. The Company expects to complete its valuation of intangible assets by the end of third quarter in fiscal 2010. The preliminary estimated fair values of the assets acquired and liabilities assumed are as follows:

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Assets:	
Cash and cash equivalents	\$ 2,398,829
Accounts receivable	934,979
Research and development credits receivable	105,132
Inventories	362,365
Prepaid expenses and deposits	126,045
Net investment in sales-type leases	497,563
Property and equipment	127,861
Goodwill and intangible assets	1,775,206
	<hr/>
	6,327,980
Liabilities:	
Accounts payable and accrued charges	1,273,315
Deferred revenue	206,199
Current portion of long-term debt	23,248
Other long-term liabilities	41,965
	<hr/>
	1,544,727
Total consideration	<hr/>
	\$ 4,783,253
Consideration comprises:	
118,571,871 Common shares issued at \$0.035/share	\$ 4,150,015
4,533,921 options to acquire Common shares	243,003
Acquisition costs	390,235
	<hr/>
Total consideration	\$ 4,783,253

Pursuant to the acquisition of Datacom, the Company committed to issue to the holders of Datacom, an aggregate of 4,533,921 options to acquire Common shares in exchange of 1,068,791 outstanding Datacom options. The weighted average life remaining and strike prices of these options to Datacom options holders are as follows:

# BSM TECHNOLOGIES INC.

## Notes to the Interim Consolidated Financial Statements

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Exercise price	Numbers outstanding	Remaining contractual life (years)
\$0.0471	2,121,051	8.91
\$0.0943	617,070	7.93
\$0.1768	186,653	7.73
\$0.1977	1,609,147	6.61
	4,533,921	7.91

#### 4. Goodwill and intangible assets

(a) Goodwill:

A summary of the changes to goodwill is as follows:

	31-Dec-09	30-Sep-09
Goodwill, beginning of year	\$ 3,804,670	2,530,764
Acquisition of Datacom (note 3)		1,775,206
Adjustment to SecTrack goodwill (note 4(a))		
Recovery of escrowed funds (Euro 300,000)		(501,300)
Goodwill, end of the period	3,804,670	3,804,670

- (i) On 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 (Cdn. \$2,453,600), of which Euro 300,000 (Cdn. \$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 12 months following the acquisition of SecTrack by the Company.

On February 27, 2009, the arbitrator appointed by Belgian Center for Arbitration and Mediation, in his arbitration 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 be released to the vendor but should be returned to the Company. In addition, the arbitrator awarded \$18,722 (Euro 11,204) towards legal expense recovery, which was paid to the Company.

## BSM TECHNOLOGIES INC.

### Notes to the Interim Consolidated Financial Statements

Three months ended December 31, 2009 and 2008

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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).

- (ii) Management periodically assesses the carrying value goodwill of the Company. On September 30, 2009, management performed the impairment test and determined that there was no impairment of the recorded goodwill.

- (b) Intangible assets:

Details of intangible assets are as follows:

December 31, 2009	Cost	Accumulated amortization	Net book value
Definite life:			
Trademarks and patents	110,840	55,636	55,204
Customer contracts	263,045	175,363	87,682
Acquired technology	751,220	500,814	250,406
	1,125,105	731,813	393,292
September 30, 2009	Cost	Accumulated amortization	Net book value
Definite life:			
Trademarks and patents	110,840	43,213	67,627
Customer contracts	263,045	153,443	109,602
Acquired technology	751,220	438,212	313,008
	1,125,105	634,868	490,237

#### 5. Convertible debentures:

Convertible debentures consist of:

# BSM TECHNOLOGIES INC.

## Notes to the Interim Consolidated Financial Statements

Three months ended December 31, 2009 and 2008

	December 31, 2009	September 30, 2009
Debt component		
Balance, beginning of the year	\$ -	\$ 2,186,978
Proceeds and reconstituted debentures	-	-
Less:		
Warrants	-	-
Equity component - conversion right	-	-
Amount recorded as liability component	-	2,186,978
Liability component of financing charges	-	-
Accretion of liability component	-	640,614
Conversion of debenture to preference shares	-	(2,694,636)
Cancellation	-	(132,956)
Balance, end of the period	\$ -	\$ -
Equity component		
Balance, beginning of the year	\$ -	\$ 768,282
Conversion feature of proceeds and reconstitution	-	-
Less: equity component of financing charges	-	-
	-	768,282
Conversion of debentures to Preferred shares	-	(732,157)
Cancellation	-	(36,125)
Balance, end of the period	\$ -	\$ -
Warrants		
Balance, beginning of the year	\$ -	\$ 515,265
Warrants portion of proceeds and reconstitution	-	-
Less equity component of financing charges	-	-
	-	515,265
Redemption of 53,605,818 warrants by issuance of 16,081,746 common shares	-	(491,037)
Cancellation of 2,703,703 warrants acquired by Datacor	-	(24,228)
Balance, end of the period	\$ -	\$ -

