

Consolidated Financial Statements of

BSM TECHNOLOGIES INC.

Years ended September 30, 2009 and 2008



KPMG LLP
Chartered Accountants
Yonge Corporate Centre
4100 Yonge Street Suite 200
Toronto ON M2P 2H3
Canada

Telephone (416) 228-7000
Fax (416) 228-7123
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of BSM Technologies Inc. as at September 30, 2009 and the consolidated statements of operations and deficit, comprehensive income (loss), accumulated other comprehensive income (loss) and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at September 30, 2008 and for the year then ended were audited by other auditors, who expressed an opinion without reservation on those statements in their report, dated January 10, 2009, except as to the restatement which is as of August 13, 2009.

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

January 8, 2010, except
as to note 26 which is
as of January 14, 2010

BSM TECHNOLOGIES INC.

Consolidated Balance Sheets

September 30, 2009 and 2008

	2009	2008
		(Restated - note 2)
Assets		
Current assets:		
Cash and cash equivalents (note 10)	\$ 2,497,188	\$ 618,859
Restricted cash (note 4(c))	-	460,050
Accounts receivable (note 20)	1,837,304	987,087
Current portion of net investment in sales-type leases (note 21)	423,503	-
Investment tax credits receivable	363,526	235,270
Inventories (note 19)	707,942	910,034
Due from related party	-	2,382
Prepaid expenses and other assets	252,042	95,797
	<u>6,081,505</u>	<u>3,309,479</u>
Property and equipment (note 6)	424,528	422,374
Long-term investment in sales-type leases (note 21)	468,792	-
Intangible assets (note 5)	490,237	850,315
Goodwill (note 5)	3,804,670	2,530,764
	<u>\$ 11,269,732</u>	<u>\$ 7,112,932</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,693,179	\$ 2,680,020
Bank indebtedness (note 23)	-	199,295
Purchase consideration payable (note 4(c))	-	460,050
Current portion of long-term debt (note 18)	23,248	-
Dividends payable on Preferred shares (note 8)	177,031	-
Current portion of capital lease obligations (note 13(b))	69,464	116,706
Deferred revenue	271,355	54,988
	<u>4,234,277</u>	<u>3,511,059</u>
Convertible debentures (note 7)	-	2,186,978
Long-term debt (note 18)	42,045	-
Capital lease obligations (note 13(b))	-	69,464
Shareholders' equity:		
Share capital (note 8):		
65,755,556 Preferred shares (2008 - nil)	3,945,333	-
227,500,562 Common shares (2008 - 85,907,730)	17,354,305	11,823,032
Warrants	-	1,269,173
Contributed surplus (note 15)	2,497,637	583,245
Convertible debentures (note 7)	-	768,282
Deficit	(16,747,625)	(13,062,251)
Accumulated other comprehensive loss	(56,240)	(36,050)
	<u>6,993,410</u>	<u>1,345,431</u>
Commitments (notes 4(a) and 13)		
Contingencies (note 24)		
Subsequent event (note 26)		
	<u>\$ 11,269,732</u>	<u>\$ 7,112,932</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"John K. Bell" _____ Director "Aly Rahemtulla" _____ Director

BSM TECHNOLOGIES INC.

Consolidated Statements of Operations and Deficit

Years ended September 30, 2009 and 2008

	2009	2008 (Restated - note 2)
Revenue	\$ 9,128,293	\$ 7,827,823
Cost of revenue	4,388,272	4,074,790
Gross profit	4,740,021	3,753,033
Expenses:		
Marketing, advertising and promotion	1,561,290	1,771,434
Research and development, net of investment tax credits of \$126,854 (2008 - \$71,356)	748,793	1,088,923
General and administrative	2,290,536	3,519,293
	4,600,619	6,379,650
Income (loss) before the undernoted	139,402	(2,626,617)
Other expenses (income):		
Interest	26,181	55,576
Interest on convertible debentures (note 7)	475,833	339,882
Interest accretion on convertible debentures (note 7)	640,613	317,448
Interest on non-convertible debenture (note 22)	—	11,089
Amortization of property and equipment	145,584	203,592
Amortization of intangible assets	362,782	272,086
Loss on extinguishment of convertible debentures (note 16)	1,749,959	—
Interest income	(56,988)	—
	3,343,964	1,199,673
Loss for the year	(3,204,562)	(3,826,290)
Deficit, beginning of the year	(13,062,251)	(9,235,961)
Excess of purchase price over the carrying value of warrants on the redemption of warrants (note 8(d)(ii))	(480,812)	—
Deficit, end of the year	\$ (16,747,625)	\$ (13,062,251)
Loss per share - basic and diluted (note 8(f))	\$ (0.04)	\$ (0.05)
Weighted average number of shares - basic and diluted (note 8(f))	87,687,383	81,816,619

See accompanying notes to consolidated financial statements.

BSM TECHNOLOGIES INC.

Consolidated Statements of Comprehensive Income (Loss)

Years ended September 30, 2009 and 2008

	2009	2008 (Restated - note 2)
Loss for the year	\$ (3,204,562)	\$ (3,826,290)
Other comprehensive income (loss):		
Unrealized translation gains (losses) on self-sustaining operations	(20,190)	5,739
Comprehensive loss	\$ (3,224,752)	\$ (3,820,551)

Consolidated Statements of Accumulated Other Comprehensive Income (Loss)

Years ended September 30, 2009 and 2008

	2009	2008 (Restated - note 2)
Balance, beginning of year	\$ (36,050)	\$ (41,789)
Other comprehensive income (loss), net of income taxes:		
Unrealized translation gains (losses) on self-sustaining operations	(20,190)	5,739
Balance, end of year	\$ (56,240)	\$ (36,050)

See accompanying notes to consolidated financial statements.

BSM TECHNOLOGIES INC.

