

BSM TECHNOLOGIES INC.

Management's Discussion and Analysis

Year ended September 30, 2011 and 2010

This document is dated January 23, 2012

This management discussion and analysis ("MD&A") of operating results and financial position of the company should be read in conjunction with our audited consolidated financial statements for the year ended September 30, 2011 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.

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.

This MD&A is dated January 23, 2012, and takes into consideration information available up to that date. All dollar figures are in thousands except for per share, per unit, unit, or subscriber data.

1. NON-GAAP MEASURES

This MD&A contains references to certain financial measures, including some that do not have any standardized meaning prescribed by Canadian GAAP and may not be comparable to similar measures presented by other entities. These non-GAAP measures should be viewed as a supplement to, and not a substitute for the Company's results of operations reported under Canadian GAAP.

EBITDA

EBITDA is a measure of our operating profitability. EBITDA is defined as earnings before interest, taxes, depreciation, and amortization and other non-cash charges (non-cash stock compensation expenses and write-off of goodwill). We believe that EBITDA provides useful information to our investors because it excludes transactions not related to the core cash operating business activities, allowing meaningful analysis of the performance of our core cash operations. Non-cash stock-based compensation, amortization expense and the write-off of unamortized acquisition costs are considered non-cash items to be excluded in the EBITDA calculation.

EBITDA is calculated as follows:

	Three months ended September 30		Twelve months ended September 30	
(\$ thousands)	2011	2010	2011	2010
Net income (loss) as reported	\$ 319	\$(1,859)	\$ 578	\$(3,143)
Add (deduct):				
Interest, net	(21)	(8)	(77)	(16)
Amortization of property & equipment	39	39	113	154
Amortization of intangible assets	56	277	281	567
Stock compensation expense	(8)	44	30	94
Write-off of goodwill	-	1,856	-	1,856
Notional charges preferred shares	-	-	-	25
EBITDA	\$ 385	\$ 350	\$ 925	\$ (463)

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This document is dated January 23, 2012**2. FINANCIAL RESULTS AND HIGHLIGHTS (\$ THOUSANDS)**

Highlights for the fourth quarter and full year are as follows:

- First positive full year Net income in the last 5 years: \$578 represents a \$3,721 improvement over 2010
- Positive full year EBITDA: \$925 represents a 300% increase over 2010
- Maintained 61% gross margin
- Sixth consecutive quarter of positive EBITDA: Q4 2011 is \$385
- First positive full year Cash from Operations in the last 5 years: \$1,612 represents a \$2,965 improvement over 2010
- Record level of working capital: \$1,938 at September 30, 2011 represents a 60% improvement over 2010
- Transition year, focusing on our core solution, Sentinel
- Record level sales for Sentinel line:
 - 7,055 units sold for the full year represents a 71% increase over 2010
 - \$4,513 in recurring revenues for the full year represents a 45% increase over 2010

Our overall performance for the three and twelve months ended September 30, 2011 and 2010 is as follows:

Statement of Operations Highlights	Three months ended		Twelve months ended		
	September 30		September 30		
<i>(\$ thousands, except per share data)</i>	2011	2010	2011	2010	2009
Revenue	\$ 3,366	\$ 3,282	\$ 14,451	\$ 13,507	\$ 9,128
Gross profit	2,098	1,915	8,871	8,223	4,740
GM %	62%	58%	61%	61%	52%
Income (loss) before other expenses	393	306	895	(557)	139
Net income (loss) for the period	319	(1,859)	578	(3,143)	(3,205)
Net income (loss) % of Revenue	9%	(57%)	4%	(23%)	(35%)
Earnings (loss) per share - basic and diluted	\$0.001	(\$0.008)	\$0.002	(\$0.014)	(\$0.037)
EBITDA ⁽ⁱ⁾	385	350	925	(463)	219
EBITDA % of Revenue	11%	11%	6%	(3%)	2%

(i) EBITDA is a non-GAAP financial measure. See explanation of EBITDA under heading "Non-GAAP Measures"

Balance Sheet Highlights	As at September 30		
	2011	2010	2009
<i>(\$ thousands)</i>			
Cash and cash equivalents	\$ 1,958	\$ 917	\$ 2,497
Working capital	1,938	1,209	2,119
Total assets	8,267	7,716	11,270
Long term liabilities	2	11	42
Total liabilities	3,833	3,842	4,276
Shareholders' equity	4,433	3,874	6,993

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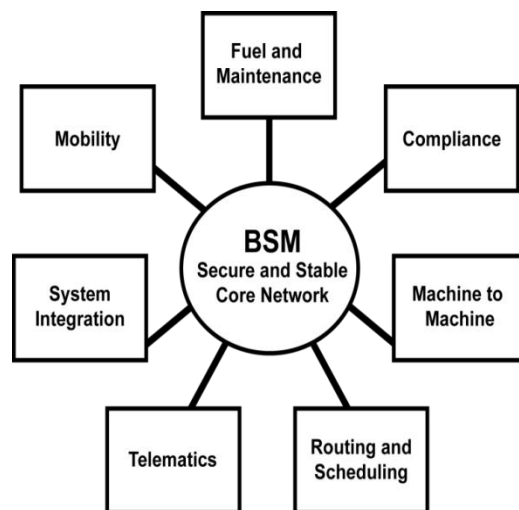
3. CORE BUSINESS AND STRATEGY

a) Core business

We provide cost-effective solutions to our customers in Canada, the USA and around the world, helping them better manage their assets. Our customers operate in a broad range of organizations, including rail, construction, transportation, services, oil and gas and government. Our solutions encompass both software and hardware and can be used on both stationary assets and moving assets. Our solutions provide a key link between our customers' operations and the systems they use to run their business. Our cost-effective and secure wireless applications help them reduce costs, improve customer service, improve efficiency and enhance security as well as providing data to monitor compliance with safety, workplace and environmental regulations. Our solutions are built around a common hardware platform that is capable of being adapted to serve multiple industries and is "network neutral" so it can be deployed over cellular, Wi-Fi or satellite networks. Our services are delivered over a secure network to the Internet and provided on a "software as a service" (SaaS) basis.