On June 30, 2008 (as to \$2,350,000) and on July 2, 2008 (as to \$300,000), the Company issued an aggregate principal amount of \$2,650,000 convertible debentures (the "2008 Convertible

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## **Notes to the Interim Consolidated Financial Statements**

**Three months ended December 31, 2009 and 2008**

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Debentures"). The 2008 Convertible Debentures had a term of two years and were 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 were secured against the assets and undertaking of the Company (including security over all subsidiaries of the Company) and bore interest at the rate of 14% per year. In connection with the financing, subscribers received warrants ("2008 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 2008 Warrant was exercisable at \$0.10 to acquire a further Common share for a period of two years from closing.

In connection with the issue of the 2008 Convertible Debentures, an aggregate principal amount of \$300,000 convertible debentures issued by the Company on July 7, 2006 (the "2006 Convertible Debentures") were replaced with reconstituted debentures (the "Reconstituted Debentures") and warrants (the "Reconstituted Warrants") having the same terms as the 2008 Convertible Debentures and 2008 Warrants, respectively. In addition, an aggregate principal amount of \$500,000 of 2006 Convertible Debentures held by certain insiders (Mr. Aly Rahemtulla, director and CEO of the Company, and Mr. John Bell, director and Chairman of the board, through companies under their control) of the Company (collectively, the "Insiders") were replaced with reconstituted debentures (the "Insider Debentures" and together with the 2008 Convertible Debentures and the Reconstituted Debentures, the "BSM Debentures") having a conversion rate of one Common share of BSM for each \$0.07 of debt converted and the Insiders also received warrants (the "Insider Warrants" and together with the Reconstituted Warrants, the "BSM Warrants") equal in number to the number of Common shares of BSM convertible upon exercise of the conversion feature of the Insider Debentures. Each BSM Warrant was exercisable at \$0.10 to acquire a further Common share for a period of two 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.

The Company had identified (a) Onbelay Partners Ltd., a company controlled by Mr. John Bell, a director, and Mr. Aly Rahemtulla, director and CEO of the Company, (b) Onbelay Capital Inc., a company controlled by Mr. John Bell 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 \$117,359 that was allocated to the liability and equity portions.

On September 25, 2009, pursuant to an agreement (the "BEST Purchase Agreement") among The Business, Engineering, Science & Technology Fund Inc. and its affiliates (collectively, "BEST") and

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## **Notes to the Interim Consolidated Financial Statements**

**Three months ended December 31, 2009 and 2008**

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certain holders of outstanding BSM Debentures and BSM Warrants, new purchasers and Datacom (collectively, the "BEST Purchasers"), BEST agreed to sell to the BEST Purchasers an aggregate principal amount of \$1,750,000 2008 Debentures and an aggregate of 29,166,666 warrants for an aggregate purchase price of \$1,575,000 (including an aggregate principal amount of \$162,222 BSM Debentures and 2,703,703 BSM Warrants purchased by Datacom for an aggregate purchase price of \$146,000). Amongst BEST Purchasers, ANR Solutions Inc. acquired \$111,111 face value of the 2008 Debentures from BEST.

The business combination with Datacom required the 2008 Convertible Debentures to be converted into Preferred shares of the Company and any warrants outstanding were to be redeemed by issuance of Common shares of the Company. Each Preferred share is convertible into one Common share (a) at any time based on the written request of the holder of a Preferred share; and (b) at the Company's request after July 1, 2010. The preferred shareholders had preemptive rights to participate pro rata in any equity or debt financings. While any Preferred shares are outstanding, the Company is prohibited from incurring senior debt, other than debt from a Schedule 1 or Schedule 2 bank for the purpose of inventory and accounts receivable financing. Each 2008 Warrant and BSM Warrant issued in connection with the convertible debentures (other than an aggregate of 2,703,703 warrants purchased by Datacom pursuant to BEST Purchase Agreement) were to be redeemed by the Company in exchange for the issuance of 0.3 Common share of the Company.

