bsmtechnologies

Management's Discussion & Analysis

Three and six months ended March 31, 2017 and 2016

General Information

This Management's Discussion and Analysis ("MD&A") contains important information about our business and our performance for the three and six months ended March 31, 2017, as well as forward-looking information about future periods. This MD&A should be read in conjunction with our condensed interim consolidated financial statements and notes thereto for the three and six months ended March 31, 2017, which have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (IASB); our annual MD&A for the year ended September 30, 2016 ("2016 Annual MD&A"); our audited consolidated financial statements for the years ended September 30, 2016 and 2015 and notes thereto ("2016 Annual Audited FS"), which have been prepared in accordance with IFRS as issued by the IASB; our 2016 annual information form ("2016 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 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 May 10, 2017 and was approved by the Audit Committee of our Board of Directors on that date. This MD&A includes forward-looking statements and assumptions. See "About Forward-Looking Information" 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 the "Current Quarter" refers to the three months ended March 31, 2017, which is the second quarter of our 2017 fiscal year. All financial performance commentary compared to the three months ending March 31, 2016 is referred to as the "Prior Period". We also disclose the current fiscal year to date performance for fiscal 2017 in this MD&A. All financial performance commentary for the six-months ended March 31, 2016 is referred to as the "Prior YTD Period". Together, the Prior Period and the Prior YTD Period is collectively referred to as the "Prior Periods".

This MD&A contains references to certain non-GAAP financial measures such as: EBITDA; Adjusted EBITDA; Hardware Revenue; Professional Services Revenue; 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 October 3, 2016, pursuant to an asset purchase agreement, we acquired substantially all of the assets of Mobi Corp, a privately-held software provider. Following the closing of the acquisition, the Company continues to operate the Mobi business under the Mobi business name ("Mobi"). The Mobi 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. Details of the acquisition of Mobi are described in the News release dated October 4, 2016 which is available on SEDAR at www.sedar.com. The operating results of the Company for the three and six months ended March 31, 2017 are prepared on a consolidated basis and include the operating results of Mobi. The comparable periods in fiscal 2016 do not include the operating results of Mobi. The acquisition of Mobi has led to significant changes in our operating results, which should be considered when comparisons to the prior periods are made.

Description of the Business

BSM is a leading provider of real-time GPS fleet and asset management solutions. As an end-to-end solution provider, BSM offers flexible solutions to its customers from hardware solutions to software solutions. BSM provides real-time, web-based management and tracking of enterprise fleet assets, along with a host of solutions for commercial and government organizations who manage and operate large fleets and who seek to enhance customer service, improve the security of their drivers and vehicles, and lower business costs.

BSM, through its Subsidiaries and affiliates, develops and provides proprietary software-focused solutions to its customers predominantly in Canada and the United States, helping them better manage their assets – both stationary and moving. BSM's customers operate in a broad range of markets, including rail, construction, utility, transportation, services, oil and gas and government. BSM continues to refine its development and go-to-market efforts around target verticals – with a particular emphasis on the government, service, rail and construction markets. BSM's software and hardware solutions are designed to provide a key link between the operations of BSM's customers and the systems the customers use to run their business – facilitating cost reduction, improved customer service, greater efficiency, and enhanced security. BSM's solutions promote safety and facilitate compliance with safety, workplace and environmental regulations. BSM's services are delivered over a secure network utilizing the Internet.

BSM is an end-to-end solution provider, which means BSM designs and manufactures portions of its core solutions, including hardware, firmware and software. Customers typically purchase the hardware and installation services upfront, and then enter into long-term contracts for subscriptions to BSM's software services. BSM sells both its own proprietary hardware and select third-party hardware. BSM sources its components from a number of different suppliers, some of which are local and some offshore. Generally, BSM develops its own software which enables BSM to control its solutions from end-to-end and provide customized solutions to BSM's customers. Subscription pricing is based upon a fee matrix that includes certain base service levels derived from the number of users and options selected. Base service levels are typically designed to accommodate the perceived needs of a large percentage of the target market, with incremental fees charged for additional services as selected by the customer. Customer subscription pricing can vary depending on a number of factors, including, but not limited to, (i) the service package selected, (ii) the quantity of data transmitted, (iii) the wireless network utilized, and (iv) the number of subscriptions.