Our solutions provide information that helps our customers monitor and manage their assets in the following areas:

- **Fuel and maintenance:** Our proprietary algorithms enable our systems to track and evaluate vehicle fuel consumption. This information assists our customers in monitoring fuel costs, preventing fraudulent fuel purchases, while also gathering information on vehicle operations and sending maintenance alerts;
- **Compliance:** The software and hardware component of our solutions connects directly through the engine control unit of a vehicle and captures real-time data to ensure compliance with government regulations and company-specific standards. This includes hours-of-service, speeding, harsh or extreme acceleration and braking as well as location and time spent at designated areas;
- **Machine to machine:** Machine to machine, or M2M, communication refers to information passing through two devices for the purpose of monitoring or delivering alerts. For example, geographically diverse gas or liquid storage tanks, generators and other stationary assets are monitored throughout the world through the deployment of remote temperature and pressure sensors. Alerts are sent when the tanks reach low levels, optimizing distribution schedules and inventory management;
- **Routing and scheduling:** By combining real time vehicle location information with mapping and fuel usage data, companies optimize fleet operations;
- **Telematics:** The equipment captures and transmits vehicle parameters, logistical data and vehicle location in real time;



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- **System integration:** The provision of current and historical data in a variety of standard formats, including activity reports and maps are integrated with a company’s inventory, ERP, payroll or business development systems to maximize value and minimize costs; and,
- **Mobility:** We are in the process of developing solutions that will help companies manage their workflow and/or mobile work force by facilitating business processes such as event confirmation, signature verification and form processing while they are in the field.

Our competitive advantages include:

- **Custom solutions for our customers:** Total control of our technology (both the software and hardware components of our solutions) allows us to effectively create solutions unique to the specific needs of our customers;
- **Advanced level of network security:** Our systems can be deployed in high-risk and mission critical applications; and,
- **Leading solutions provider:** Our experienced staff understands the verticals in which we are focused.

b) Strategy

The following represents our principal growth strategy objectives, as well as the related key risks:

Strategic Objectives	Initiatives
• Increase our recurring revenues	• Enhance product offerings
• Build integrated solutions that differentiate us from our competitors	• Invest in new product and application development • Acquire complementary applications • Build-out network infrastructure to support scalability
• Focus on markets where we have knowledge and experience	• Focus direct sales team on key markets • Support channel partners
• Improve operational efficiencies	• Outsource non-core work • Continue process improvement and automation

Several initiatives in Fiscal 2011 improved our foundation for continued growth and financial health. In addition to strengthening our capital structure with the conversion of the preferred shares to common shares to improve our financial flexibility we:

- Enhanced our Executive Team (Technology, Sales and Operations);
- Expanded our sales force in the USA;
- Enhanced the R&D team; and,
- Enhanced product offerings.

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This document is dated January 23, 2012**Risks to Our Strategy**

Risks	Mitigation
Technology: Lose our leading edge	<ul style="list-style-type: none"> Continue to improve, develop and incorporate new technologies Maintain R&D team with leading technology skills
Economy: Impact timing of customer decision to invest	<ul style="list-style-type: none"> Improve technologies to make solutions more cost effective Maintain strong cash management procedures to provide adequate financial flexibility
Competition: Can come from current or new players in the market.	<ul style="list-style-type: none"> Maintain strong relations and service with existing customers Increase opportunities through a dynamic sales pipeline Develop robust ROI model for new customers to provide compelling solutions

4. RESULTS FROM OPERATIONS**a) Selected financial information**

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, 2011 and related notes.

<i>(\$ thousands, except per share amounts)</i>	Three months ended		Twelve months ended		
	September 30		September 30		
	2011	2010	2011	2010	2009
Recurring revenue	\$ 2,321	\$ 2,159	\$ 9,276	\$ 8,183	\$ 5,065
Hardware & other revenue	1,045	1,123	5,175	5,324	4,063
Total revenue	3,366	3,282	14,451	13,507	9,128
Gross profit	2,098	1,915	8,871	8,223	4,740
<i>Gross margin %</i>	62%	58%	61%	61%	52%
Expenses	1,705	1,610	7,976	8,780	4,601
Net income (loss) before other expenses	393	306	895	(557)	139
Other Expenses	74	2,164	316	2,586	3,344
Net income (loss)	319	(1,859)	578	(3,143)	(3,205)
Basic and diluted income (loss) per share	\$ 0.001	\$ (0.008)	\$ 0.002	\$ (0.014)	\$ (0.037)
EBITDA	385	350	925	(463)	219
Cash from operations	1,473	207	1,612	(1,353)	(303)

<i>(\$ thousands)</i>	As at September 30		
	2011	2010	2009
Cash and cash equivalents	\$ 1,958	\$ 917	\$ 2,497
Working capital	1,938	1,209	2,119

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Key Financial Measures	Three months ended September 30		Twelve months ended September 30	
	2011	2010	2011	2010
Gross margin				
Recurring revenue	76%	76%	75%	70%
Hardware & other revenue	32%	25%	38%	47%
Total revenues	62%	58%	61%	61%
Expenses as a percentage of revenues	51%	49%	55%	65%
EBITDA ⁽ⁱ⁾	385	350	925	463)

(i) EBITDA is a non-GAAP financial measure. See explanation of EBITDA under heading "Non-GAAP Measures"

Significant factors that influenced the Company's financial results during the year include:

- We were awarded a contract to provide our Sentinel FM asset tracking solution to a major U.S.-based service fleet. This initial implementation on approximately 850 vehicles is valued at more than \$1,100 over a three-year period. During the three and twelve months ended September 30, 2011, we recognized over \$33 and \$491, respectively, of hardware revenues related to this order. During the three and twelve months ended September 30, 2011, we recognized over \$57 and \$123, respectively, of recurring revenues related to this order;
- We were awarded contracts with a combined value of approximately \$1,200 over a three-year period with two major coordinating bodies for organized snowmobiling in Canada. Our Sentinel FM asset tracking solution was installed on 810 trail grooming machines operated by the Ontario Federation of Snowmobile Clubs (OFSC) and the Fédération des clubs de motoneigistes du Québec (FCMQ). During the three and twelve months ended September 30, 2011, we recognized over \$38 and \$554, respectively, of hardware revenues related to this order. During the three and twelve months ended September 30, 2011, we recognized over \$42 and \$126, respectively, of recurring revenues related to this order; and,
- We were awarded a contract to provide our Sentinel FM asset tracking solution to a major Canadian transportation services provider. For the initial implementation, valued at more than \$900 over a two-year period, our equipment was installed on approximately 800 vehicles. This contract is an expansion of our existing relationship with the client, which has over 1,500 vehicle installs in another division. During Fiscal 2012, it is expected that another 400 vehicles will be installed in this division, bringing our total mandate with the client to about 2,700 vehicles and a contract size of \$1,200. During the three and twelve months ended September 30, 2011, we recognized over \$218 and \$707, respectively, of hardware revenues related to this order. During the three and twelve months ended September 30, 2011, we recognized over \$13 and \$24, respectively, of recurring revenues related to this order.

In addition, we undertook other initiatives that we expect will positively impact future financial results:

- We added an Hours-of-Service (HOS) module to our Sentinel fleet management solution; and,

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- We signed a North American agreement with ARI, a leading fleet management, leasing and maintenance provider (arifleet.com), as an integration partner that combines our Sentinel products with the web-based ARI *insights*[®] fleet management system.