Consolidated Statements of Cash Flows

Years ended September 30, 2009 and 2008

	2009	2008 (Restated - note 2)
Cash provided by (used in):		
Operating activities:		
Loss for the year	\$ (3,204,562)	\$ (3,826,290)
Items not involving cash:		
Amortization of property and equipment	145,584	203,592
Interest accretion on convertible debentures	640,613	317,448
Amortization of intangible assets	362,782	272,086
Loss on extinguishment of convertible debentures (note 16)	1,749,959	-
Stock-based compensation expense	79,193	-
Change in non-cash operating working capital (note 9)	(76,760)	1,112,404
Net cash used in operating activities	(303,191)	(1,920,760)
Financing activities:		
Capital lease payments	(107,756)	(101,668)
Proceeds from related party	2,383	27,614
Proceeds from convertible debentures	-	2,150,000
Deferred financing costs	-	(117,359)
Long-term debt	79	-
Repayment of credit facilities (note 23)	(199,295)	(326)
Common shares issued	-	298,000
Net cash provided by (used in) financing activities	(304,589)	2,256,261
Investing activities:		
Cash acquired on acquisition	2,398,829	4,362
Acquisition costs	(390,235)	(63,202)
Receipt of escrowed amounts relating to SecTrack Acquisition	501,300	-
Acquisition of property and equipment, net	(21,081)	(48,175)
Advances to related party	-	(159,153)
Investment in patent	(2,704)	(1,545)
Net cash provided by (used in) investing activities	2,486,109	(267,713)
Increase in cash and cash equivalents	1,878,329	67,788
Cash and cash equivalents, beginning of year	618,859	551,071
Cash and cash equivalents, end of year	\$ 2,497,188	\$ 618,859

Supplemental cash flow information (note 9)

See accompanying notes to consolidated financial statements.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Years ended September 30, 2009 and 2008

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. Restatement of 2008 financial statements:

On August 13, 2009, the Company restated its consolidated financial statements for the year ended September 30, 2008. The Company had a convertible debentures liability as described in note 8 to the 2008 consolidated financial statements. The Company now believes that the measurement and presentation of the liability and equity portions of the convertible debentures for the year ended September 30, 2008 was incorrect and that certain balance sheet items were misstated and misclassified for the year ended September 30, 2008. The Company has corrected these errors and restated the audited consolidated financial statements for the year ended September 30, 2008.

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

The carrying value of the debt portion and equity portion of the convertible 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.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

2. Restatement of 2008 financial statements (continued):

Summary of restatement:

(a) Consolidated Balance Sheet:

			2008
	As original reported	Restatement	Restated amount
Assets:			
Deferred financing costs	\$ 568,596	\$ (568,596)	\$ —
Total assets	\$ 568,596	\$ (568,596)	\$ —
Liabilities:			
Convertible debentures	\$ 3,165,517	\$ (978,539)	\$ 2,186,978
Shareholders' equity:			
Warrants	876,876	392,297	1,269,173
Convertible debentures	795,337	(27,055)	768,282
Deficit	(13,106,952)	44,701	(13,062,251)
	(11,434,739)	409,943	(11,024,796)
Total liabilities and shareholders' equity	\$ (8,269,222)	\$ (568,596)	\$ (8,837,818)

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 year and deficit were restated by \$44,701.

(b) Consolidated Statement of Operations and Deficit:

			2008
	As originally reported	Restatement	Restated amount
Interest on debentures	\$ 702,031	\$ (44,701)	\$ 657,330
Loss effect for the year ended September 30, 2008		\$ (44,701)	
Basic and diluted loss per share	\$ (0.05)	\$ (0.00)	\$ (0.05)

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

2. Restatement of 2008 financial statements (continued):

(c) Consolidated Statement of Comprehensive Income:

	As originally reported	Restatement	2008 Restated amount
Loss for the year	\$ (3,870,991)	\$ 44,701	\$ (3,826,290)
Net comprehensive income effect for the year ended September 30, 2008		\$ 44,701	

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

(d) Consolidated Statement of Cash Flows:

	As originally reported	Restatement	2008 Restated amount
Loss for the year	\$ (3,870,991)	\$ 44,701	\$ (3,826,290)
Amortization of deferred financing charges	362,149	(44,701)	317,448
		\$ -	

3. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The most significant accounting policies are as follows:

(a) Basis of presentation:

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

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

3. Significant accounting policies (continued):

(b) Property and equipment:

Property and equipment are recorded at cost and are depreciated on the basis of their estimated useful lives as follows:

Asset	Basis	Rate
Computer equipment	Declining balance	30%
Furniture and office equipment	Declining balance	20%
Computer software	Straight line	2 years
Leasehold improvements	Straight line	Over term of lease
Automobile	Declining balance	30%

(c) Intangible assets:

Intangible assets with finite useful lives are recorded at cost and are amortized on a straight-line basis over their estimated useful lives as follows:

Trademark and patents	3 years
Customer contracts	3 years
Acquired technology	3 years

(d) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the tangible and intangible assets acquired, less liabilities assumed, based on their fair values.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

3. Significant accounting policies (continued):

Goodwill is not amortized but instead is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit, including goodwill, is compared with its fair value. When the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any.

On September 30, 2009, the Company performed the impairment test and determined that there was no impairment of the recorded goodwill.

(e) Foreign currency translation:

Monetary assets and liabilities of the Company, except those of a self-sustaining subsidiary, are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet dates and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transaction. Foreign exchange gains and losses are included in loss for the year. The assets and liabilities of the Company's self-sustaining subsidiary are translated into Canadian dollars using the exchange rates in effect at the consolidated balance sheet dates, and revenue and expenses are translated at the average rates during the years. Exchange gains or losses on translation of the Company's net equity investment in these operations are deferred as a separate component of shareholders' equity. All other foreign exchange gains or losses are included in the consolidated statements of operations and deficit.

(f) Cash and cash equivalents:

Cash and cash equivalents include highly liquid short-term investments that are readily convertible to known amounts of cash and generally have maturities within three months.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

3. Significant accounting policies (continued):

(g) Revenue recognition:

The Company derives revenue from the sale of vehicle tracking hardware and software as well as professional services associated with the installation and customization of its product. Subscription revenue is derived from location-based and telematics hardware and software.

Revenue from sale of vehicle tracking hardware and software is recognized when persuasive evidence of an arrangement exists, the fee is fixed and determinable, final delivery has occurred, the risks and rewards of ownership have been passed to the customer and there is reasonable assurance that the amounts are collectible. The Company does not offer product warranties other than the warranties offered by the manufacturer; hence, it does not provide for the estimated cost of product warranties upon shipment. When other significant obligations remain after products are delivered, revenue is recognized only after such obligations are fulfilled. Shipping and handling costs are included in cost of goods sold. Under the Company's return policy, product returns are accepted for repairs and replacements only and it does not provide for refunds to customers for returns. As the Company is not exposed to provide refund to the customers for returns, the Company does not make a provision for product returns.

