

# **BSM TECHNOLOGIES INC.**

## **Management Discussion and Analysis**

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

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*This discussion and analysis of financial condition, results of operations and cash-flows should be read in conjunction with the unaudited consolidated financial statements and related notes for the three months ended June 30, 2009, and in conjunction with the audited consolidated financial statements and the management discussion and analysis for the year ended September 30, 2008 as set out in the Company's annual report.*

### **1 Corporate overview:**

BSM Technologies Inc. ("BSM" or the "Company") trades on The TSX Venture Exchange under the symbol GPS. BSM offers location-based services from its Canadian office in Woodbridge, Ontario and its Belgium office in Antwerp.

### **2 Core business, vision and strategy:**

#### **2.1 Core Business**

The Company operates as a wireless Internet applications service provider specializing in Telematics. Telematics involves all elements of the wireless transfer of information and control messages to and from moving machines. This category of product and service is also referred to as "M2M" – or machine to machine (wireless) communication. The Company delivers proven, highly secure and cost-effective, telematics solutions for monitoring commercial, law enforcement, armored vehicle, government, and other high-risk and high-value assets and fleets. The Company's products give fleet managers a wealth of information about their vehicles, including real-time vehicle location, boundary notification, automated inventory, maintenance reminders, security alerts and remote vehicle disabling.

The Company offers cost effective, highly secure end-to-end wireless solution which allows customers to manage mobile assets. Combining the power and economics of multiple proven technologies, BSM offers them as one easy-to-use solution. By integrating the Global Positioning System ("GPS"), Wireless Cellular Networks, Digitized Mapping databases, elements of Artificial Intelligence and connectivity / content offered by the Internet, BSM is able to offer a broad suite of services to a diverse set of customers. BSM's proprietary software and customizable hardware product, offers seamless, wireless communications over radio, cellular or satellite networks and geo-fencing.

The Company's solutions provide fleet managers with real-time, covert sensory knowledge designed to monitor and clearly report on unauthorized entry, trip deviations, and driver behavior. This detailed, evidentiary knowledge materially reduces incidences of theft and hijacking, which delivers fleet efficiencies. In addition, BSM's solutions are designed to allow customers to improve productivity by enabling the effective management of the activities of their mobile workers and assets and allow customers to increase the utility of their mobile resources and decrease costs of operations by

# **BSM TECHNOLOGIES INC.**

## **Management Discussion and Analysis**

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

---

facilitating business processes, such as event confirmation, signature verification, and form processing while their workers are in the field. The Company's services also provide location, reporting, dispatch, messaging, and other management services and are designed to be easy to implement and use. The Company believes its services provide significant value to its customers by decreasing the costs and increasing the efficiency of their operations. The Company's customers can manage their mobile resources in several ways: self-hosting the application on their private networks, or, by logging onto BSM's website -Application Service Provider ("ASP").

The Company offers its services on GPRS, 1xRTT, and satellite (Inmarsat D+ and Iridium).

The Company's services provide electronic dispatch, alarm notification, current and historical data relating to a customer mobile resource in a variety of formats, including activity reports and maps. The Company provides these formats in a standard configuration, but customers can configure certain elements and views themselves to help achieve compliance with their internal business needs.

The Company has built its Telematics solutions around a common hardware platform. The Company's hardware platform in a single form factor but with multiple versions of firmware addresses an array of industry vertical markets from consumer anti theft tracking to a high risk/value cargo (armoured car). The Company believes that by developing and re-using a single robust and configurable underlying service infrastructure investment for multiple markets, it will achieve the leverage that is necessary to offer a wide range of high-value services while minimizing internal cost.

The worldwide demand for wireless vehicle services is increasing; according to June 2006 report by consulting firm Global Industry Analysts, the market for commercial Telematics in U.S alone is to grow annually at almost 20% until 2010. According to December 2005 report from C.J. Driscoll and Associates a consulting firm specializing in GPS and wireless technologies, there are more than 20 million vehicles in the USA, of which only 1.5 to 2 million vehicles have GPS tracking systems installed.

## **2.2 Vision and strategy**

BSM's strategic intent, or vision, is to be a diversified provider of innovative fleet management and security solutions internationally. The Company's strategy for growth is to focus on its core telematic business. To execute this mission the Company, on February 1 2007, acquired SecTrack allowing the Company to expand market presence and distribution channels worldwide

The Company continues to be guided by its four long-standing strategic imperatives that guide the Company's actions, which generate the financial results of the Company. Activities that supported the Company's four strategic imperatives include the following:

### **2.2. a Building integrated solutions that differentiate BSM from its competitors**

# **BSM TECHNOLOGIES INC.**

## **Management Discussion and Analysis**

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

---

BSM conducts research and development activities related to its hardware, firmware and software. The hardware and firmware form part of an embedded system which is equipped in a vehicle and interfaces to server infrastructure. The research and development include schematic capture, PCB design and manufacture, firmware programming, compiling and deployment activities, software programming & infrastructure deployment. By conducting its own research and development activities, BSM has been able to retain complete ownership of its end-to-end solution.

BSM's research and development activities are focused on the following:

- Facilitating expansion of services that offer strategic differentiation and add value to customer businesses.
- Innovating to maintain the lowest entry cost solution without sacrificing quality.
- Maintaining a wireless network neutral architecture.

Onboard Unit Application Strategy: The objectives for the Company's Onboard Unit Application Strategy include:

- Ability to adapt existing features with optimization of performance
- Simplification through over-the-air ("OTA") upgrades/additions of customer features
- Ensuring platforms are consistent with industry standards
- Addressing of needs unique to larger customers and facilitating more rapid entry into new markets.

BSM has invested heavily in new product and application development as well as in infrastructure build-out to support scalability. Addressing the complex and diverse needs of the commercial fleet market, BSM has released many new products and equipment configuration options.

In the ongoing effort to enhance the market offering by the company, effective December 24, 2007, BSM acquired all the outstanding shares of Netistix Technologies Corporation ("Netistix"), an Ottawa based company. In exchange, the Company issued 7,142,857 common shares of the Company, valued at \$1,000,000. The legal expenses related to this acquisition were \$63,202.

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.

### **2.2. b Focussing on key select market segments**

In 2007, BSM started to "productize" its offering around the distinct requirements of specific market segments. BSM's market penetration strategy is to initially focus on selected market

# **BSM TECHNOLOGIES INC.**

## **Management Discussion and Analysis**

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

---

segments. BSM plans on solidifying market leadership positions in these segments based on superior products

### **2.2. c Building international distribution capabilities**

To execute this mission, effective January 31, 2007, BSM acquired all the outstanding shares of Sectrack NV, based in Antwerp, Belgium. Sectrack has an international market focus, distributing satellite telematics products throughout Europe, Asia, Africa, Central and South America. Sectrack generates revenue from the sale of satellite telematics products and Network services fees to its network of international value added resellers ("VARs").

The acquisition of Sectrack underlies BSM's strategy to leverage Sectrack's network of VARs for the international launch of BSM's products and services, while at the same time maintaining and growing the sales of existing product and services of Sectrack. The Company's goal is to provide a diversified suite for the international Telematics market, including hardware, network services (satellite and cellular) and a turnkey end to end solution.