As a result, 2011 resulted in \$944 or 7% overall growth in revenues over prior year despite the following negative pressures on sales:

- Larger volume contracts resulting in lower sales price per unit; and,
- Decrease in the non-core insurance business resulting from the loss of the main insurance customer. This resulted in a \$591 or 50% decrease in our insurance business over prior year. This product is not part of the core product solutions and we have addressed the related cost overhead structure to minimize the net impact of this to our operating results, both for the 2011 fiscal year and future periods. Excluding the impact of the insurance business revenue, the full year revenues increased approximately \$1,500 or 12% over prior year.

Not only did we record our sixth consecutive positive quarterly EBITDA, but we also recorded net income of \$578 for the year, representing a \$3,721 improvement of prior year's \$3,143 net loss. The prior year \$3,143 loss included a \$1,856 write-off of goodwill related to the SecTrack acquisition. There were no goodwill write-offs in the current year as there was no impairment of goodwill.

During 2011, we continued to strengthen our balance sheet, increasing our cash to \$1,958 and our working capital to \$1,938, representing a 113% increase in cash and 60% increase in working capital over prior year. In addition, we incurred the following uses of cash during the year:

- In December 2010, we paid \$245 of dividends on the outstanding preferred shares and converted all remaining preferred shares into common shares; and,
- We invested in \$317 of fixed and intangible assets during the year as part of our initiatives to build our foundation for continued growth.

Our strategy is to continue to actively increase sales of our core product lines and continue to improve gross margins by actively increasing our recurring service revenue subscriber base, which will also further insulate us from financial risk resulting from the cyclical nature of our hardware sales. We have increased our investment in staffing, both in Canada and the USA, to provide the necessary resources to achieve this growth.

b) Revenues

Revenue for the three months ended September 30, 2011 increased by \$83 or 3% to \$3,366 from \$3,282 for the prior year. Revenue for the twelve months ended September 30, 2011 increased by \$944 or 7% to \$14,451 from \$13,507 for the prior year. The increase over prior year is due primarily to higher recurring revenues resulting from increases in the number of subscribers as we continue to grow our base business.

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(i) Segmented revenue information**Revenue by geographic segment (based upon customer location):**

(\$ thousands)	Three months ended September 30				Twelve months ended September 30			
	2011		2010		2011		2010	
Canada	\$ 2,319	69%	\$ 2,283	70%	\$ 10,319	71%	\$ 9,737	72%
USA	498	15%	445	14%	2,260	16%	1,747	13%
International	549	16%	554	17%	1,872	13%	2,023	15%
	\$ 3,366	100%	\$ 3,282	100%	\$ 14,451	100%	\$ 13,507	100%

Although Canada is still our primary market, accounting for 69% and 71% of our total revenue for the three and twelve month periods ended September 30, 2011, our focus on the USA market is evident in the increased revenues of 1% and 3%, respectively, for the three and twelve months ended September 30, 2011 over the prior year. Our International revenues decreased by 1% and 2%, respectively, for the three and twelve months ended September 30, 2011 over prior year, due primarily to continued economic pressures in the international markets.

Revenue by product category:

We derive our revenue from the sale of products, recurring services and resale of third party products and services. These revenue streams are reported in two general categories:

- Recurring revenues, which includes monthly Application Service Provider (ASP) fees, monthly monitoring fees, and resale of cellular and satellite data. We enter into services contracts with our customers, usually ranging from 12 to 36 months or beyond. Recurring revenues are recognized monthly as services are delivered; and,
- Hardware and Other Revenues, which includes revenue recognized on the basis of upfront sales of hardware, 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.

(\$ thousands)	Three months ended September 30					Twelve months ended September 30				
	2011		2010		Better (Worse)	2011		2010		Better (Worse)
Recurring revenue	\$2,321	69%	\$ 2,159	66%	7%	\$ 9,276	64%	\$ 8,183	61%	13%
Hardware & other	1,045	31%	1,123	34%	(7%)	5,175	36%	5,324	39%	(3%)
	\$3,366	100%	\$ 3,282	100%	3%	\$14,451	100%	\$ 13,507	100%	7%

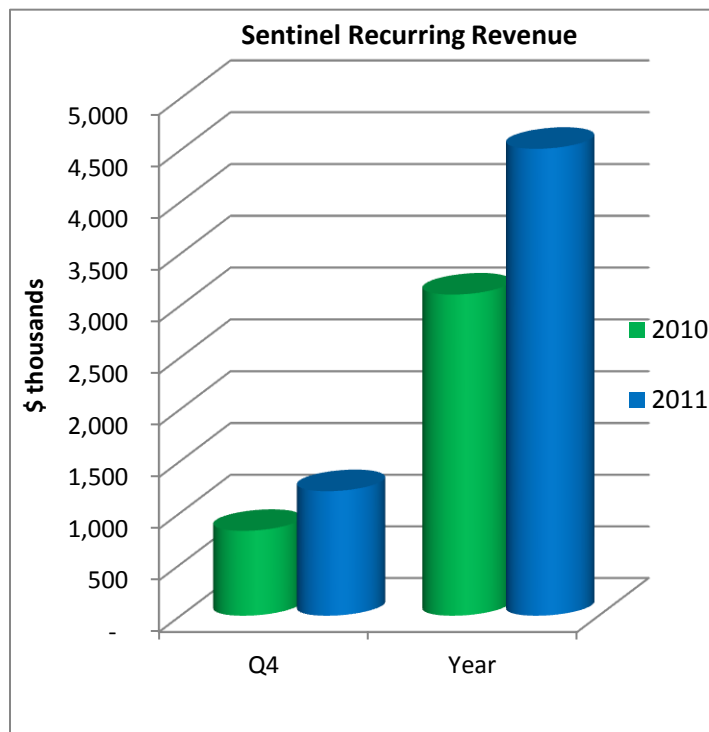
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Our longstanding strategy is to continually increase our monthly recurring revenues. For the three and twelve months ended September 30, 2011, our recurring revenues have increased by 7% and 13%, respectively, over the prior periods due to a 53% increase in the number of core fleet management solution subscribers over prior year. Our core Sentinel product recurring revenues have increased 47% or \$384 and 45% or \$1,407, respectively, for the three and twelve months ended September 30, 2011 over the prior year comparative periods.

