

## **BSM TECHNOLOGIES INC.**

Management's Discussion and Analysis

Year ended September 30, 2010 and 2009

**This document is dated January 27, 2011**

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*This management discussion and analysis ("MD&A") of operating results and financial position of the company should be read in conjunction with our year ended September audited consolidated financial statements for the year ended September 30, 2010 and the related notes herein, which are prepared in accordance with Canadian generally accepted accounting principles. Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).*

*The following MD&A contains forward-looking information and statements. Refer to the end of the MD&A for the disclaimer on forward-looking information and statements.*

### **1. OVERVIEW & CORPORATE HIGHLIGHTS**

#### **a) 2010 Highlights**

The Company recorded earnings before interest, taxes, amortization and other non-cash charges ("EBITDA") of \$305,503 for the fourth quarter, representing the second quarter in a row of positive EBITDA results.

Highlights for the year ended September 30, 2010 as compared to the year ended September 30, 2009:

- \$4.4 million or 48% increase in revenues to \$13.5 million
- \$3.5 million or 73% increase in gross profit to \$8.2 million
- Gross profit margin increased 9 percentage points over 2009, increasing from 52% of revenue to 61%
- Recurring services revenue accounts for 61% of total revenues, up from 55% for 2009
- Completion of the LoadTrak fleet tracking and iTrax fixed asset monitoring business agreements.

#### **b) Overview**

BSM Technologies Inc. ("BSM" or the "Company") trades on The TSX Venture Exchange under the symbol GPS. Through the deployment of cost-effective, highly secure, end-to-end wireless solutions, BSM enables companies to improve customer service, reduce costs, improve efficiency, enhance security and maintain compliance with safety, workplace and environmental regulations. These solutions are targeted primarily at enterprise assets and include real-time, web based fleet management, fleet diagnostics, fixed asset monitoring and automated vehicle security solutions. BSM's corporate headquarters are in Woodbridge, Ontario and it maintains offices in Laval, Quebec.

During fiscal 2010, BSM successfully completed two agreements:

- (i) LoadTrak: This includes all of the fleet tracking assets of SaskTel. This agreement will allow BSM to expand its distribution network in western Canada, increase its customer base and associated

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recurring revenue, and will augment its rich portfolio of technology. The revenue for this arrangement are expected to start in the second quarter of Fiscal 2011; and

- (ii) I-Trax: This includes the entire fixed asset monitoring business of Emerson Process Management ("Emerson"). BSM will add in excess of 5,000 new subscribers in eight countries globally. I-Trax provides web-based fixed asset management services – primarily focused on gas storage tanks. The Fiscal 2010 results include 4 months of i-Trax revenues.

## **2. CORE BUSINESS, VISION AND STRATEGY**

### **a) 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 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, armoured 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.

Specifically, BSM Technologies' proprietary software and customizable hardware products enable its customers to:

- Capture real-time covert knowledge to monitor and clearly report on unauthorized entry, trip deviation and driver behaviour. This detailed knowledge reduces incidences of theft and delivers fleet efficiencies.
- Improve productivity by enabling the effective management of their mobile workers, increasing the utility of their mobile resources and decreasing costs of operations by facilitating business processes such as event confirmation, signature verification and form processing while their workers are in the field.
- Monitor the condition of fixed assets, such as geographically diverse gas storage tanks, through remote pressure and temperature sensors. By providing electronic alerts when tanks reach low levels, outages are reduced and replenishment is planned based on operational need rather than running distribution schedules with manual on-site inspection.

The Company has built its telematics solutions around a common hardware platform that is adapted to serve multiple industry verticals and is "network-neutral" so it can be deployed over cellular, Wi-Fi or satellite networks. BSM believes that by developing and re-using a single robust and configurable underlying service infrastructure investment, it will achieve the leverage necessary to offer a wide range of high-value services while minimizing internal cost. Its product and service portfolio is marketed through its subsidiary, BSM Wireless, and serves the following categories:

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**Fleet Management:** BSM's real-time fleet management and mobile workforce solutions are its Sentinel FM, Mobicom and Fleetpulse platforms. The hardware component of these offerings connect to a vehicle through an industry-standard data bus or directly through the engine control unit, GPS receivers and auxiliary equipment to gather critical vehicle parameters, logistical data and vehicle location information in real-time. This includes trip information, fleet violations such as speeding, harsh or extreme acceleration and braking, and location and time spent in designated geographical areas.

The Company's services provide electronic dispatch, alarm notification, and both current and historical data relating to mobile and fixed assets in a variety of formats, including activity reports and maps. These formats are delivered in a standard configuration, which customers can customize to meet specific business needs.

**Fixed Asset Monitoring:** Through the deployment of remote temperature and pressure sensors, BSM's iTraX division enables the monitoring of geographically diverse gas storage tanks. The iTraX interface provides electronic alerts that notify logistics managers when a specific tank is reaching low levels. This enables the planning of bulk deliveries for replenishment based on operational need and eliminating of distribution schedules and manual inventory management.

**Satellite Messaging Solutions:** Through its subsidiary, SecTrack, BSM provides hardware, communication links, and airtime for real-time tracking and management of vehicles, vessels and stationary facilities around the globe using Inmarsat D+ satellite communications. This offering is marketed through a network of 60 value-added resellers in 40 countries. Typically, these resellers are local companies who have built monitoring and tracking services to serve many maritime and land-based sectors, including nuclear transport monitoring, mining, security tracking of trucks, trailers and other vehicles and tracking of airplanes and rescue helicopters.

BSM receives revenue from the sales of its hardware and software licences and recurring revenue from monthly Application Service Provider ("ASP") fees, monthly alarm monitoring fees and resale of cellular and satellite data; see the detailed information in Section 4 (d).

### **b) Strategy**

BSM Technologies positions itself as the key link between its customers' assets, fleets and the systems they use to run their businesses. BSM's development efforts are focussed on the ease of integration of its technologies with remote fixed asset, in-vehicle and application systems to generate substantial Return on Investment to its customers. A further competitive advantage is the significant level of data security that is embedded in its systems such that it can be deployed in high-risk, mission critical applications.

The Company continues to be guided by the following four long-standing strategic imperatives.

#### **(i) Building integrated solutions that differentiate BSM from its competitors**

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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 mounted on a remote asset or installed in a vehicle and communicates with the server infrastructure. The research and development activities include schematic capture, PCB design and manufacture, firmware programming, compiling and deployment activities, software development and 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.

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.

### **(ii) Focussing on sales channels**

The Company's products address the rapidly growing market for wireless fleet management and fleet diagnostics, tools used by commercial fleet operators. The Company sells its fleet management and fleet diagnostic products through a direct sales force and through partnership channels. The Company will concentrate on delivering appropriate technologies and providing the necessary support to drive a successful channel sales strategy.

### **(iii) Improving operational efficiencies**

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 the 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 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, increasing standardization and reducing custom processes.

### **(iv) Building international distribution capabilities**

The Company's wholly owned subsidiary is a wholesaler of Inmarsat technology, as well as related services and support. SecTrack provides its global customers with one-stop shopping for hardware and network services. The Company has an established and broad dealer and partner network, with more than 60 value added resellers in 40 countries around the globe. With a commitment to

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continue to offer new products and services to its customers, SecTrack is positioned to move forward as a global distribution channel for the Company's full product portfolio.

### **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 and remote monitoring 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's systems are designed with growth in mind. As more customers are added, the capacity of our solutions could be expanded through expansion of hardware.
- **Accessibility and Reliability:** Our solutions are Web-based and 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 our services from anywhere through the Internet.
- **Security:** BSM provides its services in a secure environment and is protected physically; by secure data-center facilities and logically; via firewalls, intrusion prevention systems as well as other electronic measures.

