# Management's Discussion & Analysis

## Three and twelve months ended September 30, 2016 and 2015

# General Information

This management's discussion and analysis ("MD&A") contains important information about our business and our performance for the three and twelve months ended September 30, 2016, as well as forward-looking information about future periods. This MD&A should be read in conjunction with our consolidated financial statements for the fiscal year ended September 30, 2016 and the notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board; our Annual Information Form ("AIF") for the fiscal year ended September 30, 2016; and our other recent filings with Canadian securities regulatory authorities, which are available on SEDAR at www.sedar.com.

All dollar amounts within this MD&A are presented in thousands of Canadian dollars unless otherwise stated. All percentage changes are calculated using the rounded numbers as they appear in the tables. This MD&A is current as of December 14, 2016 and was approved by the Board of Directors on that date. This MD&A includes forward-looking statements and assumptions. See the "About Forward-Looking Information" section of this MD&A for more information. "We", "us", "our", "BSM" and the "Company" refer to BSM Technologies Inc. and its subsidiaries.

In this MD&A, "this quarter" or "current quarter" refers to the three months ended September 30, 2016, which is the fourth quarter of our 2016 fiscal year. All results commentary is compared to the equivalent periods in fiscal 2015 or as at September 30, 2015, as applicable, unless otherwise indicated (the "Prior Periods").

This MD&A contains references to certain non-GAAP financial measures such as EBITDA, adjusted EBITDA and recurring revenue and key performance indicators (KPIs) such as Subscriber, Subscriber Churn and ARPU which do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other issuers. These non-GAAP financial measures and KPIs should be viewed as a supplement to, not as a substitute for, the Company's results of operations reported under IFRS. These measures are identified and defined in the "Non-GAAP Financial Measures and KPIs" section of this MD&A.

BSM is a publicly traded corporation on the Toronto Stock Exchange (TSX: GPS). On September 30, 2015, we acquired all of the outstanding shares of Webtech Wireless Inc. ("Webtech"). Webtech was a corporation publicly traded on the Toronto Stock Exchange headquartered in Vancouver, British Columbia, Canada with a focus on providing GPS fleet management solutions to government and enterprise customers. Details of the acquisition of Webtech are described in the joint management information circular dated August 19, 2015 which is available on SEDAR at www.sedar.com. The operating results of the Company for the three and twelve months ended September 30, 2016 are prepared on a consolidated basis and include the operating results of Webtech. The comparable periods in fiscal 2015 do not include the operating results of Webtech. The acquisition of Webtech has led to significant changes in our operating results, which should be considered when comparisons to the Prior Periods are made.

Following the acquisition of Webtech, we re-evaluated the presentation of our financial information. Through this process, we have revised the presentation of certain aspects of the financial information disclosed. We consider the current period presentation to be most closely aligned with the organizational structure and operating nature of the Company following the acquisition of Webtech and provides a more relevant, reliable and understandable presentation of financial information.

As a result of this change in presentation, the Prior Periods have been reclassified as follows:

- Comparative disclosure for the three months ended September 30, 2015: a $917 increase in cost of revenue and a $917 decrease in operations expenses.
- Comparative disclosure for the twelve months ended September 30, 2015: a $3,783 increase in cost of revenue and a $3,783 decrease in operations expenses.
- Additionally, we have further disaggregated revenue in our detailed revenue disclosure. We have added services revenue as an additional revenue stream. Prior to being separately disclosed, services revenue had

been disclosed together with hardware revenue in a line titled "hardware and other revenue." Specifically, comparative information for the three months ended September 30, 2015 has been reclassified by decreasing hardware revenue by $322 and by separately disclosing services revenue of $322 ($1,634 for the twelve-month period ended September 30, 2015).

There was no other impact to the financial information presented herein as a result of the change in presentation described above.