On closing, the Company delivered cash of Euro 1,600,000 (CAD \$ 2,453,600), of which Euro 300,000 (CAD \$ 460,050) was held in escrow by the Belgium based escrow agents (the "Escrowed funds"). The release of the Escrowed funds was subject to Sectrack achieving certain revenue and earning targets ("the contingencies") in the twelve months following the acquisition of Sectrack by BSM.

On February 27, 2009, the arbitrator appointed by Belgian Center for Arbitration and Mediation, in his arbitral award upheld the Company's contention that SecTrack did not achieve the required revenue and earnings targets as specified in the purchase agreement and therefore the escrowed funds along with interest accrued should not to be released to the vendor but should be returned to the Company. In addition, the arbitrator awarded Euro 11,204 towards legal expenses recovery to the Company.

The acquisition was accounted for under the purchase method of accounting. Upon receipt of the arbitrator's decision, the Company adjusted the purchase price and carrying amount of goodwill by the escrowed amount of \$ 501,300 (Euro 300,000).

### **2.2. d Investing in internal capabilities to build a high-performance culture and efficient operations**

BSM's operating efficiency initiatives fall into two broad categories: outsourcing of non-core work; and process improvement and automation.

With respect to outsourcing, currently components for all BSM products such as modems, printed circuit boards, cases and other items are produced or purchased from outside sub-contractors or vendors, with

# **BSM TECHNOLOGIES INC.**

## **Management Discussion and Analysis**

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

---

final assembly, testing and shipping performed by BSM staff. As volumes grow, it is expected that final assembly will be outsourced to outside suppliers.

In the area of process improvement and automation, BSM continues to focus on streamlining functional area processes.

### **3 Capability to deliver results**

BSM operates in a highly competitive environment. BSM has competitively positioned itself with an end-to-end internet-based system that provides a variety of services as opposed to having a single service offering. BSM has built an open platform that permits the addition of other mobility applications and allows for customization which management believes is critical to penetrate various vertical market segments and provide wireless data services beyond tracking. BSM's customers choose BSM's services primarily on the basis of service reputation, solution functionality, ease of use, system performance, geographic coverage of BSM's services.

The Company believes that its solution is well-positioned to continue to compete successfully in its markets due to the following factors:

- **Broad Service Coverage:** BSM offers its services on GPRS, 1xRTT, and satellite (Inmarsat D+ and Iridium). BSM's multi-mode communications platform which integrates both digital cellular and satellite communications enables real-time, high-speed data transmission with ubiquitous coverage. This approach permits the most future proofed, global terrestrial coverage options for vehicles that frequently travel beyond urban boundaries.
- **Scalability:** BSM OnLine™ was designed with growth in mind. As more customers are added, the capacity of BSM OnLine™ is easily expanded through simple expansion of hardware.
- **Accessibility and Reliability:** BSM OnLine™ is a Web-based solution that was designed with bandwidth and ease of access in mind. Web-connectivity is continually monitored for interruption in order to maintain high serviceability. Customers can access BSM OnLine™ services from anywhere through the Internet.
- **Security:** BSM OnLine™ provides its services in a secure environment and is protected physically; by secure data-center facilities and logically; via multi-tiered redundant firewalls, intrusion prevention systems as well as other electronic measures.

### **4 Results from operations**

#### **Noteworthy Highlights for the three months ended June 30, 2009**

- (i) The Company's operating activities generated positive EBITDA for the third consecutive quarter.

# BSM TECHNOLOGIES INC.

## Management Discussion and Analysis

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

---

- (ii) Due to an ongoing commitment to cost controls, operating expenses before interest expense and amortization of intangible assets decreased by \$ 517,188 to \$1,042,605 or 53% of the revenue for the three months ended June 30, 2009 from \$ 1,559,793 or 68% of the revenue for the three months ended June 30, 2008.

### **FINANCIAL RESULTS**

#### *Selected Financial Information*

### **QUARTERLY RESULTS OF OPERATIONS**

The following table sets forth certain unaudited information for each of the eight most recent quarters, the last of which ended June 30, 2009. The annual information has been derived from the Company's audited consolidated financial statements, while quarterly information has been derived from the Company's unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements and include all adjustments necessary for the fair presentation of the information presented. Historically, the Company's operating results have fluctuated on a quarterly basis.

#### **Quarterly results of operations**

QE	Revenue	Gross Profit	Operating expenses <sup>(1)</sup>	Other expenses (income)	Loss for the period	Loss per share basic and diluted
June 30, 2009	\$ 1,960,178	\$ 1,030,445	\$ 1,042,605	\$ 382,380	\$ (394,540)	\$ (0.005)
March 31, 2009	2,769,010	1,368,850	1,223,634	319,406	(174,190)	(0.002)
December 31, 2008	2,593,944	1,306,636	1,163,292	367,018	(223,674)	(0.003)
September 30, 2008	1,819,046	860,341	1,631,540	554,905	(1,326,104)	(0.020)
June 30, 2008	2,287,695	1,086,562	1,559,793	130,003	(603,234)	(0.010)
March 31, 2008	1,643,674	813,144	1,512,074	181,931	(880,861)	(0.010)
December 31, 2007	2,077,408	992,986	1,879,835	129,242	(1,016,091)	(0.010)
September 30, 2007	2,411,723	1,092,340	1,865,210	132,909	(905,779)	(0.010)

(1) Operating expenses including amortization of property, plant and equipment.

### **Segmented Information**

# BSM TECHNOLOGIES INC.

## Management Discussion and Analysis

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

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*Sales by Geographic segment are as follows:*

	Three months ended		Nine months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Canada	\$ 995,002	\$ 962,790	\$ 3,157,868	\$ 2,646,510
United States of America	290,150	269,030	1,015,714	675,659
South America	98,428	150,041	330,125	565,122
Asia	358,097	488,371	1,501,961	966,929
Europe	89,350	173,201	466,397	567,689
Africa	114,183	184,779	802,760	398,336
Australia	14,968	59,483	48,307	188,532
	<u>\$ 1,960,178</u>	<u>\$ 2,287,695</u>	<u>\$ 7,323,132</u>	<u>\$ 6,008,777</u>

*Sales by category are as follows:*

	Three months ended		Nine months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Recurring service revenue	\$ 1,255,649	\$ 1,007,095	\$ 3,789,960	\$ 2,896,013
Non recurring hardware and software revenue	704,529	1,280,600	3,533,172	3,112,764
	<u>\$ 1,960,178</u>	<u>\$ 2,287,695</u>	<u>\$ 7,323,132</u>	<u>\$ 6,008,777</u>

### Assets

	June 30, 2009	September 30, 2008
Canada	\$ 4,422,693	\$ 5,248,848
Belgium	782,313	1,864,084
	<u>\$ 5,205,006</u>	<u>\$ 7,112,932</u>

## RESULTS OF OPERATIONS

### Revenues:

Revenue for the three months ended June 30, 2009 decreased by \$ 327,517 or 14% to \$ 1,960,178 from \$ 2,287,695 for three months ended June 30, 2008. Revenue for nine months ended June 30, 2009 increased by \$ 1,314,355 or 22% to \$ 7,323,132 from \$ 6,008,777 for the nine months ended June 30, 2008.