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### **4. RESULTS FROM OPERATIONS**

#### **(a) 2010 Highlights**

##### ***Fourth Quarter***

The Company recorded earnings before interest, taxes, amortization and other non-cash charges ("EBITDA") of \$305,503 for the fourth quarter, representing the second quarter in a row of positive EBITDA results.

The loss for the quarter of \$1.9 million is due primarily to the following adjustments made in the fourth quarter:

- A \$1.9 million write-off of goodwill related to the SecTrack acquisition;
- An increase in the amortization of intangible assets of \$179,200 due to new intangibles arising from the Datacom purchase. .

##### ***Full Year***

Highlights for the year ended September 30, 2010 as compared to the year ended September 30, 2009:

- \$4.4 million or 48% increase in revenues to \$13.5 million
- \$3.5 million or 73% increase in gross profit to \$8.2 million
- Gross profit margin increased 9 percentage points over 2009, increasing from 52% of revenue to 61%
- Recurring services revenue accounts for 61% of total revenues, up from 55% for 2009
- Completion of the LoadTrak fleet tracking and iTrax fixed asset monitoring business agreements.

#### **(b) 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 September 30, 2010. 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.

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QE	Revenue	Gross profit	Operating expenses <sup>(1)</sup>	Income (loss) before other expenses (income)	Other expenses (income) <sup>(2)</sup>	Income (loss) for period	Income (loss)/share - basic & diluted
Q4 2010 <sup>(4,6)</sup>	\$3,282,461	\$1,915,081	\$1,648,903	\$266,178	\$2,124,990	(\$1,858,811)	\$ (0.008)
Q3 2010 <sup>(4)</sup>	3,420,449	2,148,050	2,024,944	123,106	100,660	22,446	0.000
Q2 2010 <sup>(4)</sup>	3,298,645	2,087,495	3,054,369	(966,874)	104,202	(1,071,076)	(0.005)
Q1 2009 <sup>(4)</sup>	3,505,130	2,072,243	2,205,534	(133,291)	102,763	(236,054)	(0.001)
Q4 2009 <sup>(3,5)</sup>	1,805,161	1,034,090	1,316,672	(282,582)	2,129,576	(2,412,158)	(0.026)
Q3 2009	1,960,178	1,030,445	1,042,605	(12,160)	382,380	(394,540)	(0.005)
Q2 2009	2,769,010	1,368,850	1,223,634	145,216	319,406	(174,190)	(0.002)
Q1 2009	2,593,944	1,306,636	1,163,292	143,344	367,018	(223,674)	(0.003)

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

(2) Includes non cash notional charges such as debenture interest, notional charges on preferred shares, and amortization of intangible assets

(3) Includes results of Datacom from September 25, 2009 to September 30, 2009.

(4) Includes results of Datacom for the full quarter.

(5) Loss for period includes \$1,749,959 related to loss on extinguishment of convertible debentures.

(6) Loss for period includes \$1,855,969 related to the write-off of the goodwill of the SecTrack acquisition.

Historically, the Company's operating results have fluctuated on a quarterly basis. Due to the complexity of some of the products and services, the sales cycle can vary significantly, ranging from a few weeks to several months. Customer buying patterns and year-ends will also impact the seasonality of the sales.

### (c) Annual results of operations

The following table sets forth certain information regarding sales, income from operations, and other information for the periods presented, and should be read in conjunction with the audited consolidated financial statements for the year ended September 30, 2010 and related notes.

	Year ended September 30	
	2010	2009
<b>Statement of Operations Data</b>		
Revenue	\$ 13,506,685 100%	\$ 9,128,293 100%
Cost of revenue	5,283,816 39%	4,388,272 48%
Gross profit	8,222,869 61%	4,740,021 52%
Expenses	8,779,971 65%	4,600,619 50%
Net income (loss) before other expenses	(557,102) -4%	139,402 2%
Other expenses (i)	2,586,393 19%	3,343,964 37%
Income (loss) for the period	(3,143,495) -23%	(3,204,562) -35%
Earnings (loss) per share - basic and diluted	(\$0.01)	(\$0.04)

(i) 2010 Other expenses includes \$1,855,969 related to the write-off of the SecTrack goodwill; 2009 Other expenses includes \$1,749,959 related to the loss on the extinguishment of the convertible debentures.

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	As at September 30		
	2010	2009	2008
<b>Balance Sheet Data</b>			
Cash and cash equivalents	\$ 917,438	\$ 2,497,188	\$ 618,859
Working capital	1,209,370	2,118,583	(146,592)
Total assets	7,716,306	11,269,732	7,112,932
Long term liabilities	10,660	42,045	2,256,442
Total liabilities	3,842,427	4,276,322	5,767,501
Shareholders' equity	3,873,879	6,993,410	1,345,431

### (d) Segmented information

- Revenue by geographic segment, based upon customer location, is as follows:

	2010		2009	
Canada	\$ 9,737,415	72%	\$ 4,234,618	46%
United States of America	1,746,862	13%	1,259,688	14%
Mexico	96,866	1%	-	0%
South America	431,208	3%	403,891	4%
Asia	653,645	5%	1,656,720	18%
Europe	330,757	2%	573,422	6%
Africa	86,603	1%	937,647	10%
Australia	423,329	3%	62,307	1%
	\$ 13,506,685	100%	\$ 9,128,293	100%

Revenues from Canada account for 72% of the Company's total revenues for the year ended September 30, 2010 as compared to 46% for the same period in 2009. The increase of revenue in Canada is primarily due to the acquisition of Datacom and a decrease in international revenues due to a decrease in SecTrack revenues.

The \$1,003,075 or 60.5% decrease in revenue in Asia for the year ended September 30, 2010 is due primarily to a large roll-out of hardware by a customer during 2009. The other decreases in revenue outside of North America are due primarily to the general effects of a global economic downturn.

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- Revenue by product category is as follows:

	2010		2009	
Recurring service revenue	\$ 8,180,918	61%	\$ 5,065,473	55%
Non recurring hardware and software revenue	5,325,767	39%	4,062,820	45%
	\$ 13,506,685	100%	\$ 9,128,293	100%

Recurring service revenues increased by \$3,115,445 or 61.5% for the year ended September 30, 2010 over 2009, primarily due to:

- a growing subscription base in Canada due primarily to the acquisition of Datacom of \$3,638,597, which includes \$473,360 related to i-Trax
- a net increase in Sentinel subscription base of \$254,163
- offset by a decrease in service revenues in SecTrack of \$777,315.

Hardware and software revenues increased by \$1,262,947 or 31 % for the year ended September 30, 2010 over 2009 due primarily to:

- an increase in hardware sales in Canada driven by the Datacom acquisition for \$1,830,225 and an increase in Sentinel hardware sales of \$379,122 due to volume increases
- international consulting sales of \$182,693
- offset by a \$1,129,093 decrease in hardware sales in the SecTrack business, primarily in Asia and Africa.

Recurring service revenues accounts for 61% of the total revenues for the year ended September 30, 2010 as compared to 55% for the same period in 2009 as a result of higher increases in recurring service revenue sales than the increases in non-recurring hardware and software revenues.

- Assets

Assets	September 30, 2010		September 30, 2009	
Canada	\$ 7,283,412	94%	\$ 10,700,277	95%
Belgium	432,894	6%	569,455	5%
	\$ 7,716,306	100%	\$ 11,269,732	100%

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The majority of the assets reside in Canada. Assets have decreased over prior year due primarily to:

- (i) Approximately \$1.9 million write-off of the goodwill attributed to SecTrack;
- (ii) Amortization of intangible assets of approximately \$0.6 million;
- (iii) Decrease in cash of approximately \$1.6 million.