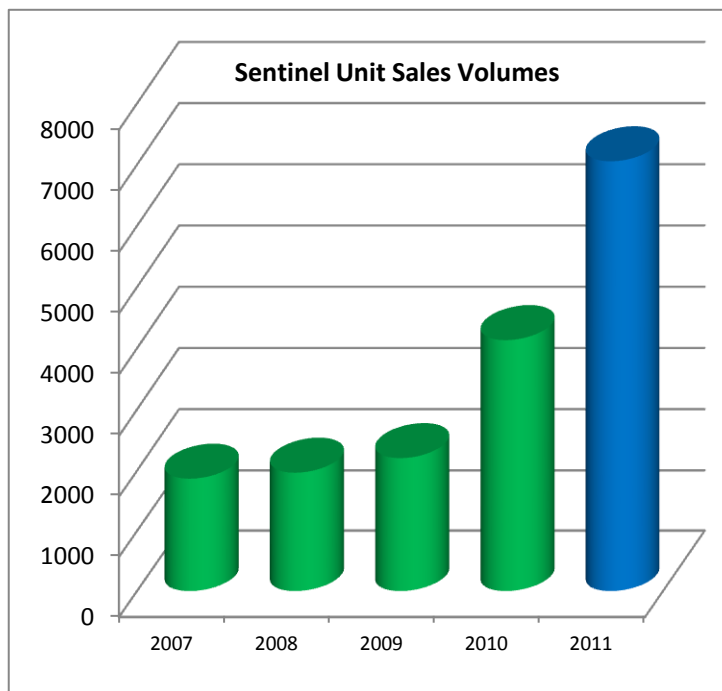
Hardware and other revenue for the three and twelve months ended September 30, 2011 decreased by \$78 or 7% and \$149 or 3%, respectively, over the prior year comparatives. This decrease is comprised of:

- a \$67 or 7% and \$462 or 11% increase in our core hardware sales business for the three and twelve months ended September 30, 2011, respectively; and
- \$126 or 77% and \$591 or 59% decrease in insurance business for the three and twelve months ended September 30, 2011, respectively.



(ii) Sentinel solution

Our core fleet management solutions continue to grow with 7,424 units sold in 2011, a 39% increase over 2010. For the three months ended September 30, 2011, 1,461 units were sold, a 3% decrease over the same period in prior year. Our core product, the Sentinel solution, has grown in unit volumes every year over the last 5 years, with an 87% volume growth in 2010 and a volume growth of 71% in 2011.



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c) Gross profit

The gross profit for the three and twelve months ended September 30, 2011 increased by \$183 or 10% and \$648 or 8%, respectively, over the same periods last year commensurate with increased revenues for the same periods. Gross profit margins vary depending on the mix of sales in the period. Hardware and other sales typically generate lower gross margins than recurring service revenues and larger volume hardware sales generate lower gross margins than smaller volume sales. The overall gross margin for the three and twelve months ending September 30, 2011 of 62% and 61%, respectively, compared to 58% and 61%, respectively, for the prior year comparative margins, is comprised of generally increasing recurring revenue margins net of decreasing margins in hardware and other revenues.

Recurring revenue margins for the three and twelve months ended September 30, 2011 were 76% and 75%, respectively, as compared to 76% and 70%, respectively, for the same periods in 2010. The full year increase of 5 percentage points in recurring revenue margins is due to the growing subscription base.

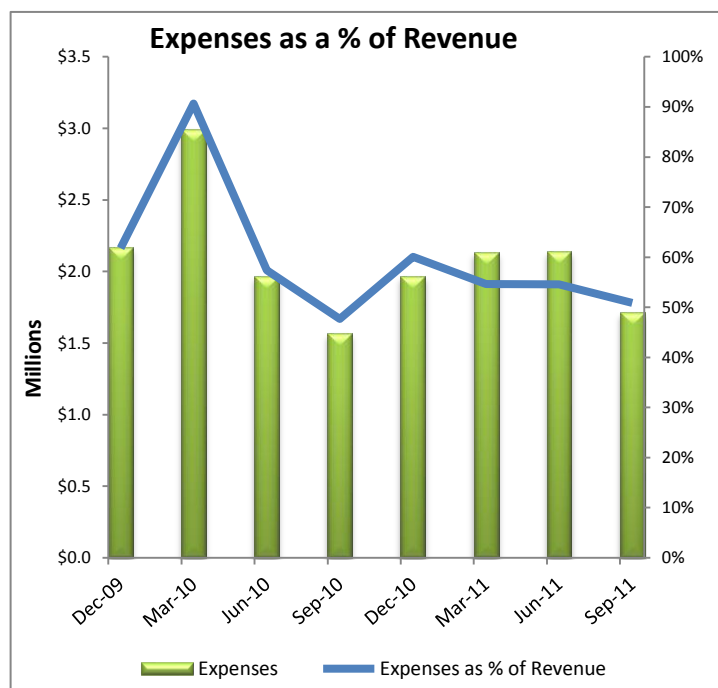
The hardware and other revenue margins for the three and twelve months ending September 30, 2011 are 32% and 38%, respectively, compared to 25% and 47%, respectively, over prior year comparatives. The increase in margin in the fourth quarter is due to an inventory obsolescence adjustment in prior year's fourth quarter. The decrease in margin for the full year is due to a combination of large volume sales and sales through channel partners, which generate lower margins, and a decrease in the insurance business margins due to a provision for inventory obsolescence reflected in current year results.

We expect that our Services revenues, which have higher margins, will continue to increase as we expand our subscriber base.

d) Expenses

In 2010, we incurred various restructuring costs as a result of the purchase of Datacom in September 2009. During 2010 and 2011, we made significant efforts to streamline our processes and right-size our organization. As a result, our overall expenses in 2011 have dropped by \$804 or 9% over 2010, bringing expenses down to 55% of revenues for 2011 from 65% for 2010.

For fourth quarter, we had a 3% increase of \$54 in expenses over the prior year.



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(\$ thousands)	Three months ended September 30					Twelve months ended September 30				
	2011		2010		Better (Worse)	2011		2010		Better (Worse)
Sales & marketing	\$ 472	28%	\$ 392	24%	(21%)	\$1,870	23%	\$2,083	24%	10%
R&D, before ITC's	346	20%	307	19%	(13%)	1,461	18%	1,619	18%	10%
ITC's	(97)	(6%)	(256)	(16%)	(62%)	(255)	(3%)	(298)	(3%)	(15%)
R&D, net of ITC's	249	15%	51	3%	(388%)	1,206	15%	1,321	15%	9%
G&A	984	58%	1,167	72%	19%	4,900	61%	5,376	61%	9%
Total Expenses	\$1,705	100%	\$1,610	100%	(6%)	\$7,976	100%	8,780	100%	9%

(i) Sales & marketing expenses

Sales & Marketing expenses include the salaries and commissions of sales staff, commissions of third parties, advertising, promotions, and other costs such as travel, meals, and telephone. These expenses decreased by \$213 or 10% from prior year due primarily to \$90 of reduced staffing costs, \$60 in lower third party commissions, and \$46 in lower advertising costs. The \$81 or 21% increase in costs in the fourth quarter over prior year's fourth quarter was primarily due to increased staffing costs (salaries and commissions) resulting from the new sales staffing, primarily in the USA, consistent with our growth strategy.