On September 25, 2009, the Company issued an aggregate of 65,755,556 Preferred shares in exchange for an aggregate principal amount of approximately \$3,287,778 of 2008 Convertible Debentures (other than 2008 Convertible Debentures acquired by Datacom pursuant to the BEST Purchase Agreement). In addition, the Company issued an aggregate of 16,081,746 Common shares in exchange for an aggregate of 57,309,522 outstanding warrants (other than BSM Warrants acquired by Datacom pursuant to the BEST Purchase Agreement). In connection with the conversion of 2008 Convertible Debentures into Preferred shares and redemption of warrants by issuance of Common shares, on September 25, 2009, (a) Onbelay Partners Ltd. acquired an aggregate of 6,000,000 Preferred shares and 1,285,714 Common shares, (b) Onbelay Capital Inc. acquired an aggregate of 2,000,000 Preferred shares and 428,571 Common shares, (c) and ANR Solutions Inc. acquired an aggregate of 2,222,222 Preferred shares and 984,127 Common shares.

In order to facilitate the sale of 2008 Convertible Debentures and 2008 Warrants by BEST to the BEST Purchasers, the Company issued an aggregate of 6,839,215 Common shares to BEST, immediately prior to the completion of the business combination.

Upon completion of the business combination with Datacom, convertible debentures with an aggregate principal amount of \$162,222 and 2,703,703 warrants held by Datacom were cancelled.

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

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## Notes to the Interim Consolidated Financial Statements

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	December 31, 2009	December 31, 2008
Interest expense on face value	\$ -	\$ 120,750
Non-cash interest representing accretion	-	147,161
	\$ -	\$ 267,911

### 6. Share capital:

(a) Common shares:

Authorised:

Unlimited Common shares

(b) Preferred shares:

Authorized:

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

Issued and outstanding:

65,755,556 non-cumulative 8% first Preferred shares. There were no second Preferred shares issued and outstanding at December 31, 2009.

	December 31, 2009		September 30, 2009	
	Number	Amount	Number	Amount
Balance, beginning of the year	65,755,556	3,945,333	-	-
Preferred shares issued in exchange of \$3,287,778 convertible debenture	-	-	65,755,556	3,945,333
Balance, end of the period	65,755,556	3,945,333	65,755,556	3,945,333

On September 25, 2009, 65,755,556 first Preferred shares were issued in exchange for an aggregate principal amount of convertible debentures of \$3,287,778. Each Preferred

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share is convertible into one Common share (i) at any time based on the written request of the holder of a Preferred share; or (ii) at the Company's request after July 1, 2010. The preferred shareholders had pre-emptive rights to participate pro rata in any equity or debt financings. While any Preferred shares are outstanding, the Company is prohibited from incurring senior debt, other than debt from a Schedule 1 or Schedule 2 bank for the purpose of inventory and accounts receivable financing.

These Preferred shares were issued pursuant to a condition of the business combination with Datacom, which required the 2008 Convertible Debentures to be converted into Preferred shares of the Company.

The fair value of the consideration paid was determined as follows:

	December 31, 2009	September 30, 2009
Preferred shares (i)	\$ 3,945,333	\$ 3,945,333
Dividends payable on Preferred shares (ii)	184,453	177,031
	<u>\$ 4,129,786</u>	<u>\$ 4,122,364</u>

- (i) The fair value of 65,755,556 Preferred shares issued was determined to be \$0.06 per share, which was the share price for Common shares on the effective date.
- (ii) The principal sum of Preferred shares that will require payment of dividends at the rate of 8% until July 2010 is \$3,287,778. Total dividend payments until July 2010 are estimated at \$201,770 and are discounted at the rate of 26.92%. The amount net of discount as at September 30, 2009 was \$ 177,031.

For the three months ended December 30, 2009, non-cash Finance charges representing the accretion of the carrying value of the Preferred shares, of \$7,422 (three months ended December 30,2008 - \$Nil) has been recognized in the interim consolidated statements of operations and deficit.

- (c) Common shares issued and outstanding:

# BSM TECHNOLOGIES INC.

## Notes to the Interim Consolidated Financial Statements

Three months ended December 31, 2009 and 2008

	December 31, 2009		September 30, 2009	
	Number	Amount	Number	Amount
Balance, beginning of the year excluding shares to be issued subject to future performamnce	226,952,747	\$ 17,354,305	85,359,915	\$ 11,823,032
Acquisition of Datacom	-	-	118,571,871	4,150,015
Shares issued to facilitate sale of debentures and warrants held by BEST	-	-	6,839,215	410,353
Shares issued- in exchange for warrants	-	-	16,181,746	970,905
Balance, excluding shares to be issued subject to future performamnce	226,952,747	\$ 17,354,305	226,952,747	\$ 17,354,305
Shares issued in escrow subject to BSM's performance -(i )	547,815	-	547,815	-
Balance, end of the period	227,500,562	\$ 17,354,305	227,500,562	\$ 17,354,305