The Company offers a suite of location-based services under a software as a service ("SaaS") model that results in revenue for the subscribed devices. Services revenue includes monthly fees for SaaS model services, monthly alarm monitoring fees and resale of cellular and satellite data. Revenue from subscription services is recognized on a monthly basis as earned when all significant contractual obligations have been satisfied, the sales price is fixed and determinable and collection is reasonably assured. Certain customer contracts provide for up-front service contract payments. These subscription services fees are deferred and revenue is recognized over the term of the contract.

The Company's revenue arrangements with certain customers may involve multiple elements, consisting of vehicle tracking hardware equipment, professional services associated with installation of its product, SaaS subscription and resale of cellular and satellite data.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

3. Significant accounting policies (continued):

The Company evaluates all elements in an arrangement to determine which of the deliverables represent separate units of accounting. The Company has determined that its multiple element arrangements that qualify as deliverables and separate units of accounting are: (i) vehicle tracking hardware equipment, (ii) professional services associated with installation of its product, and (iii) services fee. SaaS subscription fee, resale of cellular and satellite data is determined to be a single deliverable and a single unit of accounting (the "Services fee").

The Company recognizes revenue for multiple element arrangements based on the relative fair value of the separate elements. For arrangements with multiple elements, revenue is allocated to each element of a transaction based upon its fair value. The objective and reliable evidence of fair value for all elements of an arrangement is based upon the normal pricing practice for the products and services when sold separately.

The Company's revenue from hardware sales in arrangements with certain customers relates to a sales-type lease, as under these arrangements the Company transfers substantially all the benefits and risks incident to ownership of property to the customer and, at inception, the fair value of the leased property is greater or less than its carrying amount. Under these arrangements, the customer pays a fixed amount periodically over the term of the contract.

The Company recognizes revenue from sales-type leases in accordance with the criteria under The Canadian Institute of Chartered Accountants' ("CICA") Handbook Section 3065, Leases. Finance income related to the sales-type lease is recognized in a manner that produces a constant rate of return on the investment in the lease. The investment in the lease for purposes of revenue recognition is composed of net minimum lease payments and unearned finance income.

(h) Inventories:

Finished goods are valued at the lower of cost and net realizable value. Raw materials are valued at the lower of cost and replacement value, which is the best available measure of their net realizable value. Cost is determined on a weighted average cost basis. Inventories consist of goods for resale. Net realizable value is the expected selling price in the ordinary course of business less any costs to complete and dispose.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

3. Significant accounting policies (continued):

(i) Income taxes:

The Company follows the asset and liability method of tax allocation in accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are determined based on differences between the financial reporting and the tax basis of assets and liabilities and are measured using enacted or substantively enacted tax rates that are expected to be in effect when the differences are expected to reverse. A valuation allowance is recorded against any future income tax assets if it is more likely than not that the asset will not be realized.

(j) Investment tax credits:

The Company is entitled to certain Canadian investment tax credits for qualifying research and development activities performed in Canada. The investment tax credits are accounted for as a reduction of the related expenditures for items expensed in the consolidated statements of operations and deficit or a reduction of the related asset's cost for items capitalized in the consolidated balance sheets provided that a reasonable assurance over collection of the tax credits exists.

(k) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the years. Actual results could differ from those estimates.

Significant items subject to such estimates and assumptions include the carrying amount of property and equipment, the carrying value of goodwill and intangible assets, valuation of accounts receivable, valuation of stock-based awards and recoverability of income tax investment tax credits. In its determination of the amount and timing of revenue to be recognized, management relies on assumptions supporting its revenue recognition policy. Fair value established by management of the Company's hardware and service elements is based upon the prices when the Company sells specific elements to customers separately.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

3. Significant accounting policies (continued):

(l) Guarantees:

In the normal course of business, the Company enters into agreements that may contain features which meet the definition of a guarantee under GAAP. As part of transactions involving sale of product and services, purchase of assets, the Company may be required to pay counterparties for costs and losses incurred as a result of breaches of representations and warranties, changes in laws and regulations (including tax legislation) or litigation against the counterparties.

The Company indemnifies its directors, officers and employees against claims reasonably incurred and resulting from the performance of their services to the Company, and maintains liability insurance for its directors and officers, as well as those of its subsidiaries. The Company is unable to make reasonable estimate of the maximum potential amount it would be required to pay counterparties. The amount also depends on the outcome of future events and conditions, which cannot be predicted. No amount has been accrued in the balance sheets relating to these types of indemnifications or guarantees at September 30, 2009 or 2008. Historically, the Company has not made any significant payments under these indemnifications or guarantees.

(m) Stock-based compensation:

The Company has a stock-based compensation plan that is described in note 8. The Company accounts for all stock option awards using the fair value method. Under the fair value method, compensation cost is measured at fair value at the date of grant and expensed over the award's vesting period with a corresponding credit to contributed surplus. Any consideration received from the plan participants upon exercise of stock options is credited to share capital, together with the related portion previously recorded to contributed surplus.

(n) Loss per share:

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

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

3. Significant accounting policies (continued):

(o) Impairment of long-lived assets:

The Company reviews long-lived assets, which include property and equipment and intangible assets with finite useful lives, for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of a group of assets is less than its carrying amount, it is considered to be impaired. An impairment loss is measured as the amount by which the carrying amount of the group of assets exceeds its fair value.

(p) Adoption of new accounting pronouncements:

(i) Inventories:

Effective October 1, 2008, the Company adopted the CICA Handbook Section 3031, Inventory. The adoption of this new standard requires changes for accounting of inventory, including the requirement to allocate overhead costs based on normal production levels and changes to the definition of net realizable value. The new standard clarifies the definition of cost to include all costs of purchase, costs of conversion and other costs incurred to bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw materials do not require write-downs if the finished goods in which they will be incorporated are expected to be sold at or above cost. The adoption of the new standard did not have a material impact on the Company's consolidated financial statements.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

3. Significant accounting policies (continued):

(ii) Goodwill and intangible assets:

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

(iii) Financial instruments:

Effective October 1, 2007, the Company adopted CICA Handbook Section 3862, Financial Instruments - Disclosures ("Section 3862"), Section 3863, Financial Instruments - Presentation ("Section 3863"), and Section 1535, Capital Disclosures ("Section 1535").