### (e) Results of operations

The acquisition of Datacom in September 2009 has significantly impacted all of the results of operations in the comparison of results of operations for the year ended September 30, 2010 over the year ended September 30, 2009.

BSM acquired the iTrax fixed asset monitoring business effective July 1, 2010. The agreement allocates the June, 2010 related iTrax revenues to BSM and, as such, the results of operations reflect four months of iTrax related revenues.

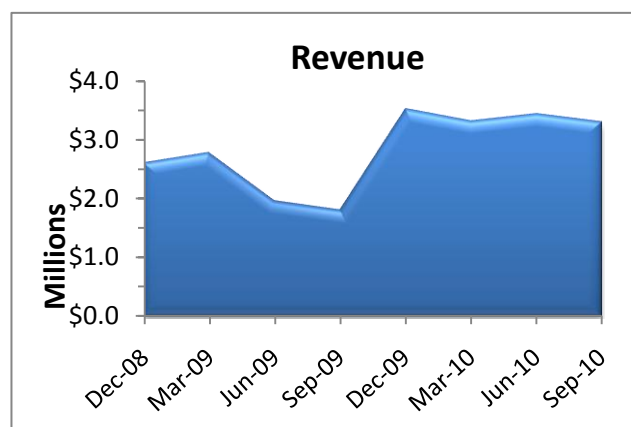
Overall, for the year ended September 30, 2010, the Company's North American existing operations have experienced sales growth, while the operations outside of North America have experienced a decline in sales over the same period in 2009. Management's strategy in North America is to continue to actively increase sales of its core product lines and concentrate on continuing to improve the gross margins by actively increasing the subscriber base for the recurring service revenues. Management's strategy outside of North America is aimed at an aggressive effort to significantly build up the business via volume and improve margins, by:

- (i) offering additional services to both existing and new customers, and;
- (ii) increasing marketing efforts to grow the subscriber base, and;
- (iii) increasing margins by renegotiating vendor contracts.

Management periodically assesses the carrying value of goodwill of the Company. On September 30, 2010, management performed the impairment test and determined that there was an impairment of the recorded goodwill, and the SecTrack goodwill of approximately \$1.9 million was written down to zero. The impairment was determined by considering the Company's share value and market comparables.

#### Revenues

Revenue for the year ended September 30, 2010 increased by \$4,378,392 or 48% to \$13,506,685 from \$9,128,293 for year ended September 30, 2009, due to:



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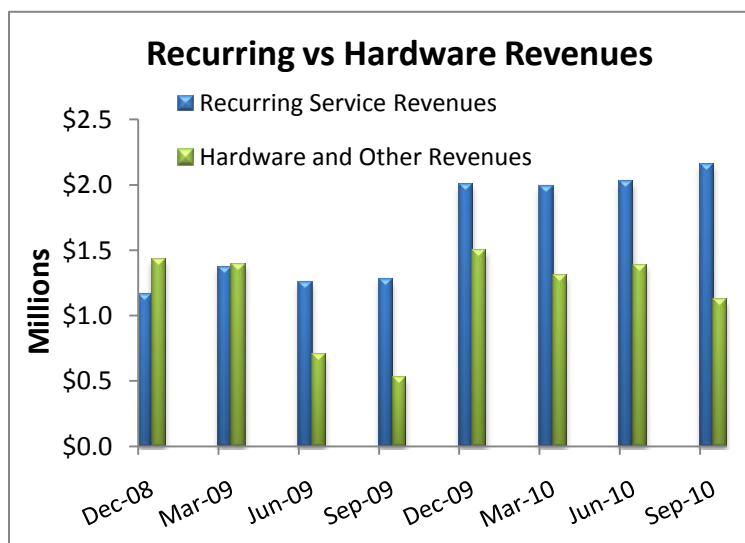
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- (i) \$4,995,462 increase resulting from the acquisition of Datacom
- (ii) \$633,284 increase in the Sentinel base business
- (iii) \$473,360 increase resulting from the iTrax acquisition
- (iv) \$182,693 increase from international consulting business
- (v) Offset by a \$1,906,408 decrease in the SecTrack (international) business.

The Company derives its revenue from the sale of its products, software licenses (self-hosted applications), recurring services and resale of third party products and services. These various revenue streams are reported in 2 general categories:

- (i) Recurring service revenues, which includes monthly ASP service fees, monthly monitoring fees, and resale of cellular and satellite data. The Company enters into services contracts with its customers, usually ranging from 12 to 36 months or beyond. Services revenues are recognized monthly as services are delivered.
- (ii) Hardware and Other Revenues which includes revenue recognized 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 maintenance contracts will be recognized only as the services are offered, resulting in the deferral of contracted revenues in the future.



Recurring service revenues in December 2008 were lower than hardware and other revenues. Over the last 8 quarters, this has changed, with recurring service revenues on a growth trend, and representing 61% of the total revenues for the year. This is a positive trend as recurring service revenues overall produce higher gross margins than hardware and other revenues.

Monthly recurring service revenues for the year ended September 30, 2010, accounted for 61% of total quarterly revenue (2009 – 55%). Service revenue for the year ended September 30, 2010 increased by \$3,115,445 or 62% to \$8,180,918 from \$5,065,473 for the year ended September 30, 2009. This increase was primarily due to:

- (i) \$3,165,237 increase in service revenues from the acquisition of Datacom
- (ii) \$473,360 increase resulting from the iTrax acquisition

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- (iii) \$254,163 increase from an increase in the number of subscribers to the Sentinel business
- (iv) offset by a \$777,315 decrease in service revenues in SecTrack. This decrease is due primarily to lower volumes of billable messages consumed by the customers in those regions. The lower volume of billable messages is due in part to economic conditions and attrition.

In addition to the number of 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.

Hardware and software revenue for the year ended September 30, 2010 increased by \$1,262,947 or 31% to \$5,325,767 from \$4,062,820 for the year ended September 30, 2009. This increase was primarily due to:

- (i) \$1,830,225 due to the Datacom acquisition
- (ii) \$379,122 due to volume increases in Sentinel hardware sales
- (vi) \$182,693 increase from international consulting business
- (iii) offset by a \$1,129,093 decrease in hardware sales in the SecTrack business, primarily in Asia.

The Company's goal going forward is to leverage the success of the Sentinel FM suite of products and services in Canada through its internal sales and network of channel partners, including the latest addition of dealers through its acquisition of SaskTel's LoadTrak business, and work with its channel partners 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 value added resellers, 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 and the newly acquired iTrax business. 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 year ended September 30, 2010 increased by \$3,482,848 or 73% to \$8,222,869 or 61% of the revenue from \$4,740,021 or 52% of the revenue for the year ended September 30, 2009. This increase in gross profit is due primarily to:

- (i) \$3,527,647 increase due to the Datacom and iTrax acquisitions
- (ii) \$398,739 increase due to volume increases in Sentinel existing business
- (iii) \$182,693 increase from international consulting business
- (iv) offset by a \$626,231 decrease in the SecTrack business.

The gross margin has been generally on an increasing trend over the last 8 quarters, starting with a low 49% for the quarter ended March 31, 2009 to the high of 63% for the quarter ended June 30, 2010.

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The increase in gross margin from 52% to 61% is due to:

- (i) increased proportion of higher-margin North American sales vs lower-margin SecTrack sales outside of North America, and;
- (ii) increased high-margin monthly recurring services revenue, and;
- (iii) improved data pricing as a result of economies of scale resulting from the Datacom acquisition.

The gross margin on the hardware revenue is 47% in North America and 13% outside of North America.

The gross margin on the monthly recurring services revenue is 78% in North America and for the iTrax business and 32% for the SecTrack business outside of North America. The strategy in North America is to hold or improve the gross margins by actively increasing the subscriber base for the recurring service revenues. The strategy outside of North America is to (i) offer additional services, and; (ii) increase marketing efforts to grow the subscriber base.