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.

(ii) Research and development expenses

Research and development expenses ("R&D") consist of employee salaries and expenses related to development personnel and consultants, as well as expenses associated with software and hardware development. Scientific research and investment tax credits ("ITC's") are also recorded in this category. Net R&D costs (net of ITC's) decreased by \$115 or 9% for the full year over prior year, due to lower staffing costs during the early part of the year. The fourth quarter results indicate a \$198 or 388% increase in net R&D costs for the quarter over the prior year's fourth quarter. This increase is primarily due to a \$159 difference in the amount of ITC's recorded in those two comparative quarters and increased staffing costs as we enhanced our R&D staffing levels in accordance with our growth strategy. We recorded \$159 more in ITC's in the 2010 fourth quarter compared to current fourth quarter.

We continue to expand our R&D team and invest in R&D activities to maintain our technical leadership and enhance our solutions roadmap. We believe that investing in R&D will lower existing manufacturing

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costs and allow us to add new product and service features that will increase our revenue and margins in future periods.

(iii) General and administrative expenses

General and administrative expenses ("G&A") consists of employee salaries and expenses related to the administration personnel and consultants, the operations personnel and consultants, all professional fees (legal, audit, tax, consultants) as well as all of the overhead expenses associated with maintaining the offices, complying with all required reporting, board of directors related costs, etc. G&A costs decreased by \$183 or 16% and \$476 or 9%, respectively, for the three and twelve months ended September 30, 2011 over prior year's comparative periods. This decrease is primarily as a result of the continued efforts to streamline processes and right-size staffing. Specifically, restructuring costs decreased by \$413 over 2010. We also had decreased spending in both the quarter and the full year in staffing costs, bad debts and insurance.

(iv) Investment tax credits

BSM Technologies is entitled to certain Canadian investment tax credits ("ITC's") for qualifying research and development activities performed in Canada. The ITC's 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. We recorded ITC's of \$97 and \$255 for the three and twelve month periods ended September 30, 2011, respectively, compared to \$256 and \$298, respectively, for the prior year periods.

e) Other expenses (income)**Other Expenses (Income) Details**

(\$ thousands)	Three months ended September 30			Twelve months ended September 30		
	2011	2010	Better (Worse)	2011	2010	Better (Worse)
Interest	\$ 0	\$ 2	81%	\$ 3	\$ 16	83%
Notional charges preferred shares	-	-	-	-	25	100%
Amortization of property and equipment	39	39	0%	113	154	27%
Amortization of intangible assets	56	277	80%	281	567	50%
Interest income	(22)	(9)	130%	(80)	(31)	158%
Write-off of goodwill	-	1,856		-	1,856	
Total Expenses	\$ 74	\$2,164	97%	\$ 316	\$2,586	88%

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(i) Interest expenses

Interest expense decreased by \$2 or 81% and \$13 or \$83%, respectively, for the three and twelve months ended September 30, 2011 over the prior year's comparative periods. The decrease is primarily to improved cash management procedures.

(ii) Amortization of property and equipment

Amortization of property and equipment for the three and twelve months ended September 30, 2011 was \$39 and \$113, respectively, compared to \$39 and \$154, respectively, for prior year's comparative periods. We are planning on increasing the spending on property and equipment in order to continue to enhance our service offering to existing and future customers.

(iii) Amortization of intangible assets

Amortization of intangible assets for the three and twelve months ended September 30, 2011 was \$56 and \$281, respectively, compared to \$277 and \$567, respectively, for the prior year's comparative periods. The decrease in current year's amortization is due to certain intangibles being fully amortized in the early part of 2011.

(iv) Write-off of goodwill

We periodically assess the carrying value of goodwill. On September 30, 2011, we performed the required annual impairment test and determined that there was no impairment of the recorded goodwill. On September 30, 2010, we realized that our growth strategy 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 was not meeting expectations and accordingly we wrote-off the remaining goodwill from the SecTrack acquisition in the amount of \$1,856.

f) Net income

Net income for the three and twelve months ended September 30, 2011 was \$319 or \$0.001 per share and \$578 or \$0.002 per share, respectively, on a diluted basis (2010 – net loss of \$1,859 or \$0.008 loss per share and net loss of \$3,143 or \$0.014 loss per share, respectively). The earnings per share ("EPS") for the three and twelve months was also impacted by an increase in weighted average number of common shares due to the issuance of common shares from the conversion of the preferred shares on December 15, 2010.

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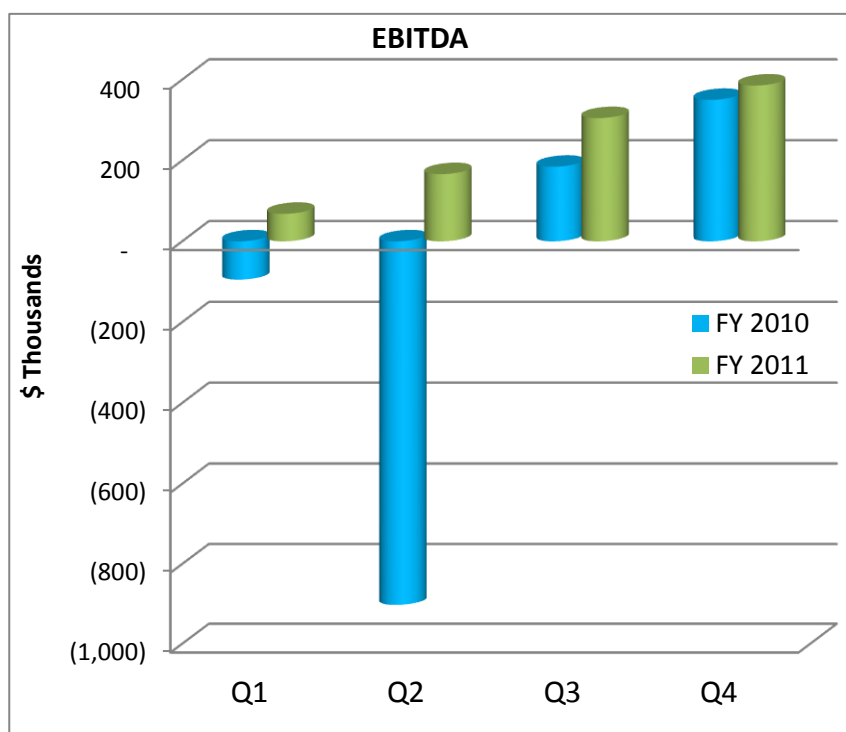
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(\$ thousands, except per share data and number of shares)	Three months ended September 30		Twelve months ended September 30	
	2011	2010	2011	2010
Numerator				
Net income (loss) for the period	\$ 319	\$ (1,859)	\$ 578	\$ (3,143)
Denominator				
Weighted average number of common shares outstanding				
- basic and diluted	292,708,302	226,952,747	279,196,887	226,952,747
Earnings (loss) per share				
- basic and diluted	\$ 0.001	\$ (0.008)	\$ 0.002	\$ (0.014)