# Summary of Consolidated Financial Results

### *Consolidated Statements of Income and Comprehensive Income*

| | Three months ended September 30 | | | | Twelve months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| *($ thousands)* | **2016 ($)** | 2015 ($) | Change ($) | Change (%) | **2016 ($)** | 2015 ($) | Change ($) | Change (%) |
| Revenue | **14,965** | 7,486 | 7,479 | 100% | **58,997** | 30,691 | 28,306 | 92% |
| Cost of revenue | **6,378** | 3,615 | 2,763 | 76% | **26,000** | 15,035 | 10,965 | 73% |
| Impairment of inventories | **-** | - | - | - | **-** | 389 | (389) | (100%) |
| Gross profit | **8,587** | 3,871 | 4,716 | 122% | **32,997** | 15,267 | 17,730 | 116% |
| Interest income from finance leases | **42** | 33 | 9 | 27% | **189** | 124 | 65 | 52% |
| General and administrative expenses | **2,679** | 1,371 | 1,308 | 95% | **10,329** | 5,527 | 4,802 | 87% |
| Research and development expenses | **2,204** | 1,649 | 555 | 34% | **8,641** | 6,096 | 2,545 | 42% |
| Sales and marketing expenses | **3,482** | 1,425 | 2,057 | 144% | **12,894** | 5,574 | 7,320 | 131% |
| Acquisition, integration and restructuring expenses | **219** | 2,166 | (1,947) | (90%) | **1,151** | 2,558 | (1,407) | (55%) |
| Fair value adjustments on contingent consideration | **(1,704)** | (1,726) | 22 | 1% | **(1,854)** | (3,201) | 1,347 | 42% |
| Foreign exchange (gain) loss | **(223)** | (282) | 59 | 21% | **66** | (689) | 755 | 110% |
| Net interest expense | **138** | 158 | (20) | (13%) | **549** | 647 | (98) | (15%) |
| Total expenses | **6,795** | 4,761 | 2,034 | 43% | **31,776** | 16,512 | 15,264 | 92% |
| Income (loss) before income taxes | **1,834** | (857) | 2,691 | 314% | **1,410** | (1,121) | 2,531 | 226% |
| Current tax expense | **11** | 5 | 6 | 120% | **62** | 5 | 57 | nm |
| Deferred tax recovery | **(7,312)** | (1,341) | (5,971) | (445%) | **(6,261)** | (1,144) | (5,117) | nm |
| Net income for the period | **9,135** | 479 | 8,656 | nm | **7,609** | 18 | 7,591 | nm |
| Foreign exchange gain (loss) on foreign operations, net of tax | **36** | 222 | (186) | (84%) | **(113)** | 509 | (622) | (113%) |
| Total comprehensive income for the period | **9,171** | 701 | 8,470 | nm | **7,496** | 527 | 6,969 | nm |
| EBITDA(i) | **3,485** | 201 | 3,284 | 1,634% | **8,282** | 3,004 | 5,278 | 176% |
| Adjusted EBITDA(i) | **2,033** | 494 | 1,539 | 312% | **8,353** | 2,612 | 5,741 | 220% |

(i) *EBITDA and Adjusted EBITDA are non-GAAP financial measures and do not have any standardized meaning under IFRS. Therefore, they are unlikely to be comparable to similar measures presented by other companies. See the “Non-GAAP Financial Measures and KPIs” section of this MD&A for more details, including reconciliations to the most comparable IFRS financial measure.*

### *Revenues by Geographical Location (based on customer location)*

| | Three months ended September 30 | | | | Twelve months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| *($ thousands)* | **2016** | | 2015 | | **2016** | | 2015 | |
| Canada | **$ 5,505** | *37%* | $ 4,238 | 57% | **$ 24,855** | *42%* | $ 16,242 | *53%* |
| United States | **9,179** | *61%* | 3,053 | 40% | **32,857** | *56%* | 13,645 | *44%* |
| International | **281** | *2%* | 195 | 3% | **1,285** | *2%* | 804 | *3%* |
| Total revenue | **$ 14,965** | *100%* | $ 7,486 | 100% | **$ 58,997** | *100%* | $ 30,691 | *100%* |

# Key Changes in Financial Results

| | Three months ended September 30 | | | | Twelve months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| *($ thousands)* | **2016 ($)** | 2015 ($) | Change ($) | Change (%) | **2016 ($)** | 2015 ($) | Change ($) | Change (%) |
| **Revenue** | | | | | | | | |
| Hardware revenue | **$ 4,363** | $ 1,890 | $ 2,473 | 131% | **$ 16,268** | $ 8,484 | $ 7,784 | 92% |
| Recurring revenue[ii] | **9,346** | 5,274 | 4,072 | 77% | **38,264** | 20,573 | 17,691 | 86% |
| Service revenue | **1,256** | 322 | 934 | 290% | **4,465** | 1,634 | 2,831 | 173% |
| **Total revenue** | **14,965** | 7,486 | 7,479 | 100% | **58,997** | 30,691 | 28,306 | 92% |
| **Cost of revenue** | | | | | | | | |
| Hardware cost of revenue [i] | **2,890** | 1,177 | 1,713 | 146% | **11,339** | 5,862 | 5,477 | 93% |
| Recurring cost of revenue | **2,598** | 1,955 | 643 | 32% | **10,734** | 7,273 | 3,461 | 48% |
| Service cost of revenue | **890** | 483 | 407 | 84% | **3,927** | 2,289 | 1,638 | 72% |
| **Total cost of revenue** | **6,378** | 3,615 | 2,763 | 76% | **26,000** | 15,424 | 10,576 | 69% |
| **Gross profit** | | | | | | | | |
| Hardware gross profit | **1,473** | 713 | 760 | 107% | **4,929** | 2,622 | 2,307 | *88%* |
| Recurring gross profit | **6,748** | 3,319 | 3,429 | 103% | **27,530** | 13,300 | 14,230 | *107%* |
| Service gross profit | **366** | (161) | 527 | 327% | **538** | (655) | 1,193 | *182%* |
| **Total gross profit** | **8,587** | 3,871 | 4,716 | 122% | **32,997** | 15,267 | 17,730 | *116%* |
| **Gross profit margin** | | | | | | | | |
| Hardware gross profit margin [i] | **34%** | 38% | (4%) | (11%) | **30%** | 31% | (1%) | *(3%)* |
| Recurring gross profit margin | **72%** | 63% | 9% | 14% | **72%** | 65% | 7% | *11%* |
| Service gross profit margin | **29%** | (50%) | 79% | 158% | **12%** | (40%) | 52% | *130%* |
| **Total gross profit margin** | **57%** | 52% | 5% | 10% | **56%** | 50% | 6% | *12%* |

[i] *Hardware cost of revenue for the twelve months ended September 30, 2015 includes a $389 inventory impairment charge. Gross margin not including the impairment charge would have been 35%.*

[ii] *Recurring revenue is does not have any standardized meaning under IFRS. Therefore, they are unlikely to be comparable to similar measures presented by other companies. See the "Non-GAAP Financial Measures and KPIs" section of this MD&A for more details."*

### *Revenue*

The Company has identified one operating segment, telematics. Within telematics we have identified hardware revenue, recurring revenue and service revenue as three distinct revenue streams.