- (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 962,085 of these shares pursuant to settlements reached with these parties. As part of these settlements, the Company also paid \$80,000, which had been recorded as an increase to the accumulated deficit. The remaining 547,815 Common shares remain in escrow subject to these performance targets.
- (ii) No Common shares were issued in the three months ended December 31, 2009.
- (d) Warrants:
- As of December 31, 2009, the Company had no outstanding warrants to acquire Common share.
- (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

## **BSM TECHNOLOGIES INC.**

### **Notes to the Interim Consolidated Financial Statements**

**Three months ended December 31, 2009 and 2008**

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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 shareholders passed a resolution, increasing the number of shares under the 2006 Stock Option Plan by 6,484,456 Common shares to an aggregate of 12,755,788 Common shares, by replacing 519,143 Common shares issued on the exercise of stock options and adding an additional 5,965,313 Common shares to the 2006 Stock Option Plan for a total of 12,755,788 Common shares reserved under the Plan.

In October 2008 and December 2008, 200,000 options and 1,376,133 options, respectively, to acquire Common shares at a weighted average exercise price of \$0.20 per share expired unexercised.

In October 2009, 280,000 options to acquire Common shares at a weighted average exercise price of \$0.20 per share expired unexercised.

On January 14, 2010, the Company's Board of Directors approved amendments to the stock option plan. The principal amendments were:

- (i) To increase the maximum number of Common shares issuable upon exercise of the options granted to key employees, officers, directors and consultants of the Company pursuant to the stock option plan from 12,755,788 to 22,500,000 representing less than 10% of the total number of shares currently issued and outstanding; and
- (ii) To increase the exercise period of stock options to a maximum of 10 years.

These amendments are subject to the TSX approval and, if required, to shareholders' approval.

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

**BSM TECHNOLOGIES INC.****Notes to the Interim Consolidated Financial Statements**

Three months ended December 31, 2009 and 2008

	December 31, 2009		September 30, 2009	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance, beginning of year	10,708,921	\$ 0.11	1,856,133	\$ 0.20
Cancelled	(280,000)	(0.20)	(1,576,133)	0.20
Issued			5,895,000	0.10
Issued on business combination with Datacom			4,533,921	0.11
Balance, end of the period	10,428,921	\$ 0.12	10,708,921	\$ 0.11

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

		Outstanding		Exercisable	
Exercise price	Number Outstanding	Remaining Contractual life (years)	Vested options	Exercise price	
\$ 0.100	5,895,000	4.41	2,497,500	\$ 0.10	
0.11	4,533,921	7.61	4,533,921	0.11	
	<u>10,428,921</u>	<u>6.47</u>	<u>7,031,421</u>		

As at December 31, 2009, 10,428,921 (September 30, 2009 - 10,708,921) options were outstanding at a weighted average price of \$0.12. These options have a weighted average life of 6.47 years.

(f) Loss per share:

The following table set as forth calculation of basic and diluted loss per share:

# BSM TECHNOLOGIES INC.

## Notes to the Interim Consolidated Financial Statements

Three months ended December 31, 2009 and 2008

	December 31, 2009	December 31, 2008
Numerator		
Net loss for the year	\$ (236,054)	\$ (223,674)
Denominator		
Weighted average number of common shares outstanding	226,952,747	85,359,830
Weighted average number of diluted common shares outstanding	226,952,747	85,359,830
Net loss per share-basic and diluted	\$ (0.001)	\$ (0.003)

(g) A summary of the Common shares and options outstanding at December 30, 2009 is shown in the table below:

Security type	Number	Exercise Price	Expiry	Weighted average life remaining (years)
<b>Common shares</b>				
Common shares issued and outstanding	227,500,562			
<b>Shares reserved for issuance on exercise of Stock options, and Preferred shares conversion</b>				
Options issued under the Stock Option Plan: on February 24, 2009	5,895,000	\$ 0.10	24-Feb-14	4.41
Options issued to holders of Datacom option holders	4,533,921	0.11		7.61
Reserved for issuance on conversion of the Preferred shares	65,755,556	0.06	2-Jul-10	
<b>Total Shares reserved for issuance on exercise of Stock Options, and Preferred shares</b>	<b>303,685,039</b>			

# BSM TECHNOLOGIES INC.

## Notes to the Interim Consolidated Financial Statements

Three months ended December 31, 2009 and 2008

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### 7. Supplemental disclosures of cash flow information:

(a) Changes in non-cash operating working capital:

	December 31, 2009	December 31, 2008
Accounts receivable	\$ (103,258)	\$ 44,281
Inventories	(90,841)	16,452
Net investment in sales-type leases including long term portion	(201,219)	(120,304)
Prepaid expenses and other assets	(17,371)	20,203
Advances from customers		289,000
Research and Development credits receivable		
Deferred revenue	(79,602)	(32,094)
Accounts payable and accrued liabilities	(270,554)	(375,987)
	<u>\$ (762,845)</u>	<u>\$ (158,449)</u>

(b) Interest paid:

	December 31, 2009	December 31, 2008
Interest paid	\$ 4,638	\$ 129,162

### 8. Cash and cash equivalents:

	December 31, 2009	September 30, 2009
Cash at Bank	\$63,795	\$952,188
Short term investments	1,545,000	1,545,000
	<u>\$1,608,795</u>	<u>\$2,497,188</u>

### 9. Segmented information:

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

# BSM TECHNOLOGIES INC.

## Notes to the Interim Consolidated Financial Statements

Three months ended December 31, 2009 and 2008

	December 31, 2009	December 31, 2008
Canada	\$ 2,652,959	\$ 1,204,404
United States of America	291,903	263,441
South America	85,376	122,387
Asia	219,368	393,844
Europe	134,817	201,479
Australia	15,206	22,508
Africa	105,501	385,881
	<u>\$ 3,505,130</u>	<u>\$ 2,593,944</u>

(b) Revenue by product category is as follows:

	December 31, 2009	December 31, 2008
Services	\$ 2,004,122	\$ 1,163,102
Hardware and software	1,501,008	1,430,842
	<u>\$ 3,505,130</u>	<u>\$ 2,593,944</u>

(c) Assets:

	December 31, 2009	September 30, 2009
Canada	\$ 10,041,753	\$ 10,700,277
Belgium	620,014	569,455
	<u>\$ 10,661,767</u>	<u>\$ 11,269,732</u>

### 10. Related party transactions:

(a) The Company had previously identified Nick Cirella, a director and former President and CEO of the Company, Applied Innovations Group Inc. and other companies under Mr. Cirella's control as related parties. The related parties are considered to have significant influence over the Company as defined under CICA Handbook Section 3840, Related Party Transactions. During the three months ended December 31, 2009, the Company paid \$15,000 to a company under Mr. Cirella's control as consulting fees under a management consulting contract between the Company and Mr. Cirella (three months ended December 31, 2008 - \$15,000).

# BSM TECHNOLOGIES INC.

## Notes to the Interim Consolidated Financial Statements

Three months ended December 31, 2009 and 2008

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During the three months ended December 31, 2009, the Company paid \$Nil to a company under Mr. Cirella's control as car allowance under a management consulting contract between the Company and Mr. Cirella (three months ended December 31, 2008 - \$4,500).

- (b) The Company had identified (i) Onbelay Partners Ltd., a company controlled by Mr. John Bell, a director and Mr. Aly Rahemtulla, director and CEO of the Company, (ii) Onbelay Capital Inc., a company controlled by Mr. John Bell and (iii) ANR Solutions Inc., a company controlled by Mr. Aly Rahemtulla, as related parties. 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.

As part of the BEST purchase agreement, on September 25, 2009, ANR Solutions Inc. acquired \$111,111 face value of the 2008 Debentures from BEST.

In connection with the conversion of 2008 Convertible Debentures into Preferred shares and redemption of warrants by issuance of Common shares, on September 25, 2009, (i) Onbelay Partners Ltd. acquired an aggregate of 6,000,000 Preferred shares and 1,285,714 Common shares, (ii) Onbelay Capital Inc. acquired an aggregate of 2000,000 Preferred shares and 428,571 Common shares, and ANR Solutions Inc. acquired an aggregate of 2,222,222 Preferred shares and 984,127 Common shares.

During the three months ended December 31, 2009, the Company paid \$Nil to the related parties as interest on the 2008 Convertible Debentures (three months ended December 31, 2008 - \$17,500).

During the three months ended December 31, 2009, the Company paid \$43,750 (three months ended December 31, 2008 - \$43,750) to a company under Mr. Aly Rahemtulla's control as management fees and \$ 4,500 (three months ended December 31, 2008 - \$Nil) as car allowance for his role as the CEO of the Company.

- (c) During the three months ended December 31, 2009, for board compensation, the Company provided for \$7,000 (three months ended December 31, 2008 - \$4,750) for Mr. John Bell, a director and Chairman of the board.