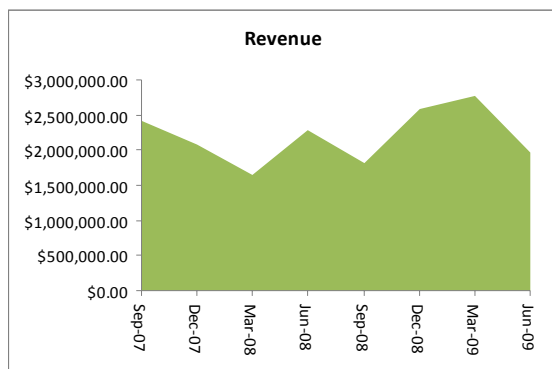
# BSM TECHNOLOGIES INC.

## Management Discussion and Analysis

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

---

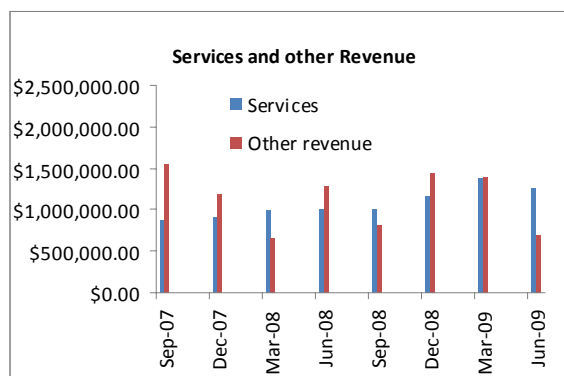


Decrease in revenue for the three months ended June 30, 2009 is attributed to decreased hardware and services revenue. The Company derives its revenue from the sale of its products, software licenses (self-hosted applications), services and resale of third party products and services. Services revenue includes monthly ASP service fees, monthly alarm monitoring fees, and resale of cellular & satellite data. The services portion of the revenues is recurring by nature.

The Company enters into contracts with its customers usually ranging from 12 to 36 months or beyond. Revenues are recognized monthly as services are delivered.

Revenue is rendered on the basis of upfront sales of hardware and software licensing components, and service and maintenance agreements under contract ranging from one to three years or beyond. Revenue from such maintenance contracts will be recognized only as the services are offered, resulting in the deferral of contracted revenues in the future.

Service revenue for the three months ended June 30, 2009 increased by \$ 248,554 or 25% to \$ 1,255,650 from \$ 1,007,096 for the three months ended June 30, 2008. Service revenue for the nine months ended June 30, 2009 increased by \$893,947 or 31% to \$ 3,789,960 from \$ 2,896,013 for the nine months ended June 30, 2008.



The increase in services revenue for the three months ended June 30, 2009 is attributable to the growth in the installed base of subscribers to the Company's services. In addition to subscribers, the Company's service revenue will be affected by a number of factors, including the rate at which service features or add-ons are adopted and pricing associated with the size and term of customer contracts.

# **BSM TECHNOLOGIES INC.**

## **Management Discussion and Analysis**

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

---

Non recurring hardware and software revenue for the three months ended June 30, 2009 decreased by \$576,071 to \$704,528 from \$1,280,599 for the three months ended June 30, 2008. Non recurring hardware and software revenue for the nine months ended June 30, 2008 increased by \$ 420,408 to \$3,533,172 from \$3,112,764 for the nine months ended June 30, 2008.

The global economic uncertainty had an impact on the Company's non-recurring hardware and software sales, as the quantity of hardware sales in North America were lower by 12% and rest of the world lower by 74 % in the three months ended June 2009, as compared to the three months ended June 2008. For the nine months ended June 2008, the quantity of hardware sale in North America was higher by 11% and rest of the world higher by 14 %, as compared to the nine months ended June 30, 2008. The Company believes that the introduction of "all-inclusive" price plan (that allows customers to pay a fixed monthly rate, if they wish to cover the cost of equipment and service for a three-year period) during the course of first quarter, will have a very positive impact on the sales.

The Company's goal going forward is to leverage the success of the Sentinel FM suite of products and services in Canada and increase the sales force in the United States to focus on and capitalize on the forecasted growth opportunities in the USA. Outside of North America, the Company's growth strategy is to leverage Sectrack's network of VARs for the international launch of BSM's products and services, while at the same time maintaining and growing the sales of existing product and services of Sectrack. The Company's goal is to provide a diversified suite for the international Telematics market, including hardware, network services (satellite and cellular) and a turnkey end to end solution.

### **Gross Profit**

The gross profit for the three months ended June 30, 2009 decreased by \$ 56,117 to \$1,030,445 or 52.6% of the revenue from \$1,086,562 or 47.5% of the revenue for the three months ended June 30, 2008. The gross profit for the nine months ended June 30, 2009 increased by \$813,239 to \$ 3,705,931 or 50.6% of the revenue from \$2,892,692 or 48% of the revenue for the nine months ended June 30, 2008.

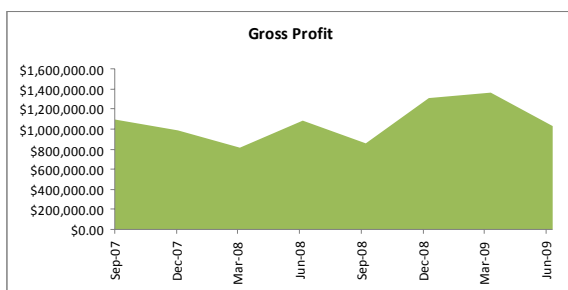
The decrease in quarterly total gross profit was primarily due to decrease in non recurring hardware and software sales.

# BSM TECHNOLOGIES INC.

## Management Discussion and Analysis

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**



Gross profit margin for the three months ended June 30, 2009 was 52.6 %, compared to 47.5% for the three months ended June 30, 2008. The increase in gross margin is due to the increase in the subscriber base and the resulting services revenue increase.

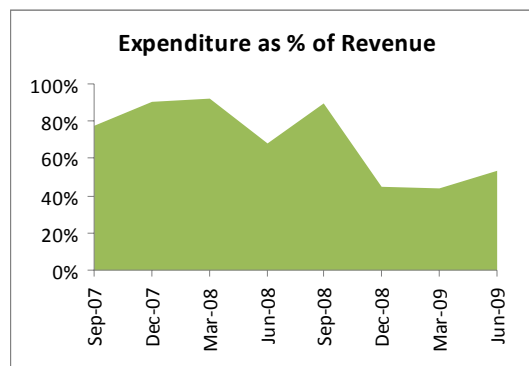
Management expects that over time service revenues will represent a larger percentage of total revenue. Service revenues are higher margin than hardware revenues. Gross profit margin for the Company will also vary depending on the mix of the sales in the period.

### Expenses:

Overall, operating expenses before interest expense and amortization of intangible assets decreased by \$ 517,188 to \$1,042,605 or 53% of the revenue for the three months ended June 30, 2009 from \$1,559,793 or 68% of the revenue for the three months ended June 30, 2008, and for the nine months ended June 30, 2009 decreased by \$ 1,551,784 to \$ 3,429,531 or 47% of the revenue from \$ 4,951,704 or 82% of the revenue for the nine months ended June 30, 2008. The quarter over quarter decrease in operating expenses before interest expense and amortization of intangible assets was due to reduced (i) legal expenses and (ii) overall operating expenses, resulting from a series of cost cutting initiatives undertaken in the earlier quarters to align the Company's cost base to its expected revenue stream.

The following table and graph summarize quarterly expenses and expenses as a percentage of revenue from July 1, 2007 to June 30, 2009.