We anticipate that as the benefits of our solutions become more broadly recognized, sales cycles will become shorter and contracted quantities larger. This transition, together with increasing revenues and our relatively fixed operating infrastructure costs, will continue to improve profitability.

g) EBITDA (Earnings before interest, tax, depreciation, amortization and other non-cash charges (stock-based compensation expense and goodwill impairment))

We have recorded our sixth consecutive positive quarterly EBITDA in a row. EBITDA for the three and twelve months ended September 30, 2011 was \$385 and \$925, respectively, representing a \$35 or 10% and \$1,388 or 300%, respectively, improvement over 2010 comparable periods. EBITDA is a non-GAAP measure and also excludes stock-based compensation expense and goodwill impairment charges. As EBITDA is a non-GAAP measure, it is not universally defined. See "Non-GAAP measures" for reconciliation of net income to EBITDA.



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Total assets by geographic region are as follows:

(\$ thousands)	September 30, 2011		September 30, 2010		Better (Worse)
Canada	\$ 8,229	100%	\$ 7,283	94%	11%
Belgium	38	0%	433	6%	(91%)
	\$ 8,267	100%	\$ 7,716	100%	6%

The majority of the assets reside in Canada. Assets have increased over prior year due primarily to an increase of cash of approximately \$1,041, resulting from improved cash from operations.

i) Summary of quarterly data

The following table sets forth certain unaudited information for each of the eight most recent quarters, the last of which ended September 30, 2011. The annual information has been derived from our audited consolidated financial statements, while quarterly information has been derived from our unaudited consolidated financial statements that we feel 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.

(\$ thousands, except per share data)	2010				2011			
	Q1	Q2	Q3	Q4 (3)	Q1	Q2	Q3	Q4
Revenue	\$3,505	\$3,299	\$3,420	\$3,282	\$3,268	\$3,902	\$3,915	\$3,366
Gross profit	2,072	2,087	2,148	1,915	2,032	2,299	2,442	2,098
Expenses	2,167	2,990	1,964	1,565	1,964	2,133	2,137	1,713
EBITDA ⁽¹⁾	(95)	(903)	185	350	68	166	305	385
Other expenses (income) ⁽²⁾	141	169	162	2,209	156	58	66	66
Income (loss) ⁽²⁾	(236)	(1,071)	22	(1,859)	(88)	108	239	319
EPS - Basic & Diluted	\$ (0.001)	\$ (0.005)	\$ 0.000	\$ (0.008)	\$ 0.000	\$ 0.000	\$ 0.001	\$ 0.001

(1) EBITDA is a non-GAAP financial measure. See explanation of EBITDA below under heading "Non-GAAP Measures"

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

(3) Loss for period includes \$1,856 related to the write-off of the goodwill of the SecTrack investment.

We generated positive EBITDA for the last six consecutive quarters and net income for the last three consecutive quarters. Historically, our results have fluctuated on a quarterly basis. Due to the complexity of some of the products and services and the significant volumes, 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.

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This document is dated January 23, 2012**5. LIQUIDITY AND CAPITAL RESOURCES****a) Liquidity**

We generated \$1,054 and \$2,621 more cash for the three and twelve months ended September 30, 2011, respectively, compared to the same periods in 2010:

(\$ thousands)	Three months ended September 30			Twelve months ended September 30		
	2011	2010	Change	2011	2010	Change
Cash, beginning of period	\$ 761	\$ 774	\$ (13)	\$ 917	\$ 2,497	\$ (1,580)
Cash, end of period	1,958	917	1,041	1,958	917	1,041
Increase (decrease) in cash	1,197	143	1,054	1,041	(1,580)	2,621
Change in cash due to:						
Operations	1,474	208	1,267	1,612	(1,353)	2,965
Financing activities	(3)	(58)	55	(254)	(215)	(39)
Investing activities	(275)	(6)	(268)	(317)	(12)	(305)
Total change in cash	1,197	143	1,054	1,041	(1,580)	2,621

We used \$268 and \$305 more cash, respectively, for the three and twelve months ended September 30, 2011 as compared to the prior year's comparative periods in investing activities due to acquisition of new licenses, internally generated intangible assets and office equipment in the new leased premises.

(\$ thousands)	Three months ended September 30			Twelve months ended September 30		
	2011	2010	Change	2011	2010	Change
Operating activities:						
Income (loss) for the period	\$ 319	\$(1,859)	\$2,178	\$ 578	\$(3,143)	\$3,722
Items not involving cash:						
Amortization of property & equipment	39	39	-	113	154	41
Notional charges preferred shares	-	0	-	-	25	(25)
Amortization of intangible assets	56	277	221	281	567	286
Stock-based compensation expense	(8)	44	52	30	94	64
Write-off of goodwill	-	1,856	1,856	-	1,856	1,856
Change in non-cash operating working capital	1,067	(150)	1,217	610	(906)	1,516
Net cash provided by (used in) operating activities	\$ 1,474	\$ 208	\$1,267	\$1,612	\$(1,353)	\$2,965

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For the three and twelve months ended September 30, 2011, we generated \$1,267 and \$2,965 more in cash from operations, respectively, over the prior year's comparative periods due to improvements in revenues and reduction of expense.

The components of the change in non-cash operating working capital were as follows:

(\$ thousands)	Three months ended September 30			Twelve months ended September 30		
	2011	2010	Change	2011	2010	Change
Decrease (Increase):						
Accounts receivable	\$ 734	\$ (344)	\$ 1,078	\$ (139)	\$ (195)	\$ 56
Net investment in sales-type leases						
including long term portion	142	98	44	236	(379)	615
Investment tax credits receivable	(97)	34	(131)	136	(8)	144
Inventories	205	163	42	257	25	232
Prepaid expenses and other assets	(164)	(42)	(122)	(76)	(11)	(65)
	\$ 820	\$ (91)	\$ 911	\$ 414	\$ (568)	\$ 982
Accounts payable and accrued liabilities	307	(72)	379	228	(258)	486
Deferred revenue	(60)	13	(73)	(32)	(80)	48
	\$ 247	\$ (59)	\$ 306	\$ 196	\$ (338)	\$ 534
Net increase in non-cash working capital	\$ 1,067	\$ (150)	\$ 1,217	\$ 610	\$ (906)	\$ 1,516

Our total current assets at September 30, 2011 are \$5,609 (September 30, 2010 - \$4,850). At September 30, 2011, the working capital was \$1,938 (September 30, 2010 - \$1,209). The approximate \$1.0 million increase in working capital is due primarily to a net increase in cash. Working Capital has been calculated by netting current assets and current liabilities, excluding deferred revenue which is a non-cash item.