Hardware revenue is comprised of revenue recognized for the sale of our proprietary and third party telematics devices. Hardware revenue also includes the hardware portion of multiple element arrangements.
Hardware revenue increased by 131% and 92% for the three and twelve months ended September 30, 2016 as a result of increased unit sales of our telematics devices primarily as a result of the acquisition of Webtech.

Recurring revenue is comprised of monthly application service provider ("ASP") fees. ASP fees are charged to customers for access to our data portal and for the data reported from their monitored assets. Recurring revenue is typically contract in nature and we enter into services contracts with our customers, most of which are for a duration of 36 months or longer. ASP fees are generally charged to customers on a per asset basis where those assets are vehicles, equipment or other types of stationary and mobile equipment. These customer assets are defined by us as "Subscribers" or individually, "a Subscriber." Recurring revenue is typically billed monthly and is recognized as the services are delivered. Recurring Revenue is a non-GAAP financial measure, see the “Non-GAAP Financial Measures and KPIs” section of this MD&A for more details.

The acquisition of Webtech led to a significant increase in the number of Subscribers that generate monthly recurring revenue. For the three and twelve months ended September 30, 2016, recurring revenue increased by 77% and 86% compared to the Prior Periods. As at September 30, 2016, our Subscriber base totalled 152,100, an increase of 73,600 compared to the Subscriber base as at September 30, 2015 without including the Subscribers added in the Webtech acquisition. For the three months ended September 30, 2016 we achieved gross Subscriber additions of 6,200 and experienced Subscriber churn of 2,900 (additions of 2,000 and churn of 1,500 in the three months ended September 30, 2015). A Subscriber is a Non-GAAP KPI, see the “Non-GAAP Financial Measures and KPIs” section of this MD&A for more details.

The average monthly revenue per unit or Subsciber (“ARPU”) was $20.74 in the current quarter compared to $20.89 in the quarter ending September 30, 2015. ARPU will fluctuate between periods primarily related to the following factors: a change in the service offering or pricing; the impact of seasonality from winter operations Subscribers where a lower standby price is charged in the non-peak season; and a change in the effective foreign exchange rate on revenues generated in foreign currencies (primarily the US dollar). ARPU is a Non-GAAP KPI, see the “Non-GAAP Financial Measures and KPIs” section of this MD&A for more details.

Service revenue includes installation fees, project management fees, custom development fee revenue, cancellation fees and other one-time services provided to our customers. Compared to the prior period, service revenue increased by 290% and 173% for the three and twelve months ended September 30, 2016 as a result of increased volume and size of projects and services from the acquisition of Webtech.

## *Gross Profit and Gross Profit Margin*

Gross profit margins vary depending on both the mix of hardware product lines sold and the revenue stream mix in the period. Hardware sales typically generate lower gross margins than recurring revenue. Furthermore, larger volume hardware sales typically generate lower gross margins than smaller volume sales as a result of volume discounts. Total gross profit increased by 122% and 116% for the three and twelve months ended September 30, 2016 as a result of a significant increase in revenue from the combination of our business with Webtech.

Gross profit margin on hardware sales for the quarter ended September 30, 2016 and the fiscal year was 34% and 30% compared to 38% and 31% in the Prior Period. We expect the hardware margin to continue to trend in the 20% to 30% range.

Gross profit margin on recurring revenue increased to 72% from 63% for the quarter ended September 30, 2016 and increased to 72% from 65% for the fiscal year compared to the Prior Period. These increases are attributable to the inclusion of higher margin recurring revenue resulting from the acquisition of Webtech.

Gross profit margin on services revenue increased to 29% from (50%) for the quarter ended September 30, 2016 and increased to 12% from (40%) for the fiscal year compared to the Prior Period. The increase in gross profit

margin is attributable to better scale and efficiency as a result of integrating our professional and installation services teams with Webtech.

### *General and Administrative Expenses*

General and administrative ("G&A") expenses consist of employee salaries related to finance and administration personnel, professional fees (legal, audit, tax and consultants), public company expenses (listing fees, compliance and board of director fees and related expenses) and overhead expenses associated with maintaining the Company's premises. General and administrative expenses increased by 95% and 87% in the three and twelve months ended September 30, 2016 compared to the Prior Periods primarily as a result of the increase in our workforce following the acquisition of Webtech. For the three and twelve months ended September 30, 2016, general and administrative expenses include amortization and stock-based compensation expense of $180 and $891.