QE	Expenses	% of Revenue
Sep-07	\$ 1,865,210	77%
Dec-07	1,879,835	90%
Mar-08	1,512,074	92%
Jun-08	1,559,793	68%
Sep-08	1,631,540	90%
Dec-08	1,163,292	45%
Mar-09	1,223,634	44%
Jun-09	1,042,605	53%



# **BSM TECHNOLOGIES INC.**

## **Management Discussion and Analysis**

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

---

Management anticipates the Company's development efforts will result in increased revenues and service delivery capabilities in the future, as the related products and services are delivered to the Company's commercial and consumer markets.

### ***General and Administrative Expenses***

General and administrative Expenses for the three months ended June 30, 2009 decreased by \$189,432 to \$523,813 or 26.7% of revenue from \$713,245 or 31.2% of revenue for the three months ended June 30, 2008. The quarter over quarter decrease is attributed to (i) a reduction of approximately \$ 92,277 in salaries and wages cost resulting from a series of cost cutting initiatives undertaken in the earlier quarters to align the Company's cost base to its expected revenue stream, and (ii) a reduction of \$97,155 in other expenses in this category.

General and administrative Expenses for the nine months ended June 30, 2009 decreased by \$1,068,598 to \$1,557,270 or 21.3% of revenue from \$2,625,868 or 43.7% of revenue for the nine months ended June 30, 2008. The year to-date decrease is attributed to (i) a reduction of approximately \$ 697,908 in legal fees due to reduced legal expenses and discount resulting from settlement of legal bill payable to the law firm regarding litigation against the supplier of Sectrack (ii) a reduction of approximately \$ 183,396 in salaries and wages cost resulting from a series of cost cutting initiatives undertaken, and (iii) a reduction of \$ 187,294 in other expenses in this category. The legal fees in the nine months ended June 30, 2008 were incurred for the litigation against the supplier of Sectrack which was obtained in June 2007 and successfully maintained on its returned hearing in December 2007. The injunction was successfully obtained and was necessary to protect the Company's long-term business interests.

### ***Research and Development Expenses***

Research and Development Expenses decreased by \$63,712 to \$217,152 or 11% of revenue for the three months ended June 30, 2009 from \$ 280,864 or 12% of revenue for the three months ended June 30, 2008. The decrease in research and development expenses was primarily due to reduced headcount.

Research and development expenses consist of employee salaries and expenses related to development personnel and consultants, as well as expenses associated with software and hardware development. The Company expects that the research and development expenses as a percentage of revenue will decrease as overall revenue increases.

Research and Development Expenses for the nine months ended June 30, 2009 decreased by \$ 219,629 to \$652,855 or 9% of revenue from \$ 872,484 or 14.5% of revenue for the nine months ended June 30, 2008.

### ***Sales and Marketing Expenses***

# BSM TECHNOLOGIES INC.

## Management Discussion and Analysis

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

---

Sales and marketing expenses includes the salaries and commissions of sales staff, advertising, promotions, and other costs such as travel. Sales and marketing expenses decreased by \$ 125,684 to \$389,065 or 20% of revenue for the three months ended June 30, 2009 from \$ 514,749 or 22.5% of the revenue for the three months ended June 30, 2008. The quarter over quarter difference is due to (i) increase in wages expenses of \$ 11,248, (ii) decrease of \$101,566 in commissions due to lower dealer sales and overall sales and, (iii) decrease of \$35,366 in travel and other cost in this category.

Marketing expenses for the nine months ended June 30, 2009 decreased by \$ 168,054 to \$1,212,101 or 17% of revenue from \$1,380,155 or 23% of revenue for the nine months ended June 30, 2008.

The Company plans to increase its overall marketing efforts significantly in order to aggressively increase its subscriber base. Despite the expected increase in the marketing expenses, the expected marketing expense as a percentage of total revenue will decrease as the Company increases its overall revenue.

### ***Interest expenses***

Interest expense for the three months ended June 30, 2009 was \$1,926 (three months ended June 30, 2008-\$5,236).

Interest portion of capital lease expense for the three months ended June 30, 2009 was \$1,390 (three months ended June 30, 2008-\$3,707).

### **Interest on convertible debenture:**

Interest on the convertible debenture for the three months ended June 30, 2009, was \$ 288,382 (three months ended June 30, 2008-\$121,060). Increased interest on additional debenture amount (as part of **2008 Convertible Debentures** financing) \$ 61,349 accounted for the changes in the financial liability component of the total convertible debenture interest.

Interest and other expense on the 2008 Debentures was composed of the interest calculated on the face value of the Convertible Debentures, and an notional interest representing the accretion of the carrying value of the Convertible Debenture. Interest recorded was as follows:

# BSM TECHNOLOGIES INC.

## Management Discussion and Analysis

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

---

	Three months ended June		Nine months ended June	
	2009	2008	2009	2008
<b>(i) 2008 Convertible debenture</b>				
Interest expense on face value	\$ 120,750	\$ 1,208	\$ 362,250	\$ 1,208
Notional interest representing accretion.	167,632	1,804	471,857	1,804
	<u>\$ 288,382</u>	<u>\$ 3,012</u>	<u>\$ 834,107</u>	<u>\$ 3,012</u>
<b>(ii) 2006 Convertible debenture</b>				
Interest expense on face value		\$ 58,193		\$ 214,191
Notional interest representing accretion.		59,855		183,525
	<u>\$ -</u>	<u>\$ 118,048</u>	<u>\$ -</u>	<u>\$ 397,716</u>
	<u>\$ 288,382</u>	<u>\$ 121,060</u>	<u>\$ 834,107</u>	<u>\$ 400,728</u>

### **Amortization of property, plant and equipment**

Amortization of capital assets for the three months ended June 30, 2009, was \$39,429, compared with \$ 50,935 for the three months ended June 30, 2008. The Company may have to increase the spending on capital assets acquisition in order to continue to enhance its service offering to existing and future customers.

### **Amortization of intangible assets**

Amortization of intangible assets for the three months ended June 30, 2009, was \$90,696, compared with \$ Nil for the three months ended June 30, 2008. Amortization of intangible assets acquired on the acquisition of Netistix on December 24, 2007 accounted for this quarterly change.

### **SR & ED**

The majority of the scientific research and experimental development ("SR & ED") claim portion available to the Company is not refundable in cash and instead can only offset its tax obligations. The Company in its financial statements only accounts for the refundable portion of the SR & ED claim and does not account for the benefit of the non-refundable portion of the SR & ED claim.

### **Stock compensation expenses**

Stock compensation expenses for the nine months ended June 30, 2009 was \$29,611 (six months ended June 30, 2008-\$Nil). A grant of an aggregate of 5,895,000 options to four of its directors with an exercise price of \$0.10 per Common share, expiring February 24, 2014 accounted for the change.

### **Net Loss**

# **BSM TECHNOLOGIES INC.**

## **Management Discussion and Analysis**

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

---

Net loss for the three months ended June 30, 2009, was \$394,540 or \$0.005 per share on a diluted basis compared with a net loss of \$603,234 or \$0.01 per share on a diluted basis for the three months ended June 30, 2008.

The Company may incur losses in the future, as it continues to develop and expand its revenue base. The Company also anticipates that as the benefits of its technology become more broadly recognized, sales cycles will become shorter and contracted quantities larger. The Company expects that this transition, together with increasing revenues and its relatively fixed operating infrastructure costs, will result in lower operating losses and ultimately future profits. The extent of the improvement will depend in part on how effectively the Company expands its business.