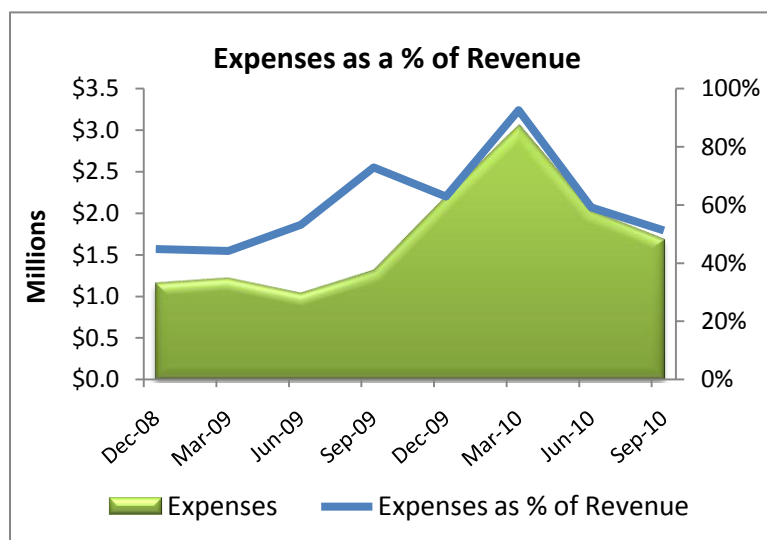
Management expects that over time services revenues which have higher margins will represent a larger percentage of total revenue. Gross profit margin for the Company will also vary depending on the mix of sales in the period.

### Expenses

Overall operating expenses before interest expense, notional charges on Preferred shares, depreciation and amortization, increased by \$4,179,352 to \$8,779,971 for the year ended September 30, 2010 from \$4,600,619 for the year ended September 30, 2009. These expenditures equate to 65% of the revenue for the year ended September 30, 2010, compared to 50% for the year ended September 30, 2009.

The quarter over quarter increase in operating expenses before interest expense, notional charges on Preferred shares, and amortization of intangible assets was primarily due to:

- (i) \$3,467,202 related to the operations of Datacom, which was acquired in September 2009;



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- (ii) \$1,007,605 increased expenditures of existing operations, which is made up primarily of \$250,000 of restructuring expenses related to integration of operations, \$72,000 provision for legal expenses, \$49,000 provision for audit fees and approximately:
  - \$110,000 increased public company expenses
  - \$102,000 of bad debt provisions
  - \$140,000 of marketing and advertising costs
  - \$85,000 of research and development costs
  - \$25,000 lower amount of scientific research and development credit accounted for in year ended September 2010 compared to same period last year;
- (iii) a decrease of \$295,456 in expenditures related to SecTrack, resulting from the closure of the Belgium office and the reduction of staff.

### ***Marketing, Advertising and Promotion Expenses***

Marketing, advertising and promotion expenses include the salaries and commissions of sales staff, advertising, promotions, and other costs such as travel. These expenses increased by \$521,476 to \$2,082,766 or 15% of revenue for the year ended September 30, 2010 from \$1,561,290 or 17% of the revenue for the year ended September 30, 2009.

The quarter over quarter increase was primarily due to:

- (i) \$705,772 related to the operations of Datacom, which was acquired in September 2009,
- (ii) \$135,823 increase in other expenses in this category due primarily to marketing and advertising costs in North America,
- (iii) \$320,118 decrease in SecTrack, resulting from lower commissions due primarily to lower dealer sales outside of North America.

The Company plans to increase its overall marketing efforts 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 over time as the Company increases its overall revenue.

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

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. Research and Development expenses increased by \$571,976 to \$1,320,769 or 10% of revenue for the year ended September 30, 2010 from \$748,793 or 9% of revenue for the year ended September 30, 2009. The quarter over quarter increase was primarily due to:

- (i) \$511,643 related to the operations of Datacom, which was acquired in September 2009.
- (ii) \$24,822 due to lower amount of scientific research and development credit and,

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(iii) Approximately \$35,000 net increase in headcount of existing operations.

The Company expects that in the future its expense in this category may increase due to integration of its acquired technologies and enhancements to the Company's solutions roadmap as the Company continues to invest in research and development activities to maintain technical leadership. The Company believes that its expected increase in this category will lower the existing manufacturing costs and add additional product and services features that will allow the Company to increase its revenue and margins in future periods.

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

General and administrative expenses increased by \$3,085,900 to \$5,376,436 or 40% of revenue for the year ended September 30, 2010 from \$2,290,536 or 25% of revenue for the year ended September 30, 2009. The quarter over quarter increase in general and administrative expenses was primarily due to:

- (i) \$2,249,788 related to the operations of Datacom, which was acquired in September 2009;
- (ii) \$811,450 increase in the North America operations, comprised primarily of \$250,000 of restructuring expenses related to integration of operations, \$72,000 provision for legal expenses, \$49,000 provision for audit fees and approximately :
  - \$110,000 increase in public company expenses
  - \$102,000 of bad debt provisions
  - \$95,000 of travel costs
  - \$105,000 of salaries and benefits costs
  - \$22,000 of telephone costs
- (iii) \$24,663 decrease in SecTrack expenses, resulting from the closure of the office and staff reduction.

### ***Interest expenses***

Interest expense for the year ended September 30, 2010 was \$15,820 (2009 - \$26,181).

### ***Interest on convertible debentures***

Interest on the convertible debenture for the year ended September 30, 2010, was \$Nil (2009 - \$1,116,446). Extinguishment of convertible debentures upon its conversion into preferred shares on September 25, 2009, accounted for the change.

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

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	2010		2009
Interest expense on face value	\$	-	\$ 475,833
Non-cash interest representing accretion		-	640,613
	\$	-	\$ 1,116,446

### ***Notional charges on preferred shares***

For the year ended September 30, 2010, non-cash Finance charges representing the accretion of the carrying value of the Preferred shares, of \$24,740 (2009 - \$Nil) has been recognized in the consolidated statements of operations and deficit.

### ***Amortization of property and equipment***

Amortization for the year ended September 30, 2010 was \$153,778 (2009 - \$145,584) respectively. The Company may have to increase the spending on property and equipment 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 year ended September 30, 2010 was \$567,474 (2009 - \$362,782). The increase of \$204,693 in amortization expense over prior year is due primarily to the allocation of the Datacom purchase price undertaken during the year that resulted in the allocation of \$896,000 to customer contracts and relationships. This resulted in additional amortization for the year of \$179,200.

### ***Write-off of goodwill***

Management periodically assesses the carrying value of goodwill of the Company. On September 30, 2010, management performed the impairment test and determined that there was an impairment of the recorded goodwill relating to the acquisition of SecTrack. Although the Company's growth strategy anticipates leveraging SecTrack's network of value added resellers to both grow the sales of the current products and services of SecTrack, along with other products and services, management realizes that the full execution may extend beyond Fiscal 2011 and accordingly wrote-off the remaining goodwill from the SecTrack acquisition in the amount of \$1,855,969.

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### *Loss on extinguishment of convertible debentures (non-cash item)*

Upon conversion of Convertible Debentures into Preferred shares and issuance of 6,839,215 common shares to The Business, Engineering, Science & Technology Fund Inc. and its affiliates (collectively, "BEST") immediately prior to the completion of the business combination, the Company incurred non-cash charge of \$ 1,749,959 for the year ended September 30, 2009.

	2010	2009
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.
- (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 debenture	\$ 2,694,635	\$ 4,072,333	\$ (1,377,698)
Equity component of the convertible debenture	732,156	50,031	682,125
	\$ 3,426,791	\$ 4,122,364	\$ (695,573)

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.