BSM relies on acquired, licensed and internally developed technologies to provide mobile resource management application services, along with wireless cellular and satellite data communications. BSM has several patents and has filed patent applications directed at different aspects of BSM's end-to-end solutions.

For a further description of the business, including a description of the Company's products and services, business operations and risk factors, refer to the Company's 2016 AIF.

Summary of Consolidated Financial Results

Statement of Income and Comprehensive Income

($ thousands)	Three months ended March 31				Six months ended March 31			
	2017 ($)	2016 ($)	Change ($)	Change (%)	**2017 ($)**	2016 ($)	Change ($)	Change (%)
Revenue	**16,004**	15,239	765	5%	**34,367**	30,940	3,427	11%
Cost of revenue	**6,546**	6,731	(185)	(3%)	**13,997**	13,761	236	2%
Gross profit	**9,458**	8,508	950	11%	**20,370**	17,179	3,191	19%
Interest income from finance leases	**61**	51	10	20%	**124**	100	24	24%
General and administrative expenses	**3,040**	2,542	498	20%	**6,903**	5,369	1,534	29%
Research and development expenses	**3,046**	2,079	967	47%	**6,063**	4,436	1,627	37%
Sales and marketing expenses	**3,830**	3,278	552	17%	**7,779**	6,557	1,222	19%
Acquisition, integration and restructuring expenses	**-**	344	(344)	(100%)	**335**	880	(545)	(62%)
Foreign exchange (gain)/loss	**167**	661	(494)	(75%)	**(233)**	304	(537)	(177%)
Net interest expense	**361**	136	225	165%	**845**	255	590	231%
Total expenses	**10,444**	9,040	1,404	16%	**21,692**	17,801	3,891	22%

Net loss before tax	**(925)**	(481)	(444)	92%	**(1,198)**	(522)	(676)	130%
Current tax expense	**26**	44	(18)	(41%)	**95**	52	43	83%
Deferred tax expense	**230**	333	(103)	(31%)	**353**	791	(438)	(55%)
Net loss for the period	**(1,181)**	(858)	(323)	38%	**(1,646)**	(1,365)	(281)	21%
Foreign exchange gain/ (loss) on foreign operations, net of tax	**(123)**	(175)	52	(30%)	**113**	(109)	222	(204%)
Total comprehensive loss for the period	**(1,304)**	(1,033)	(271)	26%	**(1,533)**	(1,474)	(59)	4%
EBITDA(i)	**1,557**	1,206	351	29%	**3,901**	2,903	998	34%
Adjusted EBITDA(i)	**2,170**	2,325	(155)	(7%)	**4,988**	4,437	551	12%

(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 measures.

Revenue by Geographical Location (based upon customer location)

	Three months ended March 31				**Six months ended March 31**			
($ thousands)	**2017**		2016		**2017**		2016	
Canada	**$ 5,658**	***35%***	$ 6,633	*44%*	**$ 11,252**	***33%***	$ 13,921	*45%*
United States	**10,080**	***63%***	8,258	*54%*	**22,555**	***66%***	16,308	*53%*
International	**266**	***2%***	348	*2%*	**560**	***1%***	711	*2%*
Total Revenue	**$ 16,004**	***100%***	$ 15,239	*100%*	**$ 34,367**	***100%***	$ 30,940	*100%*

Revenue, Cost of Revenue, Gross Profit and Gross Profit Margin by Revenue Category