### **5 LIQUIDITY AND CAPITAL RESOURCES:**

The Company used \$331,714 to finance operating activities during the three months ended June 30, 2009, including \$96,784 in operating loss and an increase of \$234,930 in non cash items related to operations. This compares with cash used in the three months ended June 30, 2008 of \$ 77,460 - \$490,640 to finance operating losses offset by a decrease of \$ 413,180 in non cash items related to operations.

Accounts receivable were \$1,210,994 as at June 30, 2009 compared with \$1,269,889 at June 30, 2008. The higher receivables were primarily due to majority of non recurring hardware sales taking place in the last month of the quarter. The Company typically extends industry standard credit terms to customers with larger fleets, reducing accounts receivable turnover and contributing to larger accounts receivable balances. The monthly fluctuations in sales may also cause a large variance in the month end receivable balances. The net investment in sales-type leases including long term amounted to \$225,634 as a result of the implementation of the new "all-inclusive" price plan during the first quarter. The inventory was \$384,884 as at June 30, 2009 compared with \$409,148 as at June 30, 2008. Inventory turnover for the three months ended June 30, 2009 was 17.67 days (three months ended June 30, 2008, -16.1 days) and for the nine months ended June 30, 2009 was 14.35 days (nine months ended June 30, 2008-18.6 days).

At June 30, 2009, the working capital was \$ 177,839 (June 30, 2008- \$ 416,284). Working Capital has been calculated by netting current assets and current liabilities, and excluding deferred revenue which is a non-cash item.

As of June 30, 2009, the Company had outstanding 57,309,524 warrants to acquire common share at a weighted average exercise price of \$0.10 per share.

As at June 30, 2009, a total of 6,175,000 options were outstanding at a weighted average price of \$0.10. These options expire April 2010 and February 2014 and have a weighted average life of 3.95 years.

# BSM TECHNOLOGIES INC.

## Management Discussion and Analysis

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

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Capital expenditures by cash for the three months ended June 30, 2009, were \$12,880 compared with \$10,220 for the three months ended June 30, 2008. The Company anticipates increases in capital expenditures and lease commitments with its expected growth in operations and infrastructure.

The Company believes that its current cash and cash equivalents will be insufficient to meet its anticipated cash needs for ongoing operating expenses, working capital and capital expenditures. If cash generated from operations is insufficient to satisfy its liquidity requirements, the Company may seek to sell additional equity or debt securities or to obtain a larger credit facility. If additional funds are raised through the issuance of debt securities, holders of these securities could have certain rights, preferences and privileges senior to holders of its common stock and the terms of this debt could restrict the Company's operations. The sale of additional equity or convertible debt securities could result in additional dilution to the Company's existing stockholders. The Company cannot be certain that additional financing will be available in amounts or on terms acceptable to it, if at all. If the Company is unable to obtain additional financing, it may be required to reduce the scope of its operations, which could harm its business, financial condition and operating results.

The Company has experienced significant losses from operations during the last several years and has an accumulated deficit of \$13,854,655. The Company's continued existence is dependent upon its ability to achieve profitable operations and to obtain alternative financing. There can be no assurance that the Company will achieve profitable operations, or that financing efforts will be successful.

### ***Related Party transactions:***

- i) The Company had previously identified Nick Cirella, a director and former President & CEO, Applied Innovations Group Inc. and other companies under Mr. Cirella's control as related parties. The related parties are considered to have significant influence over the Company as defined under section 3840 of the CICA Handbook. During the three months ended June 30, 2009, the Company paid \$25,000 to a company under Mr. Cirella's control as consulting fee under a management consulting contract between the Company and Mr. Cirella (three months ended June 30, 2008- \$ Nil). During the three months ended June 30, 2009, the Company paid \$ Nil to a company under Mr. Cirella's control as management fee under a Management contract between the Company and Mr. Cirella for his role as CEO (three months ended June 30, 2008- \$ 54,826).

During the three months ended June 30, 2009, the Company received \$ Nil from a company under Mr. Cirella's control as repayment of loan (three months ended June 30, 2008-\$12,587).

- i) The Company had identified (a) Onbelay Partners Ltd, a company controlled by Mr. John Bell and Mr. Aly Rahemtulla; both directors of the BSM Technologies Inc. (b) Onbelay Capital Inc, a company controlled by Mr. John Bell a director of BSM Technologies Inc. and (c) ANR Solutions

# BSM TECHNOLOGIES INC.

## Management Discussion and Analysis

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

---

Inc, a company controlled by Mr. Aly Rahemtulla, as related parties. On May 9, 2006, the Company proposed to issue up to \$1,500,000 in Convertible Debentures. TSX Venture Exchange's approval was obtained on July 7, 2006. Pursuant to this approval, the Company closed the debenture financing on July 7, 2006 and issued Convertible Debentures in the aggregate amount of \$1,300,000 (the "2006 Convertible Debentures") and 2,260,869 warrants (the "Warrants"). The 2006 Convertible Debentures had a term of two (2) years and were convertible into common shares of BSM at the rate of one common share for each \$0.23 of debt converted. The 2006 Convertible Debentures were secured against the assets and undertaking of the Company and bear interest at the rate of 14% per year. The subscribers received one Warrant for each \$0.575 in principal amount of 2006 Convertible Debentures purchased. Each Warrant was exercisable at \$0.23 to acquire a further common share until July 7, 2008. Onbelay Partners Ltd, Onbelay Capital Inc and ANR Solutions Inc acquired an aggregate of \$500,000 of 2006 Convertible Debentures and 869,565 Warrants.

As part of 2008 Convertible Debentures financing completed on June 30, 2008, Onbelay Partners Ltd, Onbelay Capital Inc and ANR Solutions Inc, acquired an aggregate of \$500,000 of Reconstituted Debentures and 7,142,857 Warrants in replacement for the \$500,000 of 2006 Convertible Debentures and 869,565 Warrants (part of 2006 Convertible Debenture) they held previously.

During the three months ended June 30, 2009, the Company paid \$17,500 to the related parties as interest on the Convertible debenture (three months ended June 30, 2008-\$22,500).

During the three months ended June 30, 2009, the Company paid \$ 43,750 (three months ended June 30, 2008-\$7,291.67) to a company under Mr. Aly Rahemtulla's control as management fee for his role as the CEO of the Company.

During the three months ended June 30, 2009, the Company expensed \$Nil as amount payable to ANR Solutions Inc, for consulting services provided by them (three months ended June 30, 2008-\$25,000).