### *Research and Development Expenses*

Research and development ("R&D") expenses consist of employee salaries and expenses related to product development activities, consultant fees and other expenses associated with software and hardware development. The size of our research and development team increased following the completion of the acquisition of Webtech resulting in an increase in research and development expenses of 34% and 42% in the three and twelve months ended September 30, 2016.

### *Sales and Marketing Expenses*

Sales and marketing expenses include: employee costs of our pre-sales team of solutions engineers, the salaries, benefits and commissions of our direct sales team, advertising, promotions and other costs such as travel and meals. Sales and marketing expenses rose by 144% and 131% in the three and twelve months ended September 30, 2016, respectively, as a result of an increase in the size of our sales and marketing team resulting from the acquisition of Webtech as well as an increase in sales and marketing amortization from customer contracts and relationships acquired in the acquisition of Webtech. For the three and twelve months ended September 30, 2016, sales and marketing expenses include $1,036 and $4,355 of amortization of customer contracts and relationships acquired in the acquisitions we have completed over the past three years.

### *Foreign Exchange Gain (Loss)*

Foreign exchange gains and losses arise from the translation of assets and liabilities denominated in foreign currencies (primarily US dollar working capital). As at September 30, 2016, the US dollar was stronger relative to the Canadian dollar when compared to June 30, 2016. Due to the stronger US dollar, the revaluation of working capital balances gave rise to a $222 foreign exchange gain, which was recorded in net income in the current quarter. For the fiscal year, the US dollar weakened relative to the Canadian dollar leading to a $66 foreign exchange loss on working capital balances, which was recorded in net income.

### *Acquisition, Integration and Restructuring Expenses*

Acquisition, integration and restructuring expenses include costs we incur to acquire and integrate the businesses we purchase. The $219 and $1,151 of costs incurred during the three and twelve months ended September 30, 2016 include severance costs associated with the reduction of our workforce, office closure costs and other expenditures relating to restructuring the business following the Webtech acquisition.

### *EBITDA and Adjusted EBITDA*

In the three and twelve months ended September 30, 2016, EBITDA increased by 1,634% and 176%. In the current quarter and fiscal year, Adjusted EBITDA increased by 312% and 220% respectively. The increase is a result of an

increase in revenues and gross profit from the acquisition of Webtech and with relatively lower cash operating expenses as a result of cost synergies achieved. The larger size and scale of our combined business resulting from the acquisition of Webtech has led to an increase in our Adjusted EBITDA margins to 13.6% from 6.6% for the current quarter and 14.2% compared to 8.5% for the fiscal year. EBITDA and Adjusted EBITDA are a non-GAAP financial measures, see the "Non-GAAP Financial Measures and KPIs" section of this MD&A for more details.

## Summary of Quarterly Data

The following table sets forth certain information for each of the eight most recent quarters, including the current quarter ended September 30, 2016. The quarterly information has been derived from our condensed interim consolidated financial statements which have been prepared on a basis consistent with the annual audited consolidated financial statements (except for any changes in accounting policy and financial presentation in such years) and include all adjustments necessary for the fair presentation of the information presented.

| *($ thousands, except per share data)* | FY 2015 | | | | FY 2016 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | **Q4** |
| Revenue | $ 7,857 | $ 7,645 | $ 7,703 | $ 7,486 | $ 15,701 | $ 15,239 | $ 13,902 | **$ 14,965** |
| Gross profit | 3,463 | 4,020 | 3,937 | 3,871 | 8,672 | 8,508 | 7,230 | **8,587** |
| Net income (loss) | (785) | 843 | (523) | 479 | (505) | (858) | (161) | **9,135** |
| EBITDA[1] | 204 | 1,987 | 609 | 201 | 1,698 | 1,206 | 1,894 | **3,485** |
| Adjusted EBITDA[1] | 611 | 710 | 796 | 494 | 2,114 | 2,325 | 1,882 | **2,033** |
| EPS - basic | $ (0.017) | $ 0.019 | $ (0.012) | $ 0.011 | $ (0.006) | $ (0.010) | $ (0.002) | **$ 0.112** |
| EPS - diluted | $ (0.017) | $ 0.019 | $ (0.012) | $ 0.011 | $ (0.006) | $ (0.010) | $ (0.002) | **$ 0.112** |

*[1] Certain comparative amounts have been restated to conform with current period presentation.*

## Managing Our Liquidity and Financial Resources

### *Consolidated Statements of Cash Flows - Operating, Investing, and Financing Activities*

| | **Three months ended September 30** | | | | **Twelve months ended September 30** | | | |
|---|---|---|---|---|---|---|---|---|
| *($ thousands)* | **2016 ($)** | 2015 ($) | Change ($) | Change (%) | **2016 ($)** | 2015 ($) | Change ($) | Change (%) |
| Cash and cash equivalents, beginning of period | **22,373** | 12,608 | 9,765 | *77%* | **23,980** | 23,621 | 359 | *2%* |
| Cash and cash equivalents, end of period | **24,900** | 23,980 | 920 | *4%* | **24,900** | 23,980 | 920 | *4%* |
| Increase (decrease) in cash and cash equivalents | **2,527** | 11,372 | (8,845) | *(78%)* | **920** | 359 | 561 | *156%* |
| Change due to | | | | | | | | |
| Operating activities | **104** | 1,741 | (1,637) | *(94%)* | **4,461** | 2,775 | 1,686 | *61%* |
| Financing activities | **2,646** | (532) | 3,178 | *nm* | **(2,089)** | (9,457) | 7,368 | *78%* |
| Investing activities | **(233)** | 10,073 | (10,306) | *(102%)* | **(1,365)** | 6,888 | (8,253) | *(120%)* |
| Impact of foreign exchange on cash held in foreign currencies | **10** | 90 | (80) | *(89%)* | **(87)** | 153 | (240) | *(157%)* |
| Total change in cash and cash equivalents | **2,527** | 11,372 | (8,845) | *(78%)* | **920** | 359 | 561 | *156%* |