	Three months ended March 31				**Six months ended March 31**			
($ thousands)	**2017 ($)**	2016 ($)	Change ($)	Change (%)	**2017 ($)**	2016 ($)	Change ($)	Change (%)
Revenue								
Hardware Revenue(i)	**3,385**	3,892	(507)	(13%)	**8,932**	8,720	212	2%
Recurring Revenue(i)	**11,767**	9,984	1,783	18%	**23,328**	19,860	3,468	17%
Professional Services Revenue(i)	**852**	1,363	(511)	(37%)	**2,107**	2,360	(253)	(11%)
Total Revenue	**16,004**	15,239	765	5%	**34,367**	30,940	3,427	11%
Cost of revenue								
Hardware cost of revenue	**2,452**	2,886	(434)	(15%)	**5,594**	6,158	(564)	(9%)
Recurring cost of revenue	**3,071**	2,600	471	18%	**6,223**	5,454	769	14%
Professional services cost of revenue	**1,023**	1,245	(222)	(18%)	**2,180**	2,149	31	1%
Total Cost of Revenue	**6,546**	6,731	(185)	(3%)	**13,997**	13,761	236	2%
Gross Profit								
Hardware gross profit	**933**	1,006	(73)	(7%)	**3,338**	2,562	776	30%
Recurring gross profit	**8,696**	7,384	1,312	18%	**17,105**	14,406	2,699	19%
Professional services gross profit	**(171)**	118	(289)	(245%)	**(73)**	211	(284)	(135%)
Total Gross Profit	**9,458**	8,508	950	11%	**20,370**	17,179	3,191	19%

Gross Profit Margin ("GP Margin")								
Hardware GP margin	**28%**	26%	2%	8%	**37%**	29%	8%	28%
Recurring GP margin	**74%**	74%	-	-	**73%**	73%	-	-
Professional services GP margin	**(20%)**	9%	(29%)	(322%)	**(3%)**	9%	(12%)	(133%)
Total Gross Profit Margin	**59%**	56%	3%	5%	**59%**	56%	3%	5%

(i) Recurring Revenue, Hardware Revenue and Professional Services Revenue 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.

Overall Company Performance and Key Changes in Financial Results

The Company has identified one operating segment for its operations. Overall company performance for the Company's reportable segment is discussed throughout this document and in further detail within this section including a focused discussion on revenue, gross profit, gross profit margin, expenses and profitability.

In our market, we continue to see increased competition as our industry grows and the use case for location based data solutions is adopted by a larger market and range of users. Industry growth is also a driver for the continuous evolution of our product offering to meet the needs of our customers which are fueled primarily by business efficiency and compliance-based objectives. We continue to invest in research and development expenditures to evolve the capabilities of our products to meet the needs of our customers.

Increased competition and the evolution of customer needs has lead to a broader range of solutions available in the market. In some cases, this has lead to pricing pressure for our Company where the customers use case is for a non-sophisticated location based solution. This has caused the Company to change its go-to market approach to be more flexible and adaptable to allow us to present the best solution for prospective customers, particularly for lower valued solutions. As noted in the description of the business section above, we continue to focus on developing solutions and technologies for customers in the rail, construction, government and service vertical markets to bring valued solutions to our customers. We believe that our efforts to build vertically tailored solutions that incorporate data analytics and business intelligence will help to reduce the impact of price competition.

Period to period variation in Company performance is not materially impacted by seasonality. Generally, customer deployment cycles are not impacted by seasonality and Recurring Revenue is earned evenly over time. Within the government customer vertical market, a portion of the monitored assets utilize our winter maintenance solution. This solution will generate a higher revenue per unit during winter months where the solution is active as compared to summer months where these assets are idle and are placed into a standby mode. In aggregate, the impact of this on our aggregate Subscriber base is not significant and variation in ARPU as a result of this seasonality is not material to overall ARPU.

Revenue

The Company has categorized its' total revenue into the following revenue categories: Hardware Revenue, Recurring Revenue and Professional Services Revenue. Customers will typically engage with us whereby we earn Hardware, Recurring and Professional Services Revenue over the life of the customer relationship, however, disclosing revenue in these categories helps us to explain period over period changes in financial performance.

Hardware Revenue is comprised of revenue recognized for the sale of our proprietary and third party telematics devices. Hardware Revenue decreased by 13% for the current quarter and increased by 2% year to date as compared to the Prior Periods primarily due to a change in the volume of units shipped in the respective periods.

Professional Services 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 Periods, Professional Services Revenue decreased by 37% and 11% for the three and six months ended March 31, 2017 which was a result of a lower volume of projects completed during the period when compared to the Prior Periods.

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 durations 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.