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- (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 debenture	\$ 132,956	\$ 94,865	\$ 38,091
Warrants component of the convertible debenture	24,228	48,667	(24,439)
Equity component of the convertible debenture	36,125	2,468	33,657
	\$ 193,309	\$ 146,000	\$ 47,309

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.

### ***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.

### ***Net loss***

Net loss for the year ended September 30, 2010 was \$3,143,495 or \$0.01 per share on a diluted basis (2009 – net loss of \$3,204,562 or \$0.04 per share). The net loss per share for the year was also impacted by an increase in weighted average number of common shares from 87,687,383 for the year ended September 30, 2009, to 226,952,747 for the year ended September 30, 2010. The increase in the weighted average common shares was primarily due to the issuance of common shares of the Company related to the acquisition of Datacom on September 25, 2009.

The Company anticipates that it may incur losses in the future, as it continues to develop and expand its

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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 \$1,352,794 to finance operating activities during the year ended September 30, 2010, including \$447,256 in operating losses and an increase of \$905,538 in non cash operating working capital. This compares with cash used in the year ended September 30, 2009 of \$303,191, of which \$226,431 was used to finance operating losses offset by an increase of \$76,760 in non cash operating working capital.

The Company's total current assets at September 30, 2010 was \$4,849,916 (2009 - \$6,081,505). At September 30, 2010, the working capital was \$1,209,370 (September 30, 2009 - \$2,118,583). Working Capital has been calculated by netting current assets and current liabilities, and excluding deferred revenue which is a non cash item. Working capital as at September 30, 2010 decreased by \$909,213. The primary cause of the decrease in working capital was the operating loss of the Company.

On November 15, 2010, the Company obtained a secured revolving, demand facility with a Canadian chartered bank, which allows for a borrowing limit of up to \$1,500,000, subject to certain conditions. The facility is secured by a first ranking security interest over all personal property of the Company. In addition, the facility contains certain covenants that the Company is required to comply with. Notwithstanding the Company's positive working capital position and the line of credit, the Company may require future financing in order to satisfy future growth activities.

Accounts receivable were \$1,936,874 as at September 30, 2010 compared with \$1,837,304 at September 30, 2009. The higher receivables were due to increased revenues. The Company's management has reviewed its accounts receivable balances as at September 30, 2010, and believes that an adequate provision has been made for doubtful accounts. As at September 30, 2010, the net investment in sales-type leases, including long term, amounted to \$1,240,099 (September 30, 2009 - \$892,295).

Inventory decreased from \$707,942 at September 30, 2009 to \$683,429 at September 30, 2010 due primarily to an increase of \$63,798 in the provision for obsolescence.

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

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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.

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).

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

	2010	2009
Preferred shares (i)	\$ 3,945,333	\$ 3,945,333
Dividends payable on Preferred shares (ii)	196,726	177,031
	<u>\$ 4,142,059</u>	<u>\$ 4,122,364</u>

(i) The fair value of 65,755,556 Preferred shares issued was determined to be \$0.06 per share, which was the share price for Common shares on the effective date.

(ii) The principal sum of Preferred shares that will require payment of dividends at the rate of 8% until July 2010 is \$3,287,778. Total dividends accrued until September 30, 2010 were \$196,726 (2009 - \$177,031). These dividends were paid in December, 2010 and the Company then converted the Preferred shares into common shares at the rate of 1 common share per Preferred share.

For the year ended September 30, 2010, non-cash Finance charges, representing the accretion of the carrying value of the Preferred shares, of \$24,740 (2009 - \$Nil), have been recognized in the consolidated statements of operations and deficit.

During fiscal 2010, the Company paid \$75,359 as dividends to the Preferred shareholders.

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In connection with the conversion of 2008 Convertible Debenture 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 preference shares and 1,285,714 common shares, (b) Onbelay Capital Inc. acquired an aggregate of 2,000,000 preference shares and 428,571 common shares, (c) and ANR Solutions Inc. acquired an aggregate of 2,222,222 preference shares and 984,127 common shares.

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.

On September 25, 2009 the company issued 118,571,871 common shares of the Company for the acquisition of Datacom.

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. The consideration was valued at \$410,353, based on share price of \$0.06.

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 Debenture 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.

	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 debenture 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 debenture 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.

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

The 2,703,703 warrants issued in connection with convertible debenture financing, acquired by Datacom equates to 811,111 common shares based on the redemption ratio for other warrants related to convertible debenture 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.

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

As of September 30, 2010 and 2009, the Company had no outstanding warrants to acquire Common shares.

In October 2008, December 2008, and October 2009, 200,000 options, 1,376,133 options and 280,000 options, respectively, to acquire Common shares at a weighted average exercise price of \$0.20 per share expired unexercised.

On January 14, 2010, the Company's Board of Directors approved amendments to the Stock Option Plan. The principal amendments were:

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

On April 6, 2010, the Company granted 3,711,725 options to its directors and employees with an exercise price of \$0.10 per Common share, expiring February 24, 2014. One fourth of these options vested on the date of the grant, and the remaining options vests equally at the half yearly anniversary of the date of the grant. 200,000 of these options were granted to the Chairman of the board; 2,161,695 of these options were granted to seven other directors and balance 1,350,000 were granted to the employees.

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.

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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:

	April 6, 2010	February 24, 2009
Risk-free rate	2.72%	1.27%
Expected volatility	115%	105%
Expected life in years	3.89	5
Expected dividend yield	—	—

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	Number of Options			Remaining contractual life(years)
	Original	Forfeited	Outstanding	
\$ 0.0471	2,121,051	(848,421)	1,272,630	7.91
\$ 0.0943	617,070	(140,753)	476,317	6.93
\$ 0.1768	186,653	(93,326)	93,327	6.73
\$ 0.1977	1,609,147	(715,483)	893,664	5.61
	4,533,921	(1,797,983)	2,735,938	6.95

As at September 30, 2010, 11,392,633 (2009 - 10,708,921) options were outstanding at a weighted average exercise price of \$0.11. These options have a weighted average life of 5.04 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.

Capital expenditures by cash for the year ended September 30, 2010, were \$12,242 compared with \$21,081 for the year ended September 30, 2009. The Company anticipates increases in capital expenditures and lease commitments with its expected growth in operations and infrastructure.

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### **6. RELATED PARTY TRANSACTIONS**

- (i) 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, 2010, the Company paid \$67,500 (2009 - \$100,000) to a company under Mr. Cirella's control as consulting fees under a management consulting contract between the Company and Mr. Cirella.

During the year ended September 30, 2010, the Company paid \$NIL (2009 - \$13,569) to a company under Mr. Cirella's control as car allowance under a management consulting contract between the Company and Mr. Cirella.

During the year ended September 30, 2010, the Company received a loan repayment of \$NIL (2009 - \$2,383) from the director and former President and CEO of the Company and companies under his control.

- (ii) The Company has also 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.

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

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

During the year ended September 30, 2010, the Company paid \$ NIL (2009 - \$68,961) to the related parties as interest on the 2008 Convertible Debentures.

During the year ended September 30, 2010, the Company paid \$43,750 (2009 - \$175,000) to a company under Mr. Aly Rahemtulla's control as management fees and \$18,000 (2009 - \$22,500) as car allowance for his role as the CEO of the Company. During the year, the Company started to pay Mr. Aly Rahemtulla's salary and discontinued paying management fees.

- (iii) During the year ended September 30, 2010, for board compensation, the Company provided for \$27,750 (2009 - \$22,000) for Mr. John Bell, a director and Chairman of the board.