Section 3862 requires entities to provide disclosure in their financial statements that enable users to evaluate the significance of financial instruments on an entity's financial position and its performance and the nature and extent of risks arising from financial instruments to which the entity is exposed during the year and at the balance sheet date, and how the entity manages those risks.

Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equities, the classification of related interest, dividends, gains and losses, and circumstances in which financial assets and financial liabilities are offset.

Section 1535 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 consequence of such non-compliance.

The adoption of these standards did not have any impact on the classification and measurement of the Company's financial instruments. The disclosures pursuant to these Handbook sections are included in note 14.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

3. Significant accounting policies (continued):

(iv) Credit risk and fair values of financial assets and liabilities:

In January 2009, the CICA issued Emerging Issues Committee ("EIC") Abstract No. 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. The EIC provides guidance on evaluating credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The application of this EIC had no effect on the Company's consolidated financial statements.

(q) 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 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.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

3. Significant accounting policies (continued):

(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.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

3. Significant accounting policies (continued):

(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 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.

4. Business combinations:

- (a) 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™ product line on a 24/7 basis to track vehicle positions in real time on a computerized map and to acquire important management information.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

4. Business combinations (continued):

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 and are included in accounts payable and accrued liabilities at September 30, 2009.

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:

	2009	2008
Risk-free rate	1.27%	—
Expected volatility	125%	—
Expected life in years	7.91	—
Expected dividend yield	—	—

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

4. Business combinations (continued):

The acquisition was accounted for under the purchase method of accounting and the results of operations have been included in these consolidated financial statements from the date of acquisition. 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:

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
<hr/>	
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	<hr/>
	\$ 4,783,253

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

4. Business combinations (continued):

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:

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

- (b) On 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.

As consideration for this acquisition, the Company issued 7,142,857 Common shares of the Company, valued at \$1,000,000. The Company advanced \$159,153 as loans prior to the acquisition. Acquisition costs related to this acquisition were \$63,202.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

4. Business combinations (continued):

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:

Assets:	
Cash and cash equivalents	\$ 4,362
Accounts receivable	63,620
Research and development credits receivable	643,148
Inventories	109,355
Security deposits	8,755
Property and equipment	60,440
Patents	60,168
Trademarks	13,912
Customer contracts	263,045
Acquired technology	751,220
	<hr/> 1,978,025
Liabilities:	
Accounts payable and accrued liabilities	755,670
	<hr/>
Total consideration	\$ 1,222,355
Consideration comprises:	
7,142,857 Common shares issued at \$0.14/share	\$ 1,000,000
Acquisition costs	63,202
Loans receivable	159,153
	<hr/>
Total consideration	\$ 1,222,355

- (c) 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.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

4. Business combinations (continued):

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.

The acquisition was accounted for under the purchase method of accounting. Upon receipt of the arbitrator's decision, the Company adjusted the purchase price and carrying amount of goodwill by the escrowed amount of \$501,300 (Euro 300,000). Total consideration, including costs of acquisition, was allocated based on the estimated fair values of the acquired assets and liabilities on the date of the acquisition as follows:

Assets:	
Cash and cash equivalents	\$ 182,160
Accounts receivable	189,449
Inventory	257,416
Security deposits	4,644
Other current assets	29,860
Property and equipment	14,591
Goodwill	1,855,969
	<hr/>
	2,534,089
Liabilities:	
Accounts payable and accrued liabilities	367,956
	<hr/>
Total consideration	\$ 2,166,133
	<hr/>
Consideration comprises:	
Cash, including escrowed funds (Euro 300,000)	\$ 2,453,600
Recovery of escrowed funds (Euro 300,000)	(501,300)
Acquisition costs	213,833
	<hr/>
Total consideration	\$ 2,166,133

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

5. Goodwill and intangible assets:

(a) Goodwill:

A summary of the changes to goodwill is as follows:

	2009	2008
Goodwill, beginning of year	\$ 2,530,764	\$ 2,530,764
Acquisition of Datacom (note 4(a))	1,775,206	–
Adjustment to SecTrack goodwill:		
Recovery of escrowed funds (Euro 300,000)	(501,300)	–
Goodwill, end of year	\$ 3,804,670	\$ 2,530,764

Management periodically assesses the carrying value 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:

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

2008	Cost	Accumulated amortization	Net book value
Definite life:			
Trademarks and patents	\$ 108,136	\$ 18,520	\$ 89,616
Customer contracts	263,045	65,761	197,284
Acquired technology	751,220	187,805	563,415
	\$ 1,122,401	\$ 272,086	\$ 850,315

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

6. Property and equipment:

2009	Cost	Accumulated depreciation	Net book value
Computer equipment	\$ 1,321,654	\$ 1,228,753	\$ 92,901
Leased computer equipment	318,759	168,484	150,275
Furniture and office equipment	563,180	447,770	115,410
Computer software	677,638	642,716	34,922
Leasehold improvements	480,890	449,870	31,020
	<u>\$ 3,362,121</u>	<u>\$ 2,937,593</u>	<u>\$ 424,528</u>

2008	Cost	Accumulated depreciation	Net book value
Computer equipment	\$ 857,153	\$ 728,410	\$ 128,743
Leased computer equipment	318,759	104,081	214,678
Furniture and office equipment	269,336	230,042	39,294
Computer software	587,757	578,162	9,595
Automobile	37,196	25,190	12,006
Leasehold improvements	107,644	89,586	18,058
	<u>\$ 2,177,845</u>	<u>\$ 1,755,471</u>	<u>\$ 422,374</u>

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

7. Convertible debentures:

Convertible debentures consist of:

	2009	2008
Debt component:		
Balance, beginning of year	\$ 2,186,978	\$ –
Proceeds and reconstituted debentures	–	3,450,000
Less:		
Warrants	–	533,410
Equity component - conversion right	–	795,337
Amount recorded as liability component	2,186,978	2,121,253
Liability component of financing charges	–	(72,159)
Accretion of liability component	640,614	137,884
Conversion of debentures to Preferred shares	(2,694,636)	–
Cancellation	(132,956)	–
Balance, end of year	\$ –	\$ 2,186,978
Equity component:		
Balance, beginning of year	\$ 768,282	\$ –
Conversion feature of proceeds and reconstitution	–	795,337
Less: equity component of financing charges	–	27,055
	768,282	768,282
Conversion of debentures to Preferred shares	(732,157)	–
Cancellation	(36,125)	–
Balance, end of year	\$ –	\$ 768,282
Warrants:		
Balance, beginning of year	\$ 515,265	\$ –
Warrants portion of proceeds and reconstitution	–	533,410
Less: equity component of financing charges	–	18,145
	515,265	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 Datacom	(24,228)	–
Balance, end of year	\$ –	\$ 515,265

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

7. Convertible debentures (continued):

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 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.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

7. Convertible debentures (continued):

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 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 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. 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.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

7. Convertible debentures (continued):

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:

	2009	2008
Interest expense on face value	\$ 475,833	\$ 339,882
Non-cash interest representing accretion	640,613	317,448
	<u>\$ 1,116,446</u>	<u>\$ 657,330</u>

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

8. Share capital:

(a) Common shares:

Authorized:

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 September 30, 2009.

	2009		2008	
	Number	Amount	Number	Amount
Balance, beginning of year	-	\$ -	-	\$ -
Preferred shares issued in exchange for \$3,287,778 convertible debentures	65,755,556	3,945,333	-	-
Balance, end of year	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 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.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

8. Share capital (continued):

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:

	2009	2008
Preferred shares (i)	\$ 3,945,333	\$ –
Dividends payable on Preferred shares (ii)	177,031	–
	<u>\$ 4,122,364</u>	<u>\$ –</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%.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

8. Share capital (continued):

(c) Common shares issued and outstanding:

	2009		2008	
	Number	Amount	Number	Amount
Balance, beginning of year excluding shares to be issued subject to future performance	85,359,915	\$ 11,823,032	71,938,203	\$ 9,777,771
Acquisition of Datacom (ii)	118,571,871	4,150,015	–	–
Shares issued to facilitate sale of convertible debentures and warrants held by BEST (iii)	6,839,215	410,353	–	–
Shares issued - in exchange for warrants (iv)	16,181,746	970,905	–	–
Acquisition of Netistix (v)	–	–	7,142,857	1,000,000
Shares issued for settlement of debt (vi)	–	–	4,278,855	536,895
Warrants expired (iii)	–	–	–	233,860
Shares issued - non-brokered private placement (vii)	–	–	2,000,000	274,506
Balance, excluding shares to be issued subject to future performance	226,952,747	17,354,305	85,359,915	11,823,032
Shares issued in escrow subject to BSM's performance (i)	547,815	–	547,815	–
Balance, end of year	227,500,562	\$ 17,354,305	85,907,730	\$ 11,823,032

(i) During the year ended September 30, 1998, the Company entered into an agreement with the former President and certain other parties whereby 1,509,900 Common shares were issued in escrow and would only be released if the Company attained certain cash flow levels. During the years ended September 30, 2001, 2002 and 2003, the Company cancelled 962,085 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.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

8. Share capital (continued):

- (ii) On September 25, 2009, the Company issued 118,571,871 Common shares of the Company for the acquisition of Datacom (note 4(a)).
- (iii) On September 25, 2009, the Company issued 6,839,215 Common shares of the Company to BEST, in order to facilitate the sale of \$1,750,000 of convertible debentures and 29,166,666 warrants held by BEST prior to the acquisition of Datacom.
- (iv) On September 25, 2009, the Company issued 16,181,746 Common shares of the Company in exchange for an aggregate of 57,309,522 outstanding warrants. The exchange consideration was 0.3 Common share for each for the 56,309,522 warrants, excluding the 2,703,703 warrants purchased by Datacom pursuant to the BEST purchase agreement, issued in connection with 2008 convertible debentures financing and 0.1 Common share for each for the 1,000,000 warrants issued in connection with December 2007 private placement financing.
- (v) On December 24, 2007, the Company issued 7,142,857 Common shares of the Company, valued at \$1,000,000 for the acquisition of Netistix.
- (vi) On November 3, 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 Company, as a 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.

On February 4, 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 per share.

On August 13, 2008, the Company obtained regulatory approval for settlement of certain accounts payable by issuance of Common shares. Pursuant to this approval a total of 350,000 Common shares were issued at \$0.075 per share.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

8. Share capital (continued):

(vii) 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 comprises one Common share and one half-share purchase 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 option pricing 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 two years. Total cash cost associated with this private placement for TSX V fees amounted to \$2,000, leaving net cash proceeds of \$298,000. These share issue expenses have been deducted from issued capital.

(d) Warrants:

- (i) On January 4, 2009, 11,235,000 warrants issued pursuant to January 2007 financing with an average exercise price of \$0.25 per Common share expired unexercised.
- (ii) On September 25, 2009, the Company issued 16,181,746 Common shares of the Company in exchange for an aggregate of 57,309,522 outstanding warrants. The exchange consideration was 0.3 of one Common share for each of the 56,309,522 warrants, excluding the 2,703,703 warrants purchased by Datacom pursuant to the BEST purchase agreement, issued in connection with 2008 Convertible Debentures financing and 0.1 of one Common share for each for the 1,000,000 warrants issued in connection with December 2007 private placement financing. The excess of carrying value over the fair value of warrants upon their redemption and cancellation was recorded in the deficit.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

8. Share capital (continued):

	Fair value at the date of redemption	Net book value redeemed	Excess (loss)
Redemption of 1,000,000 warrants issued in connection with December 2007 financing, by issuance of 100,000 Common shares	\$ 6,000	\$ 23,495	\$ (17,495)
Redemption of 53,605,818 warrants issued in connection with convertible debentures financing, by issuance of 16,081,746 Common shares	964,905	491,037	473,868
Cancellation of 2,703,703 warrants issued in connection with convertible debentures financing, acquired by Datacom	48,667	24,228	24,439
	<u>\$ 1,019,572</u>	<u>\$ 538,760</u>	<u>\$ 480,812</u>

Fair value of 100,000 Common shares issued for redemption of 1,000,000 warrants issued in connection with December 2007 financing, was based on the market price of \$0.06 per Common share.