### 11. Commitments:

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

2010	\$315,684
2011	214,380

# BSM TECHNOLOGIES INC.

## Notes to the Interim Consolidated Financial Statements

Three months ended December 31, 2009 and 2008

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(b) Capital leases:

The Company entered into 36-month capital lease agreements with third parties for computer hardware. Interest expense for the three months ended December 30, 2009 of \$1,021 (three months ended December 31, 2008 - \$2,498) has been recognized in the interim consolidated statements of operations and deficit. The obligations under capital leases are secured by a lien on the equipment leased. Future minimum capital lease payments are as follows:

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2010	\$	40,287
Less imputed interest		568
		<hr/> 39,719
Less: Current portion		39,719
Long-term portion of lease payments	\$	<hr/> -

### 12. Financial instruments and capital disclosures:

(a) Fair values:

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included on the consolidated balance sheets and are measured at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Held-for-trading financial investments are subsequently measured at fair value and all gains and losses are included in net income (loss) in the year in which they arise. Available-for-sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income (loss) until the instrument is derecognized or impaired. 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 receivable, loans receivable and investment tax credits receivable as loans and receivables; and accounts payable and accrued liabilities and convertible debentures as other financial liabilities

Fair values of financial assets and liabilities:

The carrying values and fair values of financial assets and liabilities as at December 31, 2009 are summarized as follows:

# BSM TECHNOLOGIES INC.

## Notes to the Interim Consolidated Financial Statements

Three months ended December 31, 2009 and 2008

Classification	December 31, 2009		September 30, 2009	
	Carrying value	Fair Value	Carrying value	Fair Value
Financial assets:				
Held-for-trading				
Cash and cash equivalents	\$1,608,795	\$1,495,835	\$2,497,188	\$2,497,188
Loans and receivables				
Accounts receivable	1,940,562	1,940,562	1,837,304	1,837,304
Investment tax credit receivable	363,526	363,526	363,526	363,526
Net investment in sales-type leases	1,093,515	935,193	892,295	761,444
Financial liabilities:				
Other financial liabilities				
Accounts payable and accrued liabilities	3,426,522	3,313,562	3,693,179	3,693,179
Long-term debt	65,293	67,279	65,293	66,879
Capital lease obligations	40,287	40,287	69,464	69,464
Dividends payable on Preferred shares	184,453	184,453	177,031	177,031

The carrying values of accounts receivable, investment tax credits receivable, accounts payable and accrued liabilities and customer deposits approximate their fair values due to the short-term maturity of these financial instruments.

The fair value of long-term debt and net investment in sales-type leases is calculated based on the present value of future principal and interest cash flows discounted at the market rate of interest at the balance sheet date.

(b) Credit risk:

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily accounts receivable. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers. Additionally, the Company is not subject to any significant credit risk in view of the Company's large and diversified client base.

(c) Foreign exchange risk:

The Company transacts business in multiple currencies, the most significant of which are the Canadian dollar, the U.S. dollar and the Euro. The Company, through its subsidiary, generates significant revenue in major foreign currencies, primarily U.S. dollars, which exceed the natural hedge provided by purchases of goods and services in those currencies.

## **BSM TECHNOLOGIES INC.**

### **Notes to the Interim Consolidated Financial Statements**

**Three months ended December 31, 2009 and 2008**

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Currently, the Company does not enter into foreign exchange contracts to manage this exposure, but may do so in the future. As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies.

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

d) Liquidity risk:

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company's growth is financed through a combination of the cash flows from operations, the issuance of debt and the issuance of equity. One of management's primary goals is to maintain an optimal level of liquidity through the active management of the assets and liabilities as well as the cash flows.

(e) Capital disclosure:

The Company considers its share capital and contributed surplus as capital, the total book value of which is \$ 23,797,275 as at December 31, 2009.

The Company manages its capital structure with the objective of providing sufficient resources to meet day-to-day operating requirements; to allow it to enhance existing product offerings as well as develop new ones; and to have the financial ability to expand the size of its operations by taking on new customers. In managing its capital structure, the Company takes into consideration various factors, including the growth of its business and related infrastructure and the up-front cost of taking on new customers. The Company's officers and senior management are responsible for managing the Company's capital and do so through quarterly meetings and regular review of financial information. The Company's Board of Directors is responsible for overseeing this process. The Company manages its capital to ensure that there are adequate capital resources while maximizing the return to shareholders through the optimization of the debt and equity balance.