### COMMITMENTS

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

2009	\$ 77,344
2010	246,634
2011	80,621

# BSM TECHNOLOGIES INC.

## Management Discussion and Analysis

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

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(ii) Capital lease:

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

	2009	\$58,353
	2010	40,287
		<hr/>
		\$98,640
	Less: current portion:	(98,640)
		<hr/>
		\$Nil

### CONVERTIBLE DEBENTURE

On July 7, 2006, the Company issued Convertible Debentures in the aggregate amount of \$1,300,000 (the "2006 Convertible Debentures") and 2,260,869 warrants (the "OS Warrants"). The 2006 Convertible Debentures had a term of two (2) years and were convertible into common shares of BSM at the rate of one common share for each \$0.23 of debt converted. The 2006 Convertible Debentures were secured against the assets and undertaking of the Company and bore interest at the rate of 14% per year. Under the terms of the 2006 Convertible Debentures, interest only was payable monthly. The subscribers received one Warrant for each \$0.575 in principal amount of 2006 Convertible Debentures purchased. Each Warrant was exercisable at \$0.23 to acquire a further common share until July 7, 2008. Pursuant to the terms of the 2006 Convertible Debentures, there were certain covenants of the Company in favour of the Debenture Holders including the right at the option of the debenture holders to prepayment of the 2006 Convertible Debentures in the event that the Company completed an equity financing of at least \$5,000,000 or there was a change of control. A change of control occurs where any Person (other than Nick Cirella or Onbelay Partners Limited) acquires control directly or indirectly of 20% or more of the voting shares of the Company except pursuant to a bona fide arm's length amalgamation, merger or acquisition transaction approved by the Debenture Holders (a "Permitted Change of Control") or where Nick Cirella becomes the direct or indirect beneficial owner of less than 30% of the voting shares of the Company, except in the circumstances of a Permitted Change of Control. The Debenture Holders had pre-emptive rights to participate pro rata in any equity or debt financings and had the right to maintain their current ratio of representation on the board of directors of 2:7. The Company was restricted from issuing shares at less than \$0.23 or at more than a 10% discount between \$0.23 and \$0.50 without the consent of the Debenture Holders. The Company was also obligated to maintain certain financial covenants pursuant to the 2006 Convertible Debentures. Commencing with the quarter ending December 31, 2006, the Company was to have maintained minimum quarterly sales of \$750,000. In addition, the Company was to have maintained minimum quarter ending EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) as follows: September 2006: (\$250,000); December 2006: (\$245,342) (as amended February 28, 2007); March 2007: (\$502,795) (as amended May 25, 2007); and June 2007: \$150,000. As consideration for the May 25, 2007 amendment to the terms of the 2006 Convertible Debentures, the Company agreed to pay the Debenture Holders an additional 0.333% interest per month for the three (3) months ended June 30, 2007 increasing monthly interest from 1.167% to 1.5% for an aggregate additional cost for interest for

# **BSM TECHNOLOGIES INC.**

## **Management Discussion and Analysis**

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

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Q3 of \$13,000. The Company did not meet the June 2007 EBITDA target and was in default of that covenant. As at December 31, 2007, the 2006 Convertible Debentures were in default. The Debenture Holders made demand for payment and agreed to a forbearance of their right to exercise their remedies under the 2006 Convertible Debentures until April 1, 2008 after which date the 2006 Convertible Debentures became immediately repayable, and the Debenture Holders had available to them all the remedies available at law and under the 2006 Convertible Debentures to enforce their right to repayment. From December 31, 2007 the 1.5% per month interest rate continued to apply. The Company paid a 3% interest penalty to the Debenture Holders, representing a payment of approximately \$40,000, as consideration for the Forbearance.

On June 30, 2008 (as to \$2,350,000) and on July 2, 2008 (as to \$300,000), the Company closed a total of \$2,650,000 in new Convertible Debentures (the "2008 Convertible Debentures"). The 2008 Convertible Debentures have a term of two (2) years and are convertible into common shares of the Company at the rate of one common share for each \$0.06 of debt converted. The 2008 Convertible Debentures are secured against the assets and undertaking of the Company (including security over all subsidiaries of the Company) and bear interest at the rate of 14% per year. The 2008 Convertible Debentures have standard terms and conditions that are typical for a financing instrument of this nature and such standard terms are substantially the same as the terms of the 2006 Convertible Debentures except that there are no financial covenants. The subscribers received warrants ("Warrants") to acquire common shares of the Company equal in number to the number of common shares convertible upon exercise of the conversion feature of the 2008 Convertible Debentures. Each Warrant is exercisable at \$0.10 to acquire a further common share for two (2) years from closing. \$500,000 of the funds from the 2008 Convertible Debentures was used to repay \$500,000 of the 2006 Convertible Debentures with the balance used for working capital.

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

The Company had identified (a) Onbelay Partners Ltd, a company controlled by Mr. John Bell and Mr. Aly Rahemtulla; both directors of BSM, (b) Onbelay Capital Inc, a company controlled by Mr. John Bell a director of BSM and (c) ANR Solutions Inc, a company controlled by Mr. Aly Rahemtulla, as related parties. Onbelay Partners Ltd, Onbelay Capital Inc and ANR Solutions Inc. acquired an aggregate of \$500,000 of Reconstituted Debentures and 7,142,857 Warrants in replacement for the \$500,000 of 2006

# **BSM TECHNOLOGIES INC.**

## **Management Discussion and Analysis**

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

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Convertible Debentures and 869,565 Warrants (part of the 2006 Convertible debentures) they held previously.

In determining the amount of the debt and equity components of the 2008 Debentures, the carrying amount of the financial liability is first determined by discounting the stream of future payments of interest at the rate of interest prevailing at the date of issuance for instruments of similar term and risk. The equity component equals the amount determined by deducting from the carrying amount of the compound instrument the amount of the debt component.

The warrants issued with the 2008 Debentures (as to \$2,350,000) and the Reconstituted Debentures have been valued at \$533,410 using a Black Scholes model with the following weighted average assumptions; dividend yield of 0%, volatility of 40.78%, risk free rate of interest of 4.5% and expected life of 2 years.

The Company has determined the fair market value of the liability portion of the Convertible Debenture upon issuance to be \$2,121,253 which amount will be accreted to its face value of \$3,450,000 through interest expense charges computed at 26.92% per annum through to July 2, 2010. The balance of the Convertible Debenture approximating \$1.33 million has been credited to equity and represents the values ascribed to the obligation to issue warrants and the convertible feature of the Convertible Debenture.

In connection with the 2008 Convertible Debentures financing and Reconstituted Debentures (hereinafter collectively called "2008 Debentures"), the Company incurred costs of \$117,359 that was charged to the liability and equity portions.

### **OUTSTANDING SHARE DATA**

The Company's authorized share capital consists of an unlimited number of common shares. As at June 30, 2009, there were 85,907,730 outstanding common shares, including 547,900 common shares remaining in escrow the release of which is subject to performance conditions of the Company attaining certain cash flow levels.

As at June 30, 2009, a total of 6,175,000 options were outstanding at a weighted average price of \$0.10. These options expire April 2010 and February 2014 and have a weighted average life of 3.95 years.

As of June 30, 2009, the Company had outstanding 57,309,524 warrants to acquire common share at a weighted average exercise price of \$0.10 per share.

### **OFF-BALANCE SHEET ARRANGEMENTS**

As at June 30, 2009, the Company does not have any off balance sheet arrangements.

# **BSM TECHNOLOGIES INC.**

## **Management Discussion and Analysis**

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

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### **OUTLOOK:**

The Company continues to focus its attention on new emerging markets that will position the Company in the future. The emerging Telematics market is expected to grow. The strong functional and competitive capabilities of its product line positions the Company as one of the active players in Telematics applications. The management believes that this will provide the necessary springboard to launch follow-on products in corporate security, fleet management and other applications

The Company will continue to explore new markets and examine other acquisition opportunities relating to complementary technologies and business, and focus on streamlining and cost cutting initiatives as required.