Accounts receivable of \$2,076 as at September 30, 2011 compared with \$1,937 at September 30, 2010. The increase is due primarily to the increase in revenues and the timing of the sales. We have reviewed the accounts receivable balances as at September 30, 2011, and believe that an adequate provision has been made for doubtful accounts.

As at September 30, 2011, the net investment in sales-type leases, including the long term portion, amounted to \$1,004 (September 30, 2010 - \$1,240). The net decrease is due to higher lease payments compared to the amount of new lease contracts added to the pool.

Inventory decreased from \$683 at September 30, 2010 to \$427 at September 30, 2011 primarily due to the write-off of \$265 for the insurance product line, which is being phased out.

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b) Preferred share conversion

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 2008 Debentures and an aggregate of 29,166,666 warrants for an aggregate purchase price of \$1,575 (including an aggregate principal amount of \$162 BSM Debentures and 2,703,703 BSM Warrants purchased by Datacom for an aggregate purchase price of \$146). Amongst BEST Purchasers, ANR Solutions Inc. acquired \$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 65,755,555 Preferred shares in exchange for an aggregate principal amount of approximately \$3,288 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:

<i>(\$ thousands)</i>	2011	2010
Preferred shares (i)	\$ -	\$ 3,945
Dividends payable on Preferred shares (ii)	-	197
	\$ -	\$ 4,142

- (i) The fair value of 65,755,555 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 required payment of dividends at the rate of 8% until July 2010 was \$3,288. Total dividends accrued until September 30, 2010 were \$197 (2009 - \$177). 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.

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For the year ended September 30, 2010, non-cash Finance charges, representing the accretion of the carrying value of the Preferred shares, of \$25 (2009 - \$Nil), have been recognized in the consolidated statements of operations and deficit.

During the three and twelve months ended September 30, 2011, we paid \$nil and \$245, respectively, (2010 - \$nil and \$75, respectively) as dividends to the preferred shareholders. The last dividend payment was made in December 2010, upon conversion of the preferred shares to common shares. There are no outstanding preferred shares as at September 30, 2011.

c) Options

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 3,711,695 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.

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:

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	April 6, 2010	February 24, 2009
Risk-free rate	2.72%	1.27%
Expected volatility	92%	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	(2,121,051)	-	6.91
\$ 0.0943	617,070	(157,718)	459,352	5.93
\$ 0.1768	186,653	(93,326)	93,327	5.73
\$ 0.1977	1,609,147	(1,244,322)	364,825	4.61
	4,533,921	(3,616,417)	917,504	5.38

As at September 30, 2011, 9,574,168 (2010 - 11,392,603) options were outstanding at a weighted average exercise price of \$0.11. These options have a weighted average life of 2.7 years. There were no options issued in the fiscal year 2011.

d) Capital expenditures

Capital expenditures by cash for the three and twelve months ended September 30, 2011 were \$274 and \$317, respectively, compared with \$6 and \$12, respectively, for the comparable periods in 2010. The increase in capital expenditure is mainly attributed to the purchase of licences, internally generated intangible assets and office equipment for the new leased office premises. We anticipate continued increases in capital expenditures and lease commitments with our expected growth in operations and infrastructure.

e) Line of credit

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

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contains certain covenants that we are required to comply with. The Company has not used this facility to date and in addition, the Company has invested a portion of its Cash in hand in Short Term Investments.

6. RELATED PARTY TRANSACTIONS

The related parties are considered to have significant influence over BSM Technologies as defined under CICA Handbook Section 3840.

The Company has identified Nick Cirella, a director and former President and CEO of the Company, Applied Innovations Group Inc. and other companies under Mr. Cirella's control as related parties. The related parties are considered to have significant influence over the Company as defined under CICA Handbook Section 3840, Related Party Transactions. During the three and twelve months ended September 30, 2011, the Company paid nil and \$68, respectively, (2010 - \$13 and \$68, respectively) to a company under Mr. Cirella's control as consulting fees under a management consulting contract between the Company and Mr. Cirella. During the three and twelve months ended September 30, 2011, the Company paid nil and \$24, respectively, to a company under Mr. Cirella's control as preferred dividends (2010 - nil) .

7. COMMITMENTS**a) Operating leases**

We entered into leases for premises with the following total minimum annual payments:

Year	\$ thousands
2012	\$ 295
2013	379
2014	395
2015	415
2016 and later years	1,676
	\$ 3,161

b) Capital leases

We have entered into 36-month capital lease agreements with third parties for computer hardware. We recorded interest expense for the three and twelve months ended September 30, 2011 of \$0.2 and \$1, respectively, (2010 – \$0.3 and \$2.5, respectively).

The obligations under capital leases are secured by a lien on the equipment leased. Future minimum capital lease payments are as follows:

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Year	<i>\$ thousands</i>	
2012	\$	9
2013		2
Present value of future minimum lease payments <i>(includes imputed interest of \$0.4)</i>		11
less: Current Portion		9
Long-term portion of lease payments	\$	2

8. OUTSTANDING SHARE DATA

BSM's authorized share capital consists of an unlimited number of Common shares. As at September 30, 2011 there were 293,256,117 outstanding Common shares, including 547,815 Common shares remaining in escrow; the release of which is subject to performance conditions in terms of attaining certain cash flow levels.

As at September 30, 2011, there were 9,574,168 outstanding options to acquire Common shares to directors and employees of the Company at a weighted average price of \$0.11.

As of September 30, 2011, the Company had no outstanding warrants to acquire Common shares.

As at September 30, 2010, there were 65,755,555 non-cumulative 8% first preferred shares outstanding. There were no second preferred shares issued and outstanding. On December 15, 2010, the Company paid the final dividends on these preferred shares of \$245 and then converted the preferred shares into common shares. As a result, 65,755,555 common shares were issued.

9. OFF-BALANCE SHEET ARRANGEMENTS

As at September 30, 2011, BSM does not have any off balance sheet arrangements, other than lease commitments as disclosed in this Management discussion and analysis.

10. CRITICAL ACCOUNTING POLICIES**a) Critical accounting policies**

This MD&A has been prepared with reference to the year ended September 30, 2011 audited consolidated financial statements and notes thereto, which has been prepared in accordance with Canadian GAAP. The Audit Committee of the Board reviews the accounting policies, reviews all quarterly and annual filings, and recommends approval of the consolidated financial statements to the Board. For a detailed discussion of our accounting policies, see Note 1 to the year ended September 30, 2011

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audited consolidated financial statements. In addition, discussions of critical accounting estimates are discussed in the section "Critical Accounting Estimates".