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### 7. COMMITMENTS

#### (a) Operating leases

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

2011	\$	295,481
2012		117,594
2013		201,590
2014		201,590
2015		201,590
	\$	1,017,845

#### (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, 2010 of \$2,484 (2009 - \$8,949) 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:

2011	\$	8,528
2012		8,528
2013		2,131
Present value of future minimum lease payments (includes imputed interest of \$1,211)		19,187
Less current portion		8,527
Long-term portion of lease payments	\$	10,660

### 8. CONVERTIBLE DEBENTURES

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

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Debentures were secured against the assets and undertaking of the Company (including security over all subsidiaries of the Company) and bore interest at the rate of 14% per year. In connection with the financing, subscribers received warrants ("2008 Warrants") to acquire Common shares of the Company equal in number to the number of Common shares convertible upon exercise of the conversion feature of the 2008 Convertible Debentures. Each 2008 Warrant was exercisable at \$0.10 to acquire a further Common share for a period of two years from closing.

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

\$500,000 of the funds from the 2008 Convertible Debentures was used to repay \$500,000 of the 2006 Convertible Debentures with the balance used for working capital.

The Company had identified (a) Onbelay Partners Ltd., a company controlled by Mr. John Bell, a director, and Mr. Aly Rahemtulla, director and CEO of the Company, (b) Onbelay Capital Inc., a company controlled by Mr. John Bell and (c) ANR Solutions Inc., a company controlled by Mr. Aly Rahemtulla, as related parties. Onbelay Partners Ltd., Onbelay Capital Inc. and ANR Solutions Inc. acquired an aggregate of \$500,000 of Reconstituted Debentures and 7,142,857 warrants in replacement for the \$500,000 of 2006 Convertible Debentures and 869,565 warrants (part of the 2006 Convertible Debentures) they held previously.

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

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

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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.

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.

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:

	2010	2009
Interest expense on face value	\$ –	\$ 475,833
Non-cash interest representing accretion	–	640,613
	\$ –	\$ 1,116,446

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### 9. OUTSTANDING SHARE DATA

The Company's authorized share capital consists of an unlimited number of Common shares. As at September 30, 2010 there were 227,500,562 outstanding Common shares, including 547,815 Common shares remaining in escrow the release of which is subject to performance conditions of Company attaining certain cash flow levels.

As at September 30, 2010, there were 11,392,633 outstanding options to acquire Common shares to directors, shareholders and employees of the Company at a weighted average price of \$0.11.

As of September 30, 2010, the Company had no outstanding warrants to acquire Common shares.

As at September 30, 2010, there were 65,755,556 non-cumulative 8% first preferred shares outstanding. There were no second preferred shares issued and outstanding. In December 2010, the Company paid the accrued dividends on these preferred shares of \$245,492 and then converted the preferred shares into common shares. As a result, 65,755,555 common shares were issued.

### 10. OFF-BALANCE SHEET ARRANGEMENTS

As at September 30, 2010, the Company does not have any off balance sheet arrangements, other than lease commitments as disclosed in this Management discussion and analysis.

### 11. FOURTH QUARTER OPERATING RESULTS

#### (a) Results of operations

	Three months ended September 30			
	2010		2009	
<b>Statement of Operations Data</b>				
Revenue	\$3,282,461	100%	\$1,805,161	100%
Cost of revenue	1,367,380	42%	771,071	43%
Gross profit	1,915,081	58%	1,034,090	57%
Expenses	1,609,578	49%	1,275,636	71%
Net income (loss) before other expenses	305,503	9%	(241,546)	-13%
Other expenses (i)	2,164,314	66%	2,170,612	120%
Income (loss) for the period	(1,858,811)	-57%	(2,412,158)	-134%
Earnings (loss) per share - basic and diluted	(\$0.01)		(\$0.03)	

(i) 2010 Other expenses includes \$1,855,969 related to the write-off of the SecTrack goodwill;  
2009 Other expenses includes \$1,749,959 related to the loss on the extinguishment of the convertible debentures.

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The Company recorded positive EBITDA for the three months ended September 30, 2010 of \$305,503, as compared to negative EBITDA for the three months ended September 30, 2009 of \$241,546. The improvement is attributed primarily to improved margins, and expense efficiencies.

Revenues for the three months ended September 30, 2010 increased by 82% to \$3,282,461 from \$1,805,161 for the three months ended September 30, 2009. The increase is attributed primarily to:

- (i) \$1,251,161 increase resulting from the acquisition of Datacom
- (ii) \$395,504 increase in the Sentinel base business
- (iii) Offset by a \$169,365 decrease in the SecTrack (international) business.

Recurring services revenue increased by 69% to \$2,157,114 for the three months ended September 30, 2010 from \$1,275,513 in the same period in 2009. The increase in services revenue is attributable primarily to:

- (i) \$1,034,254 increase in service revenues from the acquisition of Datacom
- (ii) \$88,627 increase from an increase in the number of subscribers to the Sentinel business
- (iii) offset by a \$241,280 decrease in service revenues in SecTrack. This decrease is due primarily to lower volumes of billable messages consumed by the customers in those regions. The lower volume of billable messages is due in part to economic conditions and attrition.

Hardware and software revenue increased by 112% to \$1,125,347 for the three months ended September 30, 2010 from \$529,639 in the same period in 2009. The increase is attributed to higher hardware sales in all areas of operations, primarily from the following:

- (i) \$216,917 increase resulting from the acquisition of Datacom
- (ii) \$306,876 increase in the Sentinel business
- (iii) \$71,914 increase in the SecTrack business.

The gross profit increased by \$880,991 for the three months ended September 30, 2010 to \$1,915,081 from \$1,034,090 for the three months ended September 30, 2009. The increase in quarterly total gross profit was primarily due to increase in revenues, both recurring service revenues and the non-recurring hardware and software revenues. The higher revenues are in part a result of the growth of the services subscriber base and introduction of additional billable service features such as our new data bus integration offering.

Gross profit margin for the three months ended September 30, 2010 was 58%, representing an increase over the reported gross profit margin of 57% for the three months ended September 30, 2009. Gross profit margin for the Company will also vary depending on the mix of the sales in the period.

Overall operating expenses before interest expense, amortization and loss on extinguishment of convertible debentures, increased by \$333,943 to \$1,609,578 for the three months ended September 30, 2010, from \$1,275,635 for the three months ended September 30, 2009. The expenditure to

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revenue ratio decreased to 49% for the three months ended September 30, 2010 from 71% for the three months ended September 30, 2009. The quarter over quarter increase in operating expenses before interest expense, amortization and loss on extinguishment of convertible debentures, was due primarily to the purchase of Datacom, offset by a decrease in expenses in SecTrack resulting from the closure of the Belgium office and the reduction of staffing.

General and administrative expenses for the three months ended September 30, 2010, increased by \$463,217 to \$1,166,871 or 35% of revenue from \$703,655 or 39% of revenue for the three months ended September 30, 2009. The quarter over quarter increase is primarily due to the purchase of Datacom.

Research and development expenses decreased by \$171,767 to \$51,025 or 1% of revenue for the three months ended September 30, 2010, from \$222,792 or 12% of revenue for the three months ended September 30, 2009. The decrease in research and development expenses was primarily due to \$256,232 due to higher amount of scientific research and development credit.

Marketing, advertising and promotion expenses, includes the salaries and commissions of sales staff, advertising, promotions, and other costs such as travel. These expenses increased by \$42,493 to \$391,682 or 12% of revenue for the three months ended September 30, 2010, from \$349,189 or 19% of the revenue for the three months ended September 30, 2009. The increase was primarily due to the purchase of Datacom, offset by a decrease in sales salaries and commissions in SecTrack as a result of the staff reduction and lower sales.

### ***Interest expenses***

Interest expense for the three months ended September 30, 2010 was \$1,850 (three months ended September 30, 2009 - \$7,634).