Pursuant to the terms of the Preferred shares, there are certain covenants of the Company in favour of the preferred shareholders, including the pre-emptive rights to participate pro rata in any equity or debt financings. While any Preferred shares are outstanding, the Company is prohibited from incurring senior debt, other than debt from a Schedule 1 or Schedule 2 bank for the purpose of inventory and accounts receivable financing.

# BSM TECHNOLOGIES INC.

## Notes to the Interim Consolidated Financial Statements

Three months ended December 31, 2009 and 2008

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Except for the rights related to the Preferred shares, the Company is not subject to any externally imposed capital requirements.

### 13. Contributed surplus:

	December 31, 2009	September 30, 2009
Balance beginning of the year	\$ 2,497,637	\$ 583,245
Stock-based compensation expenses	-	79,193
Reconstitution of 2006 convertible debenture		
Expiry of warrants	-	730,414
Gain on conversion of debenture equity portion	-	682,125
Fair value of debenture cancelled	-	146,000
Difference book value and fair value of Debentuer equity portion cancelled	-	33,657
Options issued to holders of Datacom Options (Note 4 (a))	-	243,003
Balance end of the period	\$ 2,497,637	\$ 2,497,637

### 14. Long-term debt:

	December 31, 2009	September 30, 2009
Term Loan from Economic Development Canada , non-interest bearing, payable in semi-annual payments of \$24,643 starting in october 2006, maturing in April 2010 (a)	\$ 23,248	\$ 23,248
Unsecured amount payable, non-interest bearing in accordance with an agreement expiring in December 2010 (b)	42,045	42,045
	65,293	65,293
Current portion of long term-debt	23,248	23,248
	\$ 42,045	\$ 42,045

# BSM TECHNOLOGIES INC.

## Notes to the Interim Consolidated Financial Statements

Three months ended December 31, 2009 and 2008

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- (a) When this debt was initially accounted for, the fair value was established using an interest rate of 12%. The remaining balance payable as of December 31, 2009, as per the agreement, is \$24,643 (September 30, 2009 - \$24,643).
- (b) When this amount payable was initially accounted for, the fair value was determined by using an interest rate of 15%. The nominal value of the amount payable is \$50,000 and the carrying value of the amount payable will be accreted to this amount of the effective interest rate of 15%.

Principal repayments on long-term debt in each of the next two years are as follows:

2010	\$ 23,328
2011	41,965
	<hr/>
	\$ 65,293

### 15. Inventories:

	December 31, 2009	September 30, 2009
Finished goods	151,583	141,364
Raw materials	650,001	606,180
Provision for obsolescence	(2,800)	(39,602)
	<hr/>	<hr/>
	798,784	707,942

During the three months ended December 31, 2009, the Company recorded product cost of revenue of \$ 623,131 (three months ended December 31, 2008 - \$755,149) related to the sale of inventories. There were no reversals of prior year inventory write-downs during the three months ended December 31, 2009.

### 16. Accounts receivable:

	December 31, 2009	September 30, 2009
Accounts receivable	2,065,134	1,905,075
Allowance for doubtful accounts	(124,572)	(67,771)
	<hr/>	<hr/>
	1,940,562	1,837,304

# BSM TECHNOLOGIES INC.

## Notes to the Interim Consolidated Financial Statements

Three months ended December 31, 2009 and 2008

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During the three months ended December 31, 2009, general and administration expenses include bad debts provision of \$ 56,801 (three months ended December 31, 2008 - \$645).

### 17. Net investment in sales-type leases:

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

	December 31, 2009	September 30, 2009
Total minimum sales-type leases payments receivable	\$ 1,218,624	\$ 981,976
Less: amount representing interest	125,109	89,681
	1,093,515	892,295
Less: Current portion of net investment in sales-type leases	492,534	423,503
	600,981	468,792

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

2010	\$ 526,068
2011	561,945
2012	130,611
	\$ 1,218,624

### 18. Contingencies:

In the normal course of its operations, the Company becomes involved in various legal claims and lawsuits. The Company intends to vigorously defend these claims. While the final outcome with respect to any actions outstanding or pending at December 31, 2009 cannot be predicted with certainty, it is the opinion of management that the outstanding actions will not have a material adverse effect on the Company's financial position.