(i) 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 or determinable, final delivery has occurred, the risks and rewards of ownership have been passed to the customer and there is reasonable assurance that the amounts are collectible. The Company provides limited warranties on certain products which may extend beyond manufacturer's warranty; hence, it provides for the estimated cost of product warranties. 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 refunds 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 or 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.

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

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

b) 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 significant judgments and estimates affect its critical accounting policies used in the preparation of its consolidated financial statements.

(ii) 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.

(iii) 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

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with its fair value. When the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill, determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount to measure the amount of the impairment loss, if any.

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.

(iv) 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.

(v) 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 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

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estimate of the expected volatility over the respective terms of the options. The expected life of the option is based on the expected length of time options are estimated to remain outstanding.

(vi) 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.

(vii) Purchase price allocations

The allocations of the purchase prices for 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 involves the use of discounted cash flow analyses.

(viii) 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.

(ix) 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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(x) 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.

c) Adoption of new accounting pronouncements

On February 13, 2008, the Canadian Accounting Standards Board ("AcSB") confirmed the mandatory International Financial Reporting Standards ("IFRS") changeover date for Canadian profit-oriented publicly accountable entities ("PAEs"). This means that PAEs will be required to prepare financial statements in accordance with IFRS for interim and annual financial statements for fiscal years beginning on or after January 1, 2011.

(i) Transition to IFRS

The Company's transition date of October 1, 2011 will require the restatement, for comparative purposes, of amounts reported by the Company for the year ended September 30, 2011. The Company will issue its first annual and interim consolidated financial statements prepared under IFRS for its fiscal year ended September 30, 2012 and three months ended December 31, 2011, respectively, with restatement of comparative information presented.

The Company's IFRS transition plan includes:

- Phase 1: preliminary and diagnostic study ;
- Phase 2: component evaluation and issues resolution; and,
- Phase 3: prepare financial statements and integrate change.

Phases 1 and 2 have been completed. The Company has commenced preparation of a number of position papers for phase 3. To date, a reconciliation of the Company's 2011 Canadian GAAP financial statements to IFRS has not been finalized. Accordingly, the impact of adopting IFRS on the Company's financial position and results of operations as at and for the year ended September 30, 2011 will be disclosed in the first quarter financial statements.

Based on the results of the Company's analysis of its accounting policies under IFRS to date, the Company does not expect that the transition to IFRS will have a significant impact on its financial results, internal control over financial reporting, disclosure controls and procedures and business activities. As part of its IFRS transition plan, the Company will continue to review the impact on its disclosure controls and procedures and internal control over financial reporting which will result from future changes to IFRS standards.

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This document is dated January 23, 2012**(ii) First-time adoption of IFRS**

IFRS 1 "First-Time Adoption of International Financial Reporting Standards" provides entities adopting IFRS for the first time a number of optional exemptions and mandatory exemptions in certain areas to the general requirement for full retrospective application of IFRS. The Company has followed all mandatory exemptions. The company has also evaluated all optional exemptions, mainly Business Combinations, Currency Translation differences and Property Plant & Equipment.

The following table highlights some of the key activities in the Company's IFRS changeover plan as at September 30, 2011.

IFRS Impact Area	Key Activities	Current Status
Accounting policies and financial statement preparation	Identification of significant accounting differences	The company is in later stages of finalizing the review and will be ready in time for the first quarter fiscal 2012 reporting. The company has identified only one major impact of Foreign exchange gain/loss for translation of foreign subsidiary of approximately \$54.
	Determine note disclosure requirements due to changes	The review of note disclosure is in progress.
Information technology and data systems	IT impact assessment and conversion.	It has been completed and there is no impact.
Control environment	Assessment of impact on Internal Control over Financial Reporting and Disclosure Controls & Procedures	It has been completed and there is no impact.
	Implement processes to accommodate IFRS and documentation requirements	Processes have been designed and will be implemented for Q1 2012 certification.
Training	Determine the required changes to financial systems.	Completed.

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. The Company is on schedule with the implementation process.

The Company will cease to prepare its consolidated financial statements in accordance with Canadian GAAP for the periods beginning on October 1, 2011 when it will start to apply International Financial Reporting Standards as published by the International Accounting Standards Board. Consequently, future

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accounting changes to Canadian GAAP are not discussed in these consolidated financial statements as they will never be applied by the Company.

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.

11. 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

BSM 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 our capital structure, we take into consideration various factors, including the growth of our business and related infrastructure and the up-front cost of taking on new customers. BSM's officers and senior management are responsible for managing our capital and do so through quarterly meetings and regular review of financial information.

BSM's Board of Directors is responsible for overseeing this process. They manage our 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 10 on financial instruments and capital disclosure in the consolidated financial statements.

12. 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.

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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.

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.

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. Telematics security and surveillance market is an evolving business and as such, 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; rapid changes in foreign exchange rates may adversely affect our financial results; 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.

13. 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 EBITDA to net income (loss):

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(\$ thousands)	FY 2010				FY 2011				FY	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2010	2011
Net income (loss)	(\$236)	(\$1,071)	\$22	(\$1,859)	(\$88)	\$108	\$239	\$319	(\$3,144)	\$578
Interest	5	6	4	2	1	1	0	0	16	3
Notional charges on preferred shares	7	7	10	-	-	-	-	-	25	-
Amortization of property and equipment	39	38	38	39	26	18	29	39	154	113
Amortization of intangible assets	97	97	97	277	135	45	45	56	568	281
Stock compensation	-	27	23	44	13	13	13	(8)	94	30
Interest Income	(6)	(6)	(10)	(10)	(19)	(19)	(21)	(22)	(31)	(80)
Write-off of goodwill	-	-	-	1,856	-	-	-	-	1,856	-
EBITDA	(\$95)	(\$902)	\$185	\$350	\$68	\$166	\$305	\$385	(\$463)	\$925

14. DISCLOSURE CONTROLS AND PROCEDURES

BSM Management is responsible for the information disclosed in this MD&A 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, 2011, 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 ("NI 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, 2011 to provide reasonable assurance that material information relating to BSM Technologies and its consolidated subsidiaries would be made known to them by others within those entities.

15. INTERNAL CONTROL OVER FINANCIAL REPORTING

NI 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, 2011 and based on this evaluation, management has concluded that the design of internal control over financial reporting was effective as of September 30, 2011.

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16. CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Under the provisions of NI 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.

17. 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.

18. FURTHER INFORMATION

Additional information relating to the Company is available on SEDAR at www.sedar.com.

19. CERTIFICATION

The Company has complied with the NI 52-109

20. 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

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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.