On October 1, 2016, we added 15,100 Subscribers in relation to the acquisition of Mobi. For the three and six months ended March 31, 2017 we achieved gross Subscriber additions of 4,100 and 8,400 and experienced Subscriber churn of 12,000 and 15,100 resulting in a March 31, 2017 Subscriber base of 160,500 up from 150,100 as at March 31, 2016.

Leading up to the current quarter, certain wireless carrier partners of BSM announced that they intended to shut down their 2G/CDMA wireless networks in an effort to transition users towards next generation cellular network technology. In the current quarter, as a part of these network shutdowns, certain wireless carriers took their 2G/CDMA towers offline. This 2G/CDMA network shutdown affected some BSM Subscribers that had continued to rely on this technology to operate their fleet management devices. Of the 12,000 Subscriber churn in the current quarter, 9,500 Subscribers churned due to the 2G/CDMA network shutdown.

The average monthly revenue per unit in the current quarter was $23.85 compared to $22.14 in the Prior Period. The increase in ARPU is primarily attributable to two primary factors. The current quarter includes the revenue and Subscribers from the Mobi acquisition which were acquired at a higher ARPU than BSM's business has historically generated. Secondly, from Subscribers that churned as a result of the 2G/CDMA network shutdown which had a lower ARPU than BSM's average ARPU. Some of these Subscribers had subscribed for a data feed from the device as opposed to the full typical ASP offering provided to customers and therefore generated a lower ARPU.

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 Revenue 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.

During the three months ended March 31, 2017, gross profit on Hardware Revenue was 7% lower which was primarily due to a 13% decrease in Hardware Revenue. Gross profit on Professional Services Revenue was a negative contribution of $171 as compared to a positive contribution of $118 in the prior period. The negative gross profit contribution in the current period is attributable to lower revenue relative to the fixed cost base associated with our GPS locator installation and project management support teams. Gross profit margin on Recurring Revenue was consistent in the current quarter relative to the Prior Period, however, gross profit from Recurring Revenue increased by $1,312 due primarily to the revenue added from the Mobi acquisition. Despite relatively consistent Hardware and Recurring Revenue margins and a decrease in Professional Services Revenue margin, total gross profit margin increased to 59% in the current quarter compared 56% in the Prior Period due to the higher proportionate volume of Recurring Revenue relative to total revenue in the current quarter compared to the Prior Period.

Gross profit from Hardware Revenue for the six months ended March 31, 2017 was favourably impacted by the high volume of Hardware Revenue generated in the first quarter of fiscal 2017 relative to the current quarter. As compared to the Prior YTD Period, gross profit margin increased from 29% to 37%. The increase in profitability reflects synergies in fixed costs associated with the production of hardware, a higher volume of revenue associated with fixed production costs and a more favourable mix of higher margin hardware products sold in the current period compared to the Prior Period. Gross profit from Professional Services Revenue negatively contributed to overall gross profit by $73 in the fiscal year to date period as compared to a positive contribution of $211 in the Prior YTD Period due to a more favourable mix of Professional Services Revenue items and higher total Professional Services Revenue relative to the fixed cost base. Consistent with the current quarter, the current fiscal year to date Recurring Revenue gross profit was $2,699 higher due to the inclusion of the Mobi acquired revenue in the current period.

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 $498 and $1,534 in the three and six months ended March 31, 2017 compared to the Prior Periods primarily from the increase in our workforce following the Mobi acquisition. In aggregate, general and administrative expenses in the current quarter and fiscal year to date periods include depreciation, amortization and stock based compensation expenses of $500 and $1,133 respectively.

Research and Development Expenses

Research and development ("R&D") expenses consist of employee salaries and expenses related to product development activities, consultant fees, the amortization of acquired technology assets and other expenses associated with software and hardware development. Research and development expenses increased by $967 and $1,627 in the three and six months ended March 31, 2017 compared to the Prior Periods. The increase is attributable to our larger research and development expenditure following the acquisition of Mobi, a portion of which includes amortization of the technology asset recognized in the Mobi transaction. In aggregate, R&D expenses in the current quarter and fiscal year to date periods include $554 and $1,092 of amortization and stock based compensation expenses.