Fair value of 16,081,746 Common shares issued for redemption of 53,605,818 warrants issued in connection with convertible debentures financing, was based on the market price of \$0.06 per Common share.

The 2,703,703 warrants issued in connection with convertible debentures financing, acquired by Datacom equates to 811,111 Common shares based on the redemption ratio for other warrants related to convertible debentures financing. The 2,703,703 warrants were cancelled upon completion of business combination with Datacom. The fair value of 2,703,703 warrants was calculated based on the market price of \$0.06 per Common share for 811,111 Common shares.

- (iii) 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.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

8. Share capital (continued):

- (iv) As of September 30, 2009, the Company had no outstanding warrants to acquire Common share.

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

	2009		2008	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Balance, beginning of year	68,544,522	\$ 0.13	21,702,533	\$ 0.23
Issued	–	–	57,309,522	0.10
Warrants redeemed by issuance of Common shares	(57,309,522)	0.10	–	–
Expired	(11,235,000)	0.25	(10,467,533)	0.21
Balance, end of year	–	–	68,544,522	0.13

(e) Stock options:

The February 26, 2006 stock option plan (the "2006 Stock Option Plan") provides for 6,790,475 Common shares as a maximum number of Common shares in the capital of the Company that are reserved for issuance under the 2006 Stock Option Plan. Any options granted subject to the 2006 Stock Option Plan that are cancelled or terminated without having been exercised shall again be available to be granted under the 2006 Stock Option Plan. Options granted under the Plan may be exercised during a period not exceeding five years from the date of grant. The vesting period is set by the Board of Directors. On June 10, 2008, the 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.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

8. Share capital (continued):

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

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

	2009	2008
Risk-free rate	1.27%	—
Expected volatility	105%	—
Expected life in years	5	—
Expected dividend yield	—	—

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

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	1,856,133	\$ 0.20	2,068,049	\$ 0.20
Cancelled	(1,576,133)	0.20	(211,916)	0.20
Issued	5,895,000	0.10	—	—
Issued on business combination with Datacom	4,533,921	0.11	—	—
Balance, end of year	10,708,921	0.11	1,856,133	0.20

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

8. Share capital (continued):

The following table summarizes information about stock options outstanding and exercisable as at September 30, 2009:

Exercise price	Outstanding		Exercisable	
	Number outstanding	Remaining contractual life (years)	Vested options	Exercise price
\$0.20	280,000	0.25	280,000	\$ 0.20
0.10	5,895,000	4.66	2,947,500	0.10
0.11	4,533,921	7.91	4,533,921	0.11
	10,708,921	6.40	7,761,421	

As at September 30, 2009, 10,708,921 options were outstanding at a weighted average price of \$0.11. These options have a weighted average life of 5.9 years.

On January 4, 2009, 2,247,000 compensation options (the "Compensation Options") issued pursuant to the January 2007 private placement expired unexercised. Each Compensation Option entitled the holder to acquire one Unit at a price of \$0.20 per Unit. Each Unit consisted of one Common share (the "Common Share") and one Common Share purchase warrant. Each Warrant entitled the holder to acquire one Common Share at an exercise price of \$0.25 per share until January 4, 2009.

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

	2009		2008	
	Number	Weighted average exercise price of compensation options	Number	Weighted average exercise price of compensation options
Balance, beginning of year	2,247,000	\$ 0.20	2,247,000	\$ 0.20
Expired	(2,247,000)	0.20	–	–
Balance, end of year	–	–	2,247,000	0.20

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

8. Share capital (continued):

(f) Loss per share:

The following table sets forth the calculation of basic and diluted loss per share:

	2009	2008
Numerator:		
Loss for the year	\$ (3,204,562)	\$ (3,826,290)
Denominator:		
Weighted average number of Common shares outstanding	87,687,383	81,816,619
Weighted average number of diluted Common shares outstanding	87,687,383	81,816,619
Loss per share - basic and diluted	\$ (0.04)	\$ (0.05)

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 Preferred shares are anti-dilutive, they have been excluded from the calculation of the diluted weighted average number of shares outstanding.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

8. Share capital (continued):

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

Security type	Number	Exercise price	Expiry	Weighted average life remaining (years)
Common shares:				
Issued and outstanding	227,500,562			
Shares reserved for issuance on exercise of stock options and Preferred shares conversion:				
Options issued under the Stock Option Plan:				
On November 1, 2006	280,000	\$ 0.20	October 1, 2009	0.25
On February 24, 2009	5,895,000	0.10	February 24, 2014	4.66
Options issued to holders of Datacom option holders	4,533,921	0.11		6.40
Reserved for issuance on conversion of the Preferred shares	65,755,556	0.06	July 2, 2010	

9. Supplemental cash flow information:

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

	2009	2008
Accounts receivable	\$ 84,762	\$ 99,745
Inventories	564,457	(405,798)
Net investment in sales-type leases, including long-term portion	(394,732)	—
Prepaid expenses and other assets	(39,148)	(5,094)
Research and development credits receivable	(23,124)	571,792
Deferred revenue	10,168	(52,515)
Accounts payable and accrued liabilities	(279,143)	904,274
	\$ (76,760)	\$ 1,112,404

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

9. Supplemental disclosures of cash flow information (continued):

(b) Non-cash financing and investing activities:

	2009	2008
Common shares issued for debt settlement	\$ —	\$ 536,895
Acquisition of property, plant and equipment	—	19,683
Non-cash compensation options issued	79,193	—
Common shares issued for Datacom acquisition	4,150,015	—
Common shares issued for Netistix acquisition	—	1,000,000
Common shares issued for compensation consideration	410,353	—
Preferred shares issued for convertible debentures	3,945,333	—
Common shares issued in lieu of warrants	970,905	—
Warrants issued for 2008 convertible debentures financing	—	533,410

(c) Interest paid:

	2009	2008
Interest paid	\$ 502,013	\$ 394,451
Interest received	56,988	—

10. Cash and cash equivalents:

	2009	2008
Cash	\$ 952,188	\$ 418,859
Short-term investments	1,545,000	200,000
	\$ 2,497,188	\$ 618,859