**Operating activities:** In the three and twelve months ended September 30, 2016, $104 and $4,461 in cash were generated from operating activities. In the fiscal year, operating cash flow primarily was negatively impacted by an increase in accounts receivable of $2,762 and a decrease in accrued liabilities of $2,677 with a positive offsetting impact of a decrease of $2,008 in inventory.

**Investing activities:** During the three and twelve months ended September 30, 2016, we invested $221 and $912 in costs paid to third party developers relating to investments we're making to enhance our software platform and product offerings. We also acquired $12 and $453 of computer equipment and servers to increase and maintain our data processing capacity.

**Financing activities:** During the three and twelve months ended September 30, 2016, we made principal repayments of $nil and $2,690 against our Canadian dollar term credit facility, and US$nil and US$750 in scheduled principal repayments against our US dollar term credit facility.

During the three and twelve months ended September 30, 2016, $2,800 and $8,800 in cash equivalents, which were previously assigned to the Company's lender, became unrestricted.

On December 17, 2015, we received approval of our intention to commence a normal course issuer bid (the "Bid"). Under the terms of the Bid, we may acquire up to 8,559,564 common shares from time to time in accordance with Toronto Stock Exchange procedures, representing approximately 10% of the total public float of common shares. The Bid commenced on December 23, 2015 and will conclude on December 22, 2016, or earlier if the number of common shares sought in the Bid has been purchased. During the three and twelve months ended September 30, 2016, in accordance with the Bid, the Company repurchased and cancelled nil and 7,523,500 common shares at a cost of $nil and $7,371 respectively.

## *Credit Facilities*

On June 30, 2016 the Company's Canadian term facility matured. As such the Company repaid the final scheduled principal repayment of $1,990 remaining on the facility. In total the Company paid $2,690 against the Canadian dollar term facility during the year. In addition, the Company made US$750 in scheduled principal repayments against the US term facility.

On August 24, 2016, the Company replaced its existing US Term Debt Facility ("US Term Facility") with a CA$20,000 revolving credit facility ("Revolver"). In connection with the credit restructuring, the Company transferred the US Term Facility outstanding principal balance of US$6,000 to the Revolver. As at September 30, 2016, the Company had US$6,034 drawn against the Revolver. The Revolver contains certain financial and other covenants with which we are in compliance as at September 30, 2016. Expected covenant compliance is based on forward-looking financial information. Changes in such information or actual performance may necessitate an amendment to the financial covenants or result in a requirement to repay a portion or all of the Company's indebtedness.

## *Contractual Commitments*

The Company has contractual commitments for debt repayments, contingent consideration related to acquisitions, lease payments for facility leases and supplier commitments. The Company's annual contractual commitments are as follows:

| Contractual obligations | Facility leases and supplier commitments | USD denominated debt repayment | CAD denominated contingent consideration [1] | USD denominated contingent consideration [1] | Total |
|---|---|---|---|---|---|
| Fiscal year 2017 | $ 3,213 | $ - | $ 631 | $ - | $ 3,844 |
| Fiscal year 2018 | 1,570 | - | - | 3,565 | 5,135 |
| Fiscal year 2019 and later years | 1,639 | 7,721 | 94 | 213 | 9,667 |
| Total | $ 6,422 | $ 7,721 | $ 725 | $ 3,778 | $ 18,646 |

[1] *Contingent consideration obligations represent the fair value of contingent consideration payable. The timing of such payments is presented using management's best estimate thereon. Refer to note 20 of the Company's annual audited consolidated financial statements for the year ended September 30, 2016 for further information.*