Sales and Marketing Expenses

Sales and marketing expenses include employee costs of our pre-sales team of solutions engineers; the salaries, benefits, travel and commission costs of our direct sales team; advertising and marketing costs; and the amortization of acquired customer contracts and relationships. Sales and marketing expenses increased relative to the Prior Periods by $552 and $1,222 primarily from the addition of the Mobi sales and marketing teams as well as for the amortization of Mobi customer contracts and relationships recognized on the acquisition. In aggregate, sales and marketing expenses for the current quarter and fiscal year to date period include $1,444 and $2,862 of amortization of the customer contracts and relationships in relation to acquisitions we have completed over the past four 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). In the fiscal year to date period, the Company has a net asset exposure to US dollar denominated working capital which is consistent with the Prior Periods. Therefore, an appreciation of the US dollar relative to the Canadian dollar will trigger a foreign exchange gain. During the current quarter the US dollar weakened relative to the Canadian dollar which led to a foreign exchange loss of $167. However, for the fiscal year to date period, the US dollar has strengthened relative to the Canadian dollar and the impact of foreign exchange on net income is a foreign exchange gain of $233.

Acquisition, Integration and Restructuring Expenses

Acquisition, integration and restructuring expenses include costs we incur to acquire and integrate the businesses we purchase. There were no acquisition, integration and restructuring costs incurred during current quarter. The $335 of costs incurred during the six months ended March 31, 2017 relate to costs associated with the acquisition of Mobi.

EBITDA and Adjusted EBITDA

Compared to the Prior Periods, in the three and six months ended March 31, 2017, EBITDA increased by 29% and 34% and Adjusted EBITDA decreased by 7% and increased 12%. The increase in Adjusted EBITDA for the fiscal year to date period is the result of an increase in revenues and gross profit from the acquisition of Mobi coupled with strong performance in the BSM historical business in the first quarter of fiscal 2017. For the current quarter, Adjusted EBITDA decreased in comparison to the Prior Period which is reflective of lower Hardware and Professional Services Revenue in the current quarter as compared to the Prior Period. The fiscal year to date period Adjusted EBITDA performance also reflects the generally larger size and scale of our combined business resulting from the acquisition of Webtech, for which synergies had not been fully realized in the comparable period.

Summary of Quarterly Data

The following table sets forth certain information for each of the eight most recent quarters, including the current quarter ended March 31, 2017. 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				FY 2017	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	**Q2**
Revenue	$ 7,703	$ 7,486	$ 15,701	$ 15,239	$ 13,902	$ 14,965	$ 18,363	**$ 16,004**
Gross profit[1]	3,937	3,871	8,672	8,508	7,230	8,587	10,912	**9,458**
Net income/(loss)	(523)	479	(505)	(858)	(161)	9,135	(465)	**(1,181)**
EBITDA[1]	609	201	1,698	1,206	1,894	3,485	2,344	**1,557**
Adjusted EBITDA[1]	796	494	2,114	2,325	1,882	2,033	2,818	**2,170**
EPS - basic	$ (0.012)	$ 0.011	$ (0.006)	$ (0.010)	$ (0.002)	$ 0.112	$ (0.006)	**$ (0.015)**
EPS - diluted	$ (0.012)	$ 0.011	$ (0.006)	$ (0.010)	$ (0.002)	$ 0.112	$ (0.006)	**$ (0.014)**

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

Managing our Liquidity and Financial Resources

Statement of Cash Flows - Operating, Investing, and Financing Activities

	Three months ended March 31				Six months ended March 31			
($ thousands)	**2017 ($)**	2016 ($)	Change ($)	Change (%)	**2017 ($)**	2016 ($)	Change ($)	Change (%)
Cash and cash equivalents, beginning of period	**16,547**	29,000	(12,453)	(43%)	**24,900**	23,980	920	4%
Cash and cash equivalents, end of period	**8,442**	22,450	(14,008)	(62%)	**8,442**	22,450	(14,008)	(62%)
Decrease in cash and cash equivalents	**(8,105)**	(6,550)	(1,555)	24%	**(16,458)**	(1,530)	(14,928)	976%
Change due to:								
Operating activities	**1,582**	1,748	(166)	(9%)	**1,087**	1,947	(860)	(44%)
Financing activities	**(9,191)**	(7,788)	(1,403)	18%	**(9,252)**	(2,512)	(6,740)	268%
Investing activities	**(417)**	(274)	(143)	52%	**(8,354)**	(881)	(7,473)	848%
Impact of foreign exchange on cash held in foreign currencies	**(79)**	(236)	157	(67%)	**61**	(84)	145	(173%)
Total change in cash and cash equivalents	**(8,105)**	(6,550)	(1,555)	24%	**(16,458)**	(1,530)	(14,928)	976%