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

11. Segmented information:

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

	2009	2008
Canada	\$ 4,234,618	\$ 3,517,630
United States of America	1,259,688	904,484
South America	403,891	679,341
Asia	1,656,720	1,316,235
Europe	573,422	568,216
Australia	62,307	220,636
Africa	937,647	621,281
	<u>\$ 9,128,293</u>	<u>\$ 7,827,823</u>

(b) Revenue by category is as follows:

	2009	2008
Service	\$ 5,065,473	\$ 3,907,082
Hardware and software	4,062,820	3,920,741
	<u>\$ 9,128,293</u>	<u>\$ 7,827,823</u>

(c) Assets:

	2009	2008
Canada	\$ 10,700,277	\$ 5,248,848
Belgium	569,455	1,864,084
	<u>\$ 11,269,732</u>	<u>\$ 7,112,932</u>

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

12. 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 year ended September 30, 2009, the Company paid nil to a company under Mr. Cirella's control as management fees under a management contract between the Company and Mr. Cirella for his role as CEO (2008 - \$137,327). During the year ended September 30, 2009, the Company paid \$100,000 to a company under Mr. Cirella's control as consulting fees under a management consulting contract between the Company and Mr. Cirella (2008 - \$32,500).

During the year ended September 30, 2009, the Company paid \$13,569 to a company under Mr. Cirella's control as car allowance under a management consulting contract between the Company and Mr. Cirella (2008 - \$18,039).

During the year ended September 30, 2009, the Company received a loan repayment of \$2,383 from the director and former President and CEO of the Company and companies under his control (2008 - \$27,614).

- (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.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

12. Related party transactions (continued):

During the year ended September 30, 2009, the Company paid \$68,961 to the related parties as interest on the 2008 Convertible Debentures (2008 - \$100,000).

During the year ended September 30, 2009, the Company provided for nil (2008 - \$35,000) as amount payable to ANR Solutions Inc., for consulting services provided by them. During the year ended September 30, 2009, the Company paid \$175,000 (2008 - \$51,042) to a company under Mr. Aly Rahemtulla's control as management fees and \$22,500 (2008 - nil) as car allowance for his role as the CEO of the Company.

- (c) During the year ended September 30, 2009, for board compensation, the Company provided for \$22,000 (2008 - \$3,750) for Mr. John Bell, a director and Chairman of the board.

13. Commitments:

- (a) Operating leases:

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

2010	\$ 427,799
2011	113,604
	<hr/>
	\$ 541,403

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

13. Commitments (continued):

(b) Capital leases:

The Company entered into 36-month capital lease agreements with third parties for computer hardware. Interest expense for the year ended September 30, 2009 of \$8,949 (2008 - \$16,506) has been recognized in the 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:

2010	\$ 69,464
Less imputed interest	1,590
<hr/>	
Present value of future minimum lease payments	67,874
Less current portion	67,874
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Long-term portion of lease payments	\$ —

14. 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 research and development credits receivable as loans and receivables; and accounts payable and accrued liabilities and convertible debentures as other financial liabilities.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

14. Financial instruments and capital disclosures (continued):

Fair values of financial assets and liabilities:

The carrying values and fair values of financial assets and liabilities as at September 30, 2009 and 2008 are summarized as follows:

Classification	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Held-for-trading:				
Cash and cash equivalents	\$ 2,497,188	\$ 2,497,188	\$ 618,859	\$ 618,859
Restricted cash	–	–	460,050	460,050
Loans and receivables:				
Accounts receivable	1,837,304	1,837,304	987,087	987,087
Investment tax credits receivable	363,526	363,526	235,270	235,270
Due from related party	–	–	2,382	2,382
Net investment in sale-type leases	892,295	761,444	–	–
Financial liabilities:				
Other financial liabilities:				
Accounts payable and accrued liabilities	3,693,179	3,693,179	2,680,020	2,680,020
Bank indebtedness	–	–	199,295	199,295
Purchase consideration payable	–	–	460,050	460,050
Long-term debt	65,293	66,879	–	–
Convertible debentures	–	–	2,186,978	2,186,978
Capital lease obligations	69,464	69,464	186,170	186,170
Dividends payable on Preferred shares	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.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

14. Financial instruments and capital disclosures (continued):

(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. 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 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.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

14. Financial instruments and capital disclosures (continued):

(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 September 30, 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.

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

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

15. Contributed surplus:

	2009	2008
Balance, beginning of year	\$ 583,245	\$ 243,498
Stock-based compensation expense	79,193	—
Reconstitution of 2006 Convertible Debentures	—	324,341
Expiry of warrants	730,414	15,406
Gain on conversion of debentures equity portion	682,125	—
Fair value of debentures cancelled	146,000	—
Difference book value and fair value of debentures equity portion cancelled	33,657	—
Options issued to holders of Datacom options (note 4(a))	243,003	—
Balance, end of year	\$ 2,497,637	\$ 583,245

16. Loss on extinguishment of convertible debentures:

	2009	2008
Issuance of 6,839,215 Common shares to BEST, immediately prior to business combination with Datacom (a)	\$ 410,353	\$ —
Excess of book value over fair value on conversion of liability amount of convertible debentures (b)	1,377,697	—
Excess of fair value over book value of the liability amount of convertible debentures portion acquired by Datacom prior to the business combination (c)	(38,091)	—
	\$ 1,749,959	\$ —

(a) The value attributable to these shares is considered an additional consideration for the repurchase of the convertible debentures and has been recorded as an expense. The fair value of 6,839,215 Common shares issued to BEST was determined to be \$0.06 per share, which was the share price for Common shares in effect on the effective date.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

16. Loss on extinguishment of convertible debentures (continued):

- (b) In order to calculate the loss (gain) on the liability and equity portion of the convertible debentures (excluding the debenture purchased by Datacom prior to the business combination) on its conversion into Preferred shares, the total fair value of the consideration paid was allocated to the liability and equity components of the convertible debentures redeemed by determining first the fair value of the equity component, using a Black-Scholes model, and the residual value was allocated to the liability component.