### 19. Comparative figures:

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

## BSM TECHNOLOGIES INC.

### Notes to the Interim Consolidated Financial Statements

Three months ended December 31, 2009 and 2008

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#### 20. Restatement of three months ended December 31, 2008 financial statements:

On August 13, 2009, the Company restated its consolidated financial statements for the three months ended December 31, 2008. The restatement was:

- (a) The Company had a convertible debentures liability as described in note 7 to the three months ended December 31, 2008 interim consolidated financial statements. The Company now believes that the measurement and presentation of the liability and equity portions of the convertible debentures for the three months ended December 31, 2008 was incorrect and that certain balance sheet items were misstated and misclassified for the three months ended December 31, 2008. The Company has corrected these errors and restated the audited consolidated financial statements for the three months ended December 31, 2008.
  
- (b) During the quarter ended December 31, 2008, the Company instituted a program under which it 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.

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

## **BSM TECHNOLOGIES INC.**

### **Notes to the Interim Consolidated Financial Statements**

**Three months ended December 31, 2009 and 2008**

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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 Company has corrected these errors and restated the audited consolidated financial statements for the three months ended December 31, 2008.

The net effect of the restatement on the un-audited interim consolidated financial statements of the Company as to three months ended December 31, 2008, is as follows:

The carrying value of the debt portion and equity portion of the convertible debentures was adjusted to its fair value.

The carrying value of the portion of the warrants issued in connection with the convertible debentures was reclassified from convertible debentures to shareholders' equity.

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. The carrying value of the Company's net investment in sales-type leases was adjusted to its fair value. The deferred cost related to sales-type leases was adjusted to its fair value.

Summary of restatement:

(a) Consolidated Balance Sheet:

# BSM TECHNOLOGIES INC.

## Notes to the Interim Consolidated Financial Statements

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	QE December 31, 2008		
	As originally Reported	Restatement	Restated Amount
<b>ASSETS</b>			
<b>Current</b>			
Current portion of net investment in sales-type leases	-	43,777	43,777
	-	43,777	43,777
Deferred financing costs	487,250	(487,250)	-
Net investment in sales-type leases	-	76,527	76,527
			-
Deferred Product costs	55,713	(55,713)	-
<b>Total Assets</b>	<b>542,963</b>	<b>(422,659)</b>	<b>120,304</b>
<b>LIABILITIES</b>			
<b>Current</b>			
Deferred revenue	28,820	(5,927)	22,893
	28,820	(5,927)	22,893
Convertible debenture	3,264,934	(930,795)	2,334,139
<b>SHARE HOLDERS EQUITY</b>			
Warrants	876,876	392,297	1,269,173
Convertible debenture	795,337	(27,055)	768,282
Deficit	(13,434,746)	148,821	(13,285,925)
	(11,762,533)	514,063	(11,248,470)
<b>Total liabilities and shareholders equity</b>	<b>(8,468,779)</b>	<b>(422,659)</b>	<b>(8,891,438)</b>

The interest expense on the 2008 Debentures was adjusted to reflect the non-cash interest representing the accretion of the carrying value of the debentures. Interest expense and net loss is decreased by the interest expense restatement. As a result, loss for the quarter and deficit were restated by \$33,602.

Revenue was increased by \$ 126,630, and Cost of goods sold was increased by \$ 55,712, to account for the hardware revenue from sales-type lease accounting. As a result, gross profit and loss for the quarter and deficit were restated by \$ 70,518.

(b) Consolidated Statement of Operations and Deficit:

# BSM TECHNOLOGIES INC.

## Notes to the Interim Consolidated Financial Statements

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	QE December 31, 2008		
	As originally Reported	Restatement	Restated Amount
Revenue	2,467,714	126,230	2,593,944
Cost of sales	1,231,596	55,712	1,287,308
Restated Gross Profit	1,236,118	70,518	1,306,636
Interest on debenture	301,513	(33,602)	267,911
Loss effect for the three months ended December 31, 2008		104,120	
Basic and diluted loss per share	\$ (0.004)	\$ 0.001	\$ (0.003)

(c) Consolidated Statement of Comprehensive Income:

	QE December 31, 2008		
	As originally Reported	Restatement	Restated Amount
Loss for the quarter	(327,794)	104,120	(223,674)
Net Comprehensive income effect for the three months ended December 31, 2008		104,120	

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 debentures and (ii) accounting for sales-type leases adjustment, were non-cash items.

(d) Consolidated Statement of Cash Flows:

# BSM TECHNOLOGIES INC.

## Notes to the Interim Consolidated Financial Statements

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	QE December 31, 2008		
	As originally Reported	Restatement	Restated Amount
Loss from continuing operations	(327,794)	104,120	(223,674)
Amortization of deferred financing charges	180,763	(33,602)	147,161
Net change in non-cash items related to operations	(87,931)	(70,518)	(158,449)
Net cash inflow (outflow)		-	