### ***Interest on convertible debentures***

Interest on the convertible debentures for the three months ended September 30, 2010 was \$NIL (three months ended September 30, 2009 - \$282,339).

### ***Notional charges on preferred shares***

For the three months ended September 30, 2010, non-cash Finance charges representing the accretion of the carrying value of the Preferred shares, of \$89 (three months ended September 30, 2009 - \$Nil) has been recognized in the consolidated statements of operations and deficit.

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### *Amortization of property and equipment*

Amortization for the three months ended September 30, 2010 was \$39,325 compared with \$41,036 for the three months ended September 30, 2009.

### *Amortization of intangible assets*

Amortization of intangible assets for the three months ended September 30, 2010, was \$276,639 (three months ended September 30, 2009 - \$90,696). The increase of \$185,944 in amortization expense is due primarily to the allocation of the Datacom purchase price undertaken during the year that resulted in the allocation of \$896,000 to customer contracts and relationships. This resulted in additional amortization for the year of \$179,200 which was all recorded in the fourth quarter.

### *Loss on extinguishment of convertible debentures (non cash item)*

Upon conversion of Convertible Debentures into Preferred shares and issuance of 6,839,215 common shares to BEST immediately prior to the completion of the business combination, the Company incurred a non-cash charge of \$ 1,749,959 for the three months ended September 30, 2009.

	2010	2009
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.

(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.

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	Net book value redeemed	Fair value at the date of redemption	Gain (loss)
Liability component of the convertible debenture	\$ 2,694,635	\$ 4,072,333	\$ (1,377,698)
Equity component of the convertible debenture	732,156	50,031	682,125
	<u>\$ 3,426,791</u>	<u>\$ 4,122,364</u>	<u>\$ (695,573)</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 debenture	\$ 132,956	\$ 94,865	\$ 38,091
Warrants component of the convertible debenture	24,228	48,667	(24,439)
Equity component of the convertible debenture	36,125	2,468	33,657
	<u>\$ 193,309</u>	<u>\$ 146,000</u>	<u>\$ 47,309</u>

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.

The Company generated \$204,226 (three months ended September 30, 2009 - \$448,102) from operating activities during the three months ended September 30, 2010; \$377,817 in operating income (2009 – operating losses of \$312,129) and an increase of \$173,591 (2009 - decrease of \$760,231) in non-cash working capital.

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Accounts receivable were \$1,936,874 as at September 30, 2010 compared with \$1,837,304 at September 30, 2009. The higher receivables were due to increased revenues. The Company's management has reviewed its accounts receivable balances as at September 30, 2010, and believes that an adequate provision has been made for doubtful accounts. As at September 30, 2010, the net investment in sales-type leases including long term, amounted to \$1,240,099 September 30, 2009 - \$892,295.

Inventory decreased from \$707,942 at September 30, 2009 to \$683,429 at September 30, 2010 due to an increase of \$63,798 in the provision for obsolescence.

Property and equipment additions for the three months ended September 30, 2010, were \$6,357 (2009 – disposals of \$7,156).

Net loss for the three months ended September 30, 2010, was \$1,890,651 or \$0.01 per share on a diluted basis compared with a net loss of \$2,412,158 or \$0.03 per share on a diluted basis for the three months ended September 30, 2009. The net loss per share for the quarter was also impacted by an increase in weighted average number of common shares from 94,594,145 for the three months ended September 30, 2009, to 226,952,747 for the three months ended September 30, 2010. The increase in the weighted average common shares was primarily due to the issuance of common shares of the Company related to the acquisition of Datacom on September 25, 2009.

During the three months ended September 30, 2010, no common shares of the Company were issued from treasury.

## **12. RELATED PARTY TRANSACTIONS**

- i) During the three months ended September 30, 2010, the Company paid \$15,000 (three months ended September 30, 2009 - \$20,000) to a company under Mr. Nick Cirella's control as consulting fee under a management contract between the Company and Mr. Cirella.
- ii) During the three months ended September 30, 2010, the Company paid \$NIL (three months ended September 30, 2009 - \$16,461) to companies controlled by Mr. Aly Rahemtulla, a director, President and CEO and Mr. John Bell, a director and chairman of the Company as interest on the 2008 Convertible Debenture.

During the three months ended September 30, 2010, the Company paid \$NIL (three months ended September 30, 2009 - \$ 43,750) to a company under Mr. Aly Rahemtulla's control as management fees and \$4,500 (three months ended September 30, 2009 - \$22,500) as car allowance for his role as the CEO of the Company. During the year, the Company started to pay Mr. Aly Rahemtulla's salary and discontinued paying management fees.

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- iii) During the three months ended September 30, 2010, for board compensation, the Company provided \$7,750 (three months ended September 30, 2009 - \$10,750) for Mr. John Bell, director and Chairman of the board.

### **13. 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.

### **14. SUBSEQUENT EVENT**

#### **(a) Line of credit**

On November 15, 2010, the Company obtained secured a revolving, demand facility with a Canadian chartered bank, which allows for a borrowing limit of up to \$1,500,000, subject to certain conditions. The facility is secured by a first ranking security interest over all personal property of the Company. In addition, the facility contains certain covenants that the Company is required to comply with.

#### **(b) Conversion of Preferred Shares to Common Shares**

As at September 30, 2010, the Company had 65,755,556 preferred shares outstanding. 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. In December 2010, the Company paid all accrued dividends in the amount of \$245,492 on the preferred shares and converted all outstanding preferred shares to 65,755,555 common shares.

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### **15. CRITICAL ACCOUNTING POLICIES & NON-GAAP MEASURES**

#### **a) Non-GAAP Measures**

##### ***Operating Profit***

We measure the success of our operations using operating Income as a key performance indicator. Operating Income is not a recognized measure of financial performance under GAAP. BSM calculates Operating income as the Income (loss) before interest, interest on convertible debentures, amortization of intangible assets, amortization of property and equipment, interest income and loss on extinguishment of convertible debentures. BSM's method of calculating Operating Income may differ from other companies and accordingly, may not be comparable to measures used by other companies.

We believe this is an important measure as it allows us to assess our ongoing businesses without the impact of depreciation or amortization expenses as well as non-operating factors. It is intended to indicate our ability to incur or service debt, invest in property & equipment and allows us to compare us to our peers and competitors who may have different capital or organizational structures. This measure is not a defined term under Canadian GAAP.

These non-GAAP measures should be viewed as a supplement to, and not a substitute for our results of operations reported under Canadian GAAP. A reconciliation of these non-GAAP financial measures to net loss is included in the section entitled Supplementary Information: Non-GAAP Calculations.

#### **b) Critical Accounting Policies**

This MD&A has been prepared with reference to the year ended September 30, 2010 audited consolidated financial statements and notes thereto, which has been prepared in accordance with Canadian GAAP. The Audit Committee of our Board reviews our accounting policies, reviews all quarterly and annual filings, and recommends approval of our consolidated financial statements to our Board. For a detailed discussion of our accounting policies, see Note 1 to the year ended September 30, 2010 audited consolidated financial statements. In addition, a discussion of recent Canadian accounting pronouncements and critical accounting estimates are discussed in the sections "Recent Canadian accounting pronouncements" and "Critical Accounting Estimates", respectively.

##### ***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

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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.

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

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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.

### **c) Critical Accounting 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.

#### ***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.

#### ***Impairment of Goodwill***

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

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combination, is compared with its carrying amount to measure the amount of the impairment loss, if any.

These impairment tests involve the use of discounted net cash flow analyses to assess the recoverability of the carrying value of the reporting unit, including goodwill. These analyses involve estimates of future cash flows, estimated periods of use and applicable discount rates.