# Overview of Financial Position

## *Condensed Consolidated Statement of Financial Position*

| Balance | As at September 30, 2016 | As at September 30, 2015 | Change ($) | Change (%) | Comments |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets | **$ 44,111** | $ 51,818 | $ (7,707) | (15%) | The largest factors contributing to the decrease was a decrease in total cash of $7,880 and a decrease in inventory of $2,008 with an offsetting increase of $2,762 in accounts receivable. See "Managing Liquidity and Financial Resources" section for further explanation of the change in cash. |
| Long-term assets | **72,599** | 71,965 | 634 | 1% | Balance of long-term assets is $6,032 higher due to recognition of a deferred tax asset for previously unrecognized temporary differences. Partially offsetting the increase was a $4,897 decrease in intangible assets due to amortization of $5,612 net of current year additions of $912. |
| Total assets | **116,710** | 123,783 | (7,073) | (6%) | |
| **Liabilities** | | | | | |
| Current liabilities | **11,169** | 18,330 | (7,161) | (39%) | Current liabilities decreased primarily as a result of the re-payment of long-term debt, of which $2,690 was for the CAD facility and US$750 for the USD facility. Current liabilities also decreased due to a $2,677 decrease in accrued liabilities, of which $1,738 was due to the payment of transaction costs related to the acquisition of Webtech. |
| Long-term liabilities | **11,772** | 12,969 | (1,197) | (9%) | Long-term liabilities decreased primarily a result of a $1,854 decrease in the fair value of contingent consideration recorded as a fair value adjustment in the consolidated statement of income and comprehensive income. |
| Total liabilities | **22,941** | 31,299 | (8,358) | (27%) | |
| **Shareholders' equity** | | | | | |
| Common shares | **85,861** | 92,249 | (6,388) | (7%) | Common shares decreased in the period due to $7,371 in common shares repurchased and cancelled under the normal course issuer bid. Common shares issued for stock options and DSUs exercised partially offset the decrease. |
| Contributed surplus | **7,946** | 7,769 | 177 | 2% | |
| Accumulated other comprehensive income | **426** | 539 | (113) | (21%) | The decrease in AOCI is attributable to the impact of the CAD appreciation relative to the US dollar on the Company's net investment in foreign operations in the fiscal year. |
| Deficit | **(464)** | (8,073) | 7,609 | 94% | |
| Total shareholders' equity | **93,769** | 92,484 | 1,285 | 1% | |
| Total liabilities and shareholders' equity | **$ 116,710** | $ 123,783 | $ (7,073) | (6%) | |

## *Outstanding Share Data*

Our authorized share capital consists of an unlimited number of common shares. As at September 30, 2016, there were 82,574,324 issued common shares, including: 54,795 common shares remaining in escrow, the release of which is subject to performance conditions in terms of attaining certain cash flow levels; 699,575 common shares in escrow, which are subject to JMM Management Group, LLC d/b/a JMM Global attaining certain revenue and EBITDA targets over five years from the acquisition date; and 500,000 common shares in escrow subject to the acquired Praxis business attaining certain revenue targets over six years from the acquisition date.

As at September 30, 2016, there were 1,766,824 outstanding stock options, which have been issued to directors, officers and employees of the Company with a weighted average exercise price of $1.41. As at September 30, 2016,

there were 1,599,906 outstanding restricted share units, which have been issued to officers and employees of the Company, and 137,500 outstanding deferred share units, which have been issued to directors of the Company.

## Critical Accounting Policies and Estimates

This MD&A has been prepared with reference to the annual audited consolidated financial statements for the years ended September 30, 2016 and 2015, and the notes thereto, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board. There were no significant changes in accounting policies applied by the Company. For further information, refer to note 3 of the Company's annual audited consolidated financial statements for the years ended September 30, 2016 and 2015. The Company has consistently applied its accounting policies throughout all periods presented. The Audit Committee of the Company's Board of Directors reviews the accounting policies and all quarterly and annual filings and recommends approval of both the condensed interim consolidated financial statements and the annual audited consolidated financial statements to the Board of Directors.

## Risks and Uncertainties

*Fair value hierarchy*
Under IFRS, fair values determined by Level 1 inputs use quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs use inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly (i.e., prices) or indirectly (i.e., derived from prices). Fair values using Level 3 inputs are inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

The Company's sole financial instrument measured at fair value in the consolidated statements of financial position as at September 30, 2016 and 2015 is the contingent consideration classified as a liability. The fair value of this instrument is determined using Level 3 inputs. The Company has no financial assets or liabilities measured using Level 1 or Level 2 inputs.

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

| **Balance at September 30, 2015** | **$ 6,264** |
|---|---|
| Cash payments | (126) |
| Accreted interest | 325 |
| Fair value adjustments | (1,854) |
| Foreign exchange impact | (106) |
| **Balance at September 30, 2016** | **$ 4,503** |

| **Balance at September 30, 2014** | **$ 8,541** |
|---|---|
| Cash payments | (659) |
| Accreted interest | 473 |
| Fair value adjustments | (3,201) |
| Foreign exchange impact | 1,110 |
| **Balance at September 30, 2015** | **$ 6,264** |

Re-measurement of the fair value of contingent consideration is performed by the Company at each financial reporting period. Key unobservable inputs comprise management's best estimate of the probability that the acquired businesses will achieve specified revenue and EBITDA targets in the specified timeframes following the acquisitions respectively (see note 20 of the Company's annual audited consolidated financial statements). The estimated fair value of contingent consideration increases as the estimated probability associated with the revenue and EBITDA targets increase and vice versa for decreases in fair value.

*Foreign exchange risk*
The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars. Foreign exchange risk arises on assets, liabilities, trade receivables and trade payables, which are denominated in a currency other than the entity's functional currency. The Company's objective in managing its foreign currency risk is to minimize its net exposures to foreign currency cash flows. The Company generated revenues and incurs expenses in currencies other than its functional currency and it manages foreign currency risk with a natural hedge, to the extent practical. In the year ended September 30, 2016, the Company recognized a foreign currency exchange loss in the consolidated statements of income and comprehensive income of $66 (2014 - gain of $689).