	Net book value redeemed	Fair value at the date of redemption	Gain (loss)
Liability component of the convertible debentures	\$ 2,694,636	\$ 4,072,333	\$ (1,377,697)
Equity component of the convertible debentures	732,157	50,032	682,125
	<u>\$ 3,426,793</u>	<u>\$ 4,122,365</u>	<u>\$ (695,572)</u>

The loss on redemption of the liability component of the convertible debentures was recorded in the consolidated financial statements as an expense and the excess of the fair value of the equity component of the convertible debentures was recorded in contributed surplus.

- (c) In order to calculate the loss (gain) on the liability, warrants and equity portion of the convertible debentures purchased by Datacom prior to business combination, the fair value of the warrants and the equity components of the convertible debentures acquired was first determined and the residual value was allocated to the liability component of the convertible debentures.

	Net book value redeemed	Fair value at the date of redemption	Gain (loss)
Liability component of the convertible debentures	\$ 132,956	\$ 94,865	\$ 38,091
Warrants component of the convertible debentures	24,228	48,667	(24,439)
Equity component of the convertible debentures	36,125	2,468	33,657
	<u>\$ 193,309</u>	<u>\$ 146,000</u>	<u>\$ 47,309</u>

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

16. Loss on extinguishment of convertible debentures (continued):

The gain on the cancellation of the liability component of the convertible debentures was recorded in the consolidated financial statements as income; the excess of the carrying value of the warrants component of the convertible debentures was recorded in retained earnings and the excess of the fair value of the equity component of the convertible debentures was recorded in contributed surplus.

17. Income taxes:

As at September 30, 2009, the Company has non-capital losses in Canada of approximately \$20,851,694 that can be used to reduce future taxable income. The potential tax benefits relating to the losses have not been reflected in these financial statements. These losses will expire, if unused, as follows:

2010	\$ 581,341
2013	3,388,000
2014	5,374,789
2015	1,640,543
2025	1,304,000
2026	4,948,955
2027	2,424,366
2028	1,189,700
	<hr/>
	\$ 20,851,694

The Company has investment tax credits of \$81,106 for federal income tax purposes. If unutilized, these credits expire in 2010 to 2028.

In addition to above, the Company's Belgium-based wholly owned subsidiary has accumulated losses of \$7,262,125 (Euro 4,629,686). Under the Belgium tax laws, these losses are carried forward indefinitely.

In addition, the Company has not recorded in its consolidated financial statements the income tax benefits of the scientific research and development pools of \$4,991,656 for federal income tax and \$5,991,944 for Ontario income tax purposes. These pools are available to offset future taxable income and have no expiry.

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

17. Income taxes (continued):

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

	2009	2008
Tax benefit of loss carryforward	\$ 10,374,324	\$ 4,753,000
Other deductible (taxable) temporary differences	566,518	(246,591)
Valuation allowance	(10,940,842)	(4,506,409)
	\$ -	\$ -

The reconciliation of income taxes calculated at the statutory rates to the actual provision is as follows:

	2009	2008
Loss for the year	\$ (3,204,562)	\$ (3,826,290)
Income taxes based on combined federal and provincial income tax rate of 33.33% (2008 - 35.08%)	\$ (1,068,080)	\$ (1,342,263)
Increase resulting from:		
Current year tax losses and research and development expenses not recognized	335,335	1,044,480
Permanent differences	732,745	297,783
	1,068,080	1,342,263
Income taxes	\$ -	\$ -

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

18. Long-term debt:

	2009	2008
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	\$ -
Unsecured amount payable, non-interest bearing in accordance with an agreement expiring in December 2010 (b)	42,045	-
	65,293	-
Less current portion	23,248	-
	\$ 42,045	\$ -

(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 September 30, 2009, as per the agreement, is \$24,643 (2008 - nil).

(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:

	2009	2008
2010	\$ 23,328	\$ -
2011	41,965	-
	\$ 65,293	\$ -

19. Inventories:

	2009	2008
Finished goods	\$ 141,364	\$ 595,586
Raw materials	606,180	374,422
Provision for obsolescence	(39,602)	(59,974)
	\$ 707,942	\$ 910,034

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

19. Inventories (continued):

During the year ended September 30, 2009, the Company recorded product cost of revenue of \$2,301,799 (2008 - \$2,169,874) related to the sale of inventories. There were no reversals of prior year inventory write-downs during the year.

20. Accounts receivable:

	2009	2008
Accounts receivable	\$ 1,905,075	\$ 1,086,610
Allowance for doubtful accounts	(67,771)	(99,523)
	<u>\$ 1,837,304</u>	<u>\$ 987,087</u>

For the year ended September 30, 2009, general and administration expenses include bad debts of \$39,332 (2008 - \$104,634).

21. Net investment in sales-type leases:

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

	2009	2008
Total minimum sales-type lease payments receivable	\$ 981,976	\$ —
Less amount representing interest	89,681	—
	<u>892,295</u>	<u>—</u>
Less current portion of net investment in sales-type leases	423,503	—
	<u>\$ 468,792</u>	<u>\$ —</u>

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

2010	\$ 454,552
2011	352,621
2012	174,803
	<u>\$ 981,976</u>

BSM TECHNOLOGIES INC.

Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

22. Interest on non-convertible debenture:

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

Interest and other expense on the Non-convertible Debenture were composed of the interest calculated on the face value of the debenture and the financing costs such as legal expenses associated with it. Interest recorded was as follows:

	2009	2008
Financial liability component	\$ -	\$ 2,953
Legal and other expenses	-	8,136
	<u>\$ -</u>	<u>\$ 11,089</u>

23. Credit facility:

The Company had a credit facility with a Canadian chartered bank for \$200,000, which allowed for a borrowing limit of up to \$200,000. Security for the borrowings of the Company had been provided to the bank in the form of a cash collateral agreement assigning a GIC in the amount of \$200,000. On December 22, 2008, the Company cashed the GIC and repaid all the balance outstanding on the credit facility with that bank.

24. 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 September 30, 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.

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Notes to Consolidated Financial Statements (continued)

Years ended September 30, 2009 and 2008

25. Comparative figures:

Certain 2008 figures have been reclassified to conform with the financial statement presentation adopted in 2009.

26. Subsequent event:

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

- (a) 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
- (b) To increase the exercise period of stock options to a maximum of 10 years.

The amendments are subject to the approval of the TSX Venture Exchange and, if required, to shareholders' approval.