### **CONTINGENCIES**

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

### **SUBSEQUENT EVENTS**

On July 2, 2009, the Company announced that it has entered into a binding Letter Agreement, with Datacom outlining the terms and conditions with respect to a proposed business combination of the two companies (the "Proposed Transaction"). On August 21, 2009, the Company announced that it had entered into the definitive business combination agreement (the "Definitive Agreement"), whereby BSM and Datacom have agreed upon the definitive terms and conditions with respect to the Proposed Transaction. The Proposed Transaction is subject to the shareholder approval of both the companies, scheduled for September 23, 2009 and the closing of the Proposed Transaction is scheduled to occur on or about September 25, 2009.

As of the date hereof, the number of common shares in the capital of Datacom (the "Datacom Shares") that are outstanding is 27,951,221. There are 1,068,791 Datacom Shares issuable upon exercise of outstanding stock options of Datacom. The number of common shares in the capital of BSM (the "BSM Common Shares") that are outstanding is 85,907,730 (including 547,900 in escrow subject to BSM's performance). There are 6,175,000 BSM Common Shares issuable upon the exercise of outstanding stock options of BSM (the "BSM Options"), 57,309,522 BSM Common Shares issuable upon the exercise of outstanding common share purchase warrants of BSM (the "BSM Warrants") and 56,309,522 BSM Common Shares are issuable upon the conversion of outstanding convertible debenture of BSM (the "BSM Debentures").

Immediately prior to completion of the Proposed Transaction, subject to regulatory and shareholder approval as required, \$1.75 million of the BSM Debentures and BSM Warrants, out of a total of \$3.45 million in principal value, held by certain holders, will be purchased by some other existing debenture

# **BSM TECHNOLOGIES INC.**

## **Management Discussion and Analysis**

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

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holders and other new investors. Thereafter, BSM will create one series of convertible preferred shares (the "BSM Preferred Shares"), exchange its outstanding BSM Debentures into the BSM Preferred Shares and exchange BSM Warrants into BSM Common Shares (the "BSM Pre Merger Reorganization").

As a result of the proposed BSM Pre Merger Reorganization, and prior to the Proposed Transaction, the share capital of BSM will be 108,928,691 BSM Common Shares and 65,755,556 BSM Preferred Shares, and there will be 6,175,000 BSM Options outstanding.

The Proposed Transaction will be in the form of an amalgamation of Datacom with a wholly-owned subsidiary of BSM. Each Datacom Share will then be exchanged for approximately 4.2421 BSM Common Shares such that, upon completion of the Proposed Transaction, the former holders of BSM Common Shares, BSM Preferred Shares and BSM options will own 59.5% (180,859,247 out of 303,965,120) of all BSM securities outstanding, on a fully diluted basis, and former holders of Datacom Shares and Datacom options will own 40.5% (123,105,873 out of 303,965,120) of all BSM securities outstanding, on a fully diluted basis. BSM will continue to be listed on the TSX Venture Exchange.

All options to purchase BSM Common Shares that are outstanding at the time of the closing of the Proposed Transaction will remain outstanding in accordance with their terms. Each option to purchase Datacom Shares will be replaced with approximately 4.2421 options to purchase BSM Common Shares and the exercise price for such option will be the original exercise price divided by approximately 4.2421.

### **CRITICAL ACCOUNTING POLICIES & ESTIMATES**

The Company's consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The preparation of the Company's consolidated financial statements is based on the selection and application of significant accounting policies, some of which require management to make significant estimates that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosure of contingent assets and liabilities. On an ongoing basis, the Company evaluates its estimates, including those related to revenue, bad debts, investment tax credits, intangible assets, goodwill and income taxes. The Company bases its estimates on historical experience as well as on various other assumptions that are believed to be reasonable under the circumstances at the time. Under different assumptions or conditions, the actual results would differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are beyond the Company's control.

The Company believes that the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements

# **BSM TECHNOLOGIES INC.**

## **Management Discussion and Analysis**

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

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### ***Revenue recognition***

The Company's revenue is derived from product sales, support contracts and services. The Company recognizes revenue in accordance with EIC 141, "Revenue Recognition", and EIC 142, "Revenue Arrangements with Multiple Deliverables".

The Company derives non-recurring revenue from the sale of vehicle tracking hardware and software as well as professional services associated with installation and customizing its product. Recurring, subscription revenue is derived from location-based and telematics hardware and software.

Revenue from hardware and software sales is recognized when persuasive evidence of an arrangement exists, the fee is fixed and determinable, the hardware and software is shipped and when management has determined that the revenue is 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.

Recurring 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 upfront service contract payments. These subscription service fees are deferred and revenue is recognized over the term of the contract.

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 income recognition is composed of net minimum lease payments and unearned finance income.

When more than one product or service is provided to a customer under one arrangement the Company allocates revenue to each element of the arrangement based on the relative value of the 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 product and services when sold separately.

### ***Investment tax credits***

Investment tax credits arising from qualifying scientific research and experimental development tax credits are recorded as a reduction of operating expenses or capital assets when there is reasonable assurance that the credits will be available to be utilized.

# **BSM TECHNOLOGIES INC.**

## **Management Discussion and Analysis**

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

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### ***Goodwill***

The excess of the purchase price over the fair value of the net identifiable assets is recorded as goodwill. Effective October 1, 2002, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants relating to accounting for goodwill, prospectively. Under the new standard, goodwill and other intangible assets with indefinite lives are not amortized, but instead are evaluated annually for impairment. Accordingly, there is no amortization of goodwill included in these financial statements. Management believes that the unamortized cost will be recovered through future profitable operations.

The guidance requires that an impairment test date be selected where a two-step process will be performed on an annual basis. The Company has chosen September 30 to be its annual impairment testing date. On September 30, 2008, the Company performed the impairment test and determined that there was no impairment of the recorded goodwill.

### **CHANGE IN ACCOUNTING POLICIES**

(i) Inventory:

Effective October 1, 2008 the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 3031, Inventory. The adoption of this new inventory standard requires changes for accounting of inventory including the requirement to allocate overhead costs based on normal production levels and changes to the definition of net realizable value. The new inventory standard clarifies the definition of 'cost' to include all costs of purchase, costs of conversion and other costs incurred to bringing the inventories to their present location and condition. As a result, companies are required to systematically allocate fixed and variable production overheads that are incurred in converting materials into finished goods. The allocation of fixed production overheads is based on normal production capacity of the production facilities. In addition, the standard requires companies to assess the recoverability of inventory costs in comparison to net realizable value. Declines in replacement cost below carrying values for raw materials inventories do not require write downs if the finished goods in which they will be incorporated are expected to be sold at or above cost. There was no impact of this change to the financial statements of the Company. The adoption of the new standard did not have a material impact to the Company's financial statements.

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

Effective October 1, 2008, the Company adopted the Section 3064 "Goodwill and Intangible Assets". The new section states that upon their initial identification, intangible assets are to be recognized as assets only if they meet the definition of an intangible asset and the recognition criteria. As for subsequent measurement of intangible assets, goodwill and

# BSM TECHNOLOGIES INC.

## Management Discussion and Analysis

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

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disclosure, Section 3064 carries forward the requirements of the old Section 3062 "Goodwill and Other Intangible Assets". The adoption of these guidelines did not have any material effect on the Company's results, financial position or cash flows.

(a) *New pronouncements*

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

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed that the changeover to International Financial Reporting Standards ("IFRS") from Canadian Generally Accepted Accounting Principles ("GAAP") will be required for both interim and annual financial statements for all publicly traded companies, effective for fiscal years beginning on or after January 1, 2011. The AcSB stated in their exposure draft that early adoption is permitted. 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

(ii) Business combinations.