In addition to the foreign exchange risk on assets and liabilities held in a currency other than the entity's functional currency, the Company is exposed to foreign exchange risk arising on its net investment in foreign operations. In the year ended September 30, 2016, within other comprehensive income, the Company recognized a foreign currency exchange loss, net of deferred taxes, of $113 (2014 - gain of $509).

If a 10% shift in the Canadian to US dollar foreign currency exchange rates were to occur (and all other variables held constant), the foreign currency exchange gain or loss on the revaluation of assets and liabilities denominated in US dollars would be plus or minus $269 and this would be recorded in the consolidated statements of income and comprehensive income (2015 - plus or minus $177).

*Interest rate risk*
The Company has interest rate risk on its short-term investments and its credit facility. Under its credit facility, the Company may borrow either at stated rates or LIBOR plus an applicable margin. As at September 30, 2016, the Company was not exposed to fluctuations in the LIBOR on its Revolver. As at September 30, 2016, a 100 basis point increase or decrease in the variable interest rates on the short-term investment balances would have resulted in an annualized change in interest earned of approximately $59 (2015 - $183).

*Credit risk*
Credit risk arises from the potential that a counterparty will fail to perform its obligations. The carrying value of cash and cash equivalents, restricted cash, investment tax credits, net investment in finance leases and accounts receivable represent the Company's maximum exposure to credit risk. The trade receivables and net investment in finance leases have an exposure to economic downturns. Most of the Company's customers are not independently rated, therefore the quality of the customer is considered by taking into account its financial position, past experience and other factors. The utilization of credit limits is regularly monitored to minimize this risk.

The Company reviews its trade accounts receivable regularly and reduces amounts to their expected realizable values by making an allowance for doubtful receivables, as soon as the accounts are determined not to be fully collectible.

As at September 30, 2016, trade accounts receivable of $3,326 (2015 - $1,859) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default.

The Company also has credit risk relating to cash and short-term investments. Such risk is managed by maintaining cash and short-term investments at Schedule 1 financial institutions with a minimum credit rating of Aa1.

*Liquidity risk*
Liquidity risk is the risk the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company's objective for liquidity risk management is to maintain sufficient liquid financial resources to fund obligations on the consolidated statements of financial position and to meet commitments and obligations in the most cost-effective manner possible. The Company achieves this by maintaining sufficient cash and cash equivalents and managing working capital. The Company monitors its financial resources and updates its expected use of cash resources based on the latest available data. Surplus cash held over and above balances required for working capital management are invested in interest bearing short-term deposits.

Management forecasts that the Company's existing cash and cash equivalents, cash generated from operations and the undrawn portion of the Revolver will be adequate to meet its financial liabilities and contractual commitments.

# Non-GAAP Financial Measures and KPIs

## *Identification of Non-GAAP Financial Measures and KPIs*

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

**"Recurring Revenue"** includes monthly fees, monthly monitoring fees, and resale of cellular and satellite data. Recurring revenue is recognized monthly as services are delivered and is derived from the service revenue category within the segmented information note of the Company's consolidated financial statements. We believe that Recurring Revenue provides useful information to our investors because it shows the long-term nature of service revenue.

**"EBITDA"** and **"Adjusted EBITDA"** are measures of our operating profitability. We believe that EBITDA and adjusted EBITDA provide useful information to our investors because they exclude transactions not related to the core cash operating business activities, allowing meaningful analysis of the performance of our core cash operations.

EBITDA is an indicator of the financial results generated by our business activities excluding:

- the impact of any financing activities;
- amortization and depreciation of property and equipment and intangible assets; and
- taxes with respect to various jurisdictions.

Adjusted EBITDA is a further refinement of EBITDA to remove the effect of:

- acquisition, integration and restructuring related costs;
- share-based compensation expense;
- writeoff of goodwill or other impairments to any financial and non-financial assets;
- fair value adjustments on contingent consideration;
- costs related to certain legal actions; and
- gains and losses resulting from the translation of non-Canadian dollar working capital balances.

As such, Adjusted EBITDA provides more meaningful continuity with respect to the comparison of our operating results over time. EBITDA and Adjusted EBITDA are derived from the consolidated statements of income and comprehensive income and consolidated statements of cash flows. We believe that using these metrics enhances an overall understanding of the Company's results and we present them for that purpose.

## *Reconciliation of Non-GAAP Financial Performance Measures*

EBITDA and adjusted EBITDA are calculated from net income as follows:

| | Three months ended September 30 | | | | Twelve months ended September 30 | | | |
|---|---|---|---|---|---|---|---|---|
| *($ thousands)* | **2016 ($)** | 2015 ($) | Change ($) | Change (%) | **2016 ($)** | 2015 ($) | Change (%) | Change (%) |
| **Net income as reported** | **$ 9,135** | $ 479 | $ 8,656 | nm | **$ 7,609** | $ 18 | $ 7,591 | nm |
| Interest expense, net of interest received | **138** | 158 | (20) | (13%) | **549** | 647 | (98) | (15%) |
| Tax recovery | **(7,301)** | (1,336) | (5,965) | nm | **(6,199)** | (1,139) | (5,060) | nm |
| Amortization | **1,513** | 900 | 613 | 68% | **6,323** | 3,478 | 2,845 | 82% |
| **EBITDA** | **3,485** | 201 | 3,284 | nm | **8,282** | 3,004 | 5,278 | 176% |
| Share-based compensation | **256** | 135 | 121 | 90% | **708** | 551 | 157 | 28% |