Management periodically assesses the carrying value of goodwill of the Company. On September 30, 2010, management performed the impairment test and determined that there was an impairment of the recorded goodwill, and the SecTrack goodwill of approximately \$1.9 million was written down to zero. The impairment was determined by considering the Company's share value and market comparables.

### ***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.

### ***Stock-based compensation***

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. The Company accounts for forfeitures as they occur.

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock options on the grant date and the amount is expensed over the vesting period of the stock options. The assumptions used in the calculation of fair value include the risk free interest rate, dividend yield, volatility factor and expected life of the options.

The risk free interest rate is based on the then current risk free interest rate for the expected life of the option. The dividend yield is based on the Company's historical practice of dividend payments. The volatility factor is based on analysis of the history of the Company's share price and management's estimate of the expected volatility over the respective terms of the options. The

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expected life of the option is based on the expected length of time options are estimated to remain outstanding.

### ***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.

These analyses involve estimates of future cash flows and estimated periods of use. If the undiscounted net cash flows associated with a group of long-lived assets exceed the carrying amounts, impairment losses are measured as the excess of the carrying amount over the fair value.

### ***Purchase price allocations***

The allocations of the purchase prices for our acquisitions involves considerable judgment in determining the fair values assigned to the tangible and intangible assets acquired and the liabilities assumed on acquisition. Among other things, the determination of these fair values involved the use of discounted cash flow analyses.

### ***Useful lives of property and equipment***

We depreciate the cost of Property and Equipment over their respective estimated useful lives. These estimates of useful lives involve considerable judgment. In determining the estimates of these useful lives, we take into account industry trends and company-specific factors, including changing technologies and expectations for the in-service period of certain assets. On an annual basis, we re-assess our existing estimates of useful lives to ensure they match the anticipated life of the technology from a revenue-producing perspective. If technological change happens more quickly or in a different way than anticipated, we might have to reduce the estimated life of Property and Equipment, which could result in a higher depreciation expense in future periods or an impairment charge to write down the value of Property and Equipment.

### ***Accrued liabilities***

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of accrued liabilities at the date of the financial statements and the reported amounts expensed during the year. Actual results could differ from those estimates.

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### ***Allowance for doubtful accounts***

The Company maintains an allowance for losses that may result when customers are unable to or do not pay amounts owed to the Company. The allowance is based on identifying these accounts and providing for non-collection of the amounts. This is based on past experience taking into account current and expected collection trends. If the industry conditions or trends change, the amount of the allowance will change and the Company will adjust its bad debt expense accordingly.

### **d) Recent Canadian accounting pronouncements**

#### ***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.

The Company has completed a preliminary assessment of the accounting and reporting differences under IFRS as compared to Canadian GAAP; however, management has not yet finalized its determination of the impact of these differences on the consolidated financial statements.

The Company is in the process of developing a project plan, which includes the 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.

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### ***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.

### ***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.

### ***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.

### ***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.

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### **16. FINANCIAL INSTRUMENTS AND CAPITAL DISCLOSURE**

#### **a) Fair values**

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

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

#### **b) Capital disclosures**

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.

Refer to note 12 on Financial instruments and capital disclosure in the consolidated financial statements.

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

#### **a) Risk factors**

In addition to the other information contained in this Report, 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.

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### **b) Potential acquisitions and investments**

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.

### **c) 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.

### **d) Credit risk**

The Company may be subject to concentrations of credit risk with respect to accounts receivable. The Company performs ongoing credit evaluations of its customers' financial condition and generally requires no collateral from its customers.

### **e) Competition**

The Telematics business, in which the Company is engaged is intensely competitive, fragmented, subject to rapid technological change and requires frequent new content, service introductions and enhancements. Many of the Company's existing competitors are significantly larger and have substantially greater financial, technical, personnel, marketing and other resources than the Company. The Company may also face future competition from new services. There can be no assurance that the Company will be able to successfully compete with such competitors and competitive pressures may result in downward pressure on subscriptions, subscription rates and hardware revenues. The Company competes on the basis of its track record of performance, its experienced management and workforce, its competitive pricing, and its superior products and solutions approach.

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### **f) 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. 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.

### **g) Environment and market risk**

Sales are subject to some conditions outside the Company's control such as economic cycles, the growth of complementary 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.

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## 18. SUPPLEMENTARY INFORMATION: NON-GAAP CALCULATIONS

The following table represents a non-GAAP measure that management believes is useful for comparing results with other companies in this sector.

Reconciliation of operating income (loss) to net income (loss):

Amounts in thousands	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Fiscal 2009	Fiscal 2010
Net loss	(\$223.7)	(\$174.2)	(\$394.5)	(\$2,412.2)	(\$236.1)	(\$1,071.1)	\$22.4	(\$1,858.8)	(\$3,204.6)	(\$3,143.5)
Interest	8.4	6.8	3.3	7.6	4.6	5.8	3.6	1.8	26.2	15.8
Interest on convertible debentures	120.8	120.8	120.8	113.6	-	-	-	-	475.8	-
Accretion of interest on convertible debenture	147.2	157.1	167.6	168.8	-	-	-	-	640.6	-
Notional charges on preferred shares	-	-	-	-	7.4	7.4	9.8	0.1	-	24.7
Amortization of property and equipment	33.3	31.9	39.4	41.0	38.5	37.7	38.2	39.3	145.6	153.7
Amortization of intangible assets	90.7	90.7	90.7	90.7	96.9	96.9	96.9	276.6	362.8	567.5
Loss on extinguishment of convertible debentures	-	-	-	1,750.0	-	-	-	-	1,750.0	-
Interest Income	-	(55.9)	(0.0)	(1.1)	(6.2)	(5.9)	(9.7)	(9.6)	(57.0)	(31.4)
Write-off of goodwill	-	-	-	-	-	-	-	1,856.0	-	1,856.0
Operating income	\$176.6	\$177.1	\$27.3	(\$241.5)	(\$94.8)	(\$929.1)	\$161.3	\$305.4	\$139.4	(\$557.3)

## 19. DISCLOSURE CONTROLS AND PROCEDURES

Management is responsible for the information disclosed in this management discussion and analysis and has in place the appropriate information systems, procedures and controls to ensure that information used internally by management and disclosed externally is, in all material respects, complete and reliable. As of the financial year ended September 30, 2010, an evaluation was carried out under the supervision of, and with the participation of, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, on the effectiveness of the Company's disclosure controls and procedures, as defined in Multilateral Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings ("MI 52-109"). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective as of September 30, 2010 to provide reasonable assurance that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities.

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### **20. INTERNAL CONTROL OVER FINANCIAL REPORTING**

MI 52-109 also requires a reporting issuer to submit an annual certificate relating to the design of internal control over financial reporting. Internal control over financial reporting is a process designed by management to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. As part of this process, management, including the Chief Executive Officer and the Chief Financial Officer, has evaluated the design of the internal control over financial reporting at September 30, 2010 and based on this evaluation, management has concluded that the design of internal control over financial reporting was effective as of September 30, 2010.

### **21. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

Under the provisions of MI 52-109, a reporting issuer is also required to disclose in their MD&A any change in internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect internal control over financial reporting.

Management has determined that there have been no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the internal control over financial reporting.

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

The accompanying consolidated financial statements, management's discussion and analysis 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 management's discussion and analysis have been reviewed by the Company's auditors.

Management has prepared these consolidated financial statements and all other information in accordance with accounting principles generally accepted in Canada. Some amounts included in the consolidated 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 the consolidated financial statements. The Board of Directors carries out its responsibilities for the consolidated financial statements through the Audit Committee, which consists of members of non-managing directors.

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### **23. FURTHER INFORMATION**

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

### **24. CERTIFICATION**

We have complied with the multilateral instrument 52-109

### **25. FORWARD LOOKING STATEMENTS**

Certain statements in this Management's 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 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.