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

(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

# **BSM TECHNOLOGIES INC.**

## **Management Discussion and Analysis**

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

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preparation of consolidated financial statements subsequent to a business combination. This standard is equivalent to the International Financial Reporting Standards on consolidated and separate financial statements. This standard is effective for 2011. Earlier adoption is permitted. Management is currently evaluating the impact of adopting this standard on the Company's consolidated financial statements.

(iv) Consolidated financial statements

In January 2009, the CICA issued Handbook Section 1601, "Consolidated financial statements," which replaces the existing standards. This section establishes the standards for preparing consolidated financial statements and is effective for 2011. Earlier adoption is permitted. Management is currently evaluating the impact of adopting this standard on the Company's consolidated financial statements.

(v) Credit Risk and Fair Value of Financial Assets and Liabilities (EIC 173)

In January 2009, the CICA issued Emerging Issues Committee ("EIC") Abstract 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.

### **NON-GAAP MEASURES**

EBITDA is not a recognized measure of financial performance under GAAP. The Company calculates EBITDA as the operating profit before interest, taxes, depreciation and amortization of intangible assets. The Company's method of calculating EBITDA may differ from other companies and accordingly, may not be comparable to measures used by other companies.

### **RISKS AND UNCERTAINTIES THAT COULD AFFECT FUTURE RESULTS:**

#### **Risk Factors**

In addition to the other information contained in this MD & A, the following factors should be carefully considered in evaluating our business and prospects.

The risks and uncertainties described below are intended to be ones that are specific to us or our industry and that we deem material, but they are not the only ones that we face.

#### **Potential Acquisitions and Investments**

# **BSM TECHNOLOGIES INC.**

## **Management Discussion and Analysis**

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

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The Company expects to continue to acquire or invest in businesses, products and technologies that expand or complement the Company's current business or products. Such acquisitions or investments may involve significant commitments of financial or other resources of the Company. There can be no assurance that any such acquisitions or investments will generate revenue, income or other returns for the Company, or that financial or other resources committed to such activities will not be lost. Such activities could also place additional strains on the Company's administrative and operational resources and its ability to manage growth.

### **Volatility in stock price**

The market price of the Company's Common Shares can be highly volatile and subject to fluctuations. These fluctuations in market price may continue due to quarterly variations in operating results, announcements of technological innovations or new products by the Company or its competitors, changes in financial estimates by securities analysts or other events or factors. In addition, the financial markets have experienced significant price fluctuations that have particularly affected the market price of equity securities of many high technology companies, and that have been unrelated to the operating performance of such companies or have resulted from the failure of the operating results of such companies to meet market expectations in a particular quarter. These fluctuations may be exaggerated if the trading volume of our common stock is low.

### **Foreign currency risk**

The Company transacts business in multiple currencies, the most significant of which are the Canadian dollar, the U.S. dollar, and the Euro. As a result, the Company has foreign currency exposure with respect to items denominated in foreign currencies. The types of foreign exchange risk can be categorized as follows:

#### Translation exposure

All of the Company's foreign operations are considered self-sustaining. Accordingly, assets and liabilities are translated into Canadian dollars using the exchange rates in effect at the balance sheet dates. Unrealized translation gains and losses are deferred and included in accumulated other comprehensive income. Foreign currency based earnings are translated into Canadian dollars each period. As a result, fluctuations in the value of the Canadian dollar relative to these other currencies will impact reported net income. Foreign currency risks arising from the translation of assets and liabilities of foreign operations into the Company's functional currency are generally not hedged; however, the Company may decide to hedge this risk under certain circumstances.

#### Transaction exposure

The Company, through its subsidiaries, generates significant revenues in major foreign currencies, primarily U.S. dollars, which exceed the natural hedge provided by purchases of goods and services in those currencies. Currently company does not enter into foreign exchange contracts to manage this exposure, but may do so in the future.

### **Environment and market risk**

# **BSM TECHNOLOGIES INC.**

## **Management Discussion and Analysis**

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

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Sales are subject to some conditions outside the Company's control such as economic cycles, the growth of complimentary businesses such as corporate networks and software applications or events in specific industry verticals. The Company is a pioneer in the Telematics security and surveillance market, which is an evolving business. The liquidity and financial position of the Company is a function of the decisions it will have to make to successfully compete in these markets.

### **Stress in the global financial system may adversely affect our finances and operations in ways that may be hard to predict or to defend against**

Recent events have demonstrated that businesses and industries throughout the world are very tightly connected to each other. Thus, events seemingly unrelated to us, or to our industry, may adversely affect our finances or operations in ways that are hard to predict or defend against. For example, credit contraction in financial markets may hurt our ability to access credit when it is needed or rapid changes in foreign exchange rates may adversely affect our financial results. Finally, a reduction in credit, combined with reduced economic activity, may adversely affect businesses and industries that collectively constitute a significant portion of our customer base. As a result, these customers may need to reduce their purchases of our products, or we may experience greater difficulty in receiving payment for the products that these customers purchase from us. Any of these events, or any other events caused by turmoil in world financial markets, may have a material adverse effect on our business, operating results, and financial condition.

### **FORWARD LOOKING STATEMENTS**

Certain statements in this Management Discussion and Analysis (“**MD&A**”) may constitute “forward-looking” statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company and its subsidiaries, or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this report, the words “estimate”, “believe”, “anticipate”, “intend”, “expect”, “plan”, “may”, “should”, “will”, the negative thereof or other variations thereon or comparable terminology are intended to identify forward-looking statements. Such forward-looking statements reflect the current expectations of the management of the Company with respect to future events based on currently available information and are subject to risks and uncertainties that could cause actual results, performance or achievements to differ materially from those expressed or implied by those forward-looking statements, such as significant changes in market conditions, the inability of the Company to close sales and the inability of the Company to attract sufficient financing and including the risk factors summarized above under the heading “Risk Factors” and in documents filed with the securities regulatory authorities. New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those expressed or implied in such forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this MD&A are based upon what management believes to be

# **BSM TECHNOLOGIES INC.**

## **Management Discussion and Analysis**

Third quarter ended June 30, 2009

**This document is dated August 28, 2009**

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reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. The forward-looking statements contained in this MD&A speak only as of the date hereof. The Company does not undertake or assume any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, except as required by law.

### **MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying financial statements, MD & A and all the information contained in this quarterly report are the responsibility of management and have been reviewed by the audit committee and approved by the Board of Directors. The consolidated financial statements and MD & A have not been reviewed by the Company's auditors. Financial and operating data elsewhere in the annual report are consistent with the information contained in the financial statements.

Management has prepared these financial statements and all other information in accordance with accounting principles generally accepted in Canada. Some amounts included in the financial statements are based on management's best estimates and have been derived with careful judgment. In fulfilling its responsibilities, management has developed and maintains a system of internal controls. These controls ensure that transactions are authorized, assets are safeguarded from loss or unauthorized use, and financial records are reliable for the purpose of preparing financial statements. The Board of Directors carries out its responsibilities for the financial statements through the Audit Committee, which consists of members of non-managing directors.

### **FURTHER INFORMATION**

Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com),

### **CERTIFICATION**

We have complied with the multilateral instrument 52-109