| ($ thousands) | Three months ended September 30 2016 ($) | 2015 ($) | Change ($) | Change (%) | Twelve months ended September 30 2016 ($) | 2015 ($) | Change (%) | Change (%) |
|---|---|---|---|---|---|---|---|---|
| Fair value adjustments on contingent consideration | **(1,704)** | (1,726) | 22 | 1% | **(1,854)** | (3,201) | 1,347 | 42% |
| Foreign exchange (gain) loss | **(223)** | (282) | 59 | 21% | **66** | (689) | 755 | 110% |
| Impairment of inventories | **-** | - | - | - | **-** | 389 | (389) | (100%) |
| Acquisition, integration and restructuring costs | **219** | 2,166 | (1,947) | (90%) | **1,151** | 2,558 | (1,407) | (55%) |
| **Adjusted EBITDA** | **2,033** | 494 | 1,539 | 312% | **8,353** | 2,612 | 5,741 | 220% |

### *Key Performance Indicators*

In addition to the non-GAAP financial measures previously described, we use a number of key performance indicators (KPIs). We believe these KPIs allow us to appropriately measure our performance against our operating strategy. The following KPIs are not measurements in accordance with GAAP and should not be considered as an alternative to any other measure of performance under GAAP.

A **"Subscriber"** is defined as a customer's individual asset monitored by a telematics device. A Subscriber is an important metric for our investors because it provides an indication of our ability to generate Recurring Revenue from providing recurring service to our customers. Subscriber additions occur when we bill for Recurring Revenue services to a new device not previously in our Subscriber base and Subscriber churn occurs when no longer bill the Subscriber for Recurring Revenue service due to cancellation or expiry of the Recurring Revenue services.

"**Average Revenue Per User or Subscriber**" or "**ARPU**" is calculated monthly as Recurring Revenue divided by the average number of Subscribers during the month. We believe ARPU helps to identify trends and to indicate whether we have been successful in attracting and retaining higher value Subscribers.

## Disclosure Controls and Procedures and Internal Control over Financial Reporting

During the fiscal year, consistent with the Company's listing on the Toronto Stock Exchange and the securities legislation thereon, the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") conducted a review of the design of its disclosure controls and procedures ("DC&P") as well as its internal controls over financial reporting ("ICFR").

DC&P are implemented to provide reasonable assurance that: (i) material information relating to the Company is made known to the CEO and CFO by others, particularly during the period in which the interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. Under the supervision of the CEO and CFO, the Company has evaluated its disclosure controls and procedures as at September 30, 2016 and has concluded that the DC&P are adequately designed and operating effectively.

Internal controls over financial reporting are implemented to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of its consolidated financial statements for external purposes in accordance with the Company's accounting framework, IFRS. Under the supervision of the CEO and CFO, the Company conducted a review and evaluation of its ICFR as at September 30, 2016, with the conclusion that the Company's system of ICFR as defined under NI 52-109 is adequately designed and operating effectively.

## Related Party Transactions

The Company has lease arrangements for office premises owned by certain executives of its acquired subsidiaries. The leases were negotiated at the time of acquisition and represent fair value rents for the leased premises. Such lease payments amounted to $46 and $189 for the three and twelve months ended September 30, 2016 (2015 - $48 and $177). Related party transactions also include compensation earned by key management and directors as shown in the following table:

| | **Three months ended September 30** | | | | **Twelve months ended September 30** | | | |
|---|---|---|---|---|---|---|---|---|
| *($ thousands)* | **2016** | 2015 | Change $ | Change % | **2016** | 2015 | Change $ | Change % |
| Salaries, wages and benefits | **$ 390** | $ 591 | $ (201) | *(34%)* | **$ 2,201** | $ 1,487 | $ 714 | *48%* |
| Stock-based compensation expense | **95** | 86 | 9 | *10%* | **479** | 371 | 108 | *29%* |
| **Total** | **$ 485** | $ 677 | $ (192) | *(28%)* | **$ 2,680** | $ 1,858 | $ 822 | *44%* |

## Off-balance Sheet Arrangements

As at September 30, 2016, we do not have any off-balance sheet arrangements, other than lease commitments as disclosed in this MD&A.

## Subsequent Events

On October 4, 2016, the Company announced the acquisition of substantially all the assets of Mobi Corp. for initial cash consideration before working capital adjustments of US$8 million. Additional consideration of up to US$17 million is payable on the attainment of specified financial targets in the two years following closing. The Mobi Corp. product offering enables its customers to manage operational activities such as planning, scheduling, routing and dispatching and uses available GPS data to provide additional analytics.

## About Forward-looking Information

Certain statements in this 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 on 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.

## Further Information

Additional information relating to the Company, including the Company's most recent Annual Information Form, is available on the Company's SEDAR company profile at www.sedar.com and on the Company's website at www.bsmwireless.com.