Operating activities: In the three and six months ended March 31, 2017, $1,582 and $1,087 in cash were generated from operating activities. Operating cash flow before changes in non-cash working capital was $2,266 and $4,656, respectively. Non-cash working capital balances increased by $684 and $3,569 in the three and six months ended March 31, 2017 respectively.

In the three months ended March 31, 2017, operating cash flow was negatively impacted by a $1,303 decrease in accounts payable and accrued liabilities primarily due to the payment of inventory purchases. Operating cash flow was further negatively impacted by a $1,308 decrease in deferred revenue due to recognizing revenue for recurring services performed in the period. Offsetting the negative impact of these items was $2,321 in cash generated from the collection of accounts receivable due to payments collected associated with large sales closed in prior periods.

In the six months ended March 31, 2017, the largest movements impacting working capital were: $1,037 in cash used from a decrease in accounts payable primarily due to the payment of inventory purchases; cash flow of $783 generated from the collection of accounts receivable; negative cash flow due to the recognition of deferred revenue of $2,669 for which cash had been received as at the beginning of the period, September 30, 2016.

The impact of working capital movements on operating cash flow cannot be directly calculated by comparing the statement of financial position balances as at March 31, 2017 and September 30, 2016 due to the impact of Mobi working capital balances recognized on October 1, 2016. The impact of the investment in Mobi working capital balances is reflected in the statement of cash flows under investing activities.

Financing activities: In the three and six months ended March 31, 2016, $9,191 and $9,252 in cash was used in financing activities. Cash flow from financing activities was negligible in the first quarter of fiscal 2017. During the current quarter, we made a $2,639 payment related to contingent consideration in connection with the Mobi acquisition. Furthermore, we made $6,349 in debt repayments against the Company's revolving line of credit in the current quarter.

Investing activities: In the three and six months ended March 31, 2016, $417 and $8,354 in cash was used in investing activities. Investing activities in the current quarter were limited to on-going investments in equipment and intangible assets. In the fiscal year to date period, $7,727 of cash was paid in connection with the Mobi acquisition closing.

NCIB and Share Repurchases

On December 19, 2016, the Company obtained approval for its intention to commence a normal course issuer bid (the "Bid"). Under the terms of the Bid, the Company may acquire up to 7,027,655 common shares from time to time in accordance with TSX procedures, representing approximately 10% of the total public float of common shares. The Bid commenced on December 23, 2016 and will conclude on December 22, 2017, or earlier if the number of common shares sought in the Bid have been purchased. Other than purchases made in compliance with the provisions of the block purchase exemption of the TSX, daily purchases under the Bid will be limited to a maximum of 19,327 Common Shares which represents 25% of the average daily trading volume on the TSX for the period from June 1, 2016 to November 30, 2016.

From time to time, the Company may make purchases under the Bid via an automatic securities repurchase plan (the "Plan") through which the timing for the purchase of common shares, the number of common shares purchased and the price payable for the common shares will be determined by the Company's broker, in its sole discretion. Such purchases are subject to a prescribed maximum price payable having regard to the price limitations and other terms of the Plan and the rules of the TSX. As at March 31, 2017, the Company had a Plan in place with its broker. Given the automatic nature of the Plan, the Company has recognized a share repurchase liability of $678 in the statement of financial position. The share repurchase liability has been recorded at the maximum purchase exposure under the Plan during the period of April 1, 2017 through May 10, 2017 which is the period the Company anticipates being prohibited from cancelling or making amendments to the Plan due to TSX "blackout" restrictions.

During the three and six months ended March 31, 2017, in accordance with the Bid, the Company repurchased and cancelled 78,200 and 78,200 (2016 – 7,470,500 and 7,523,500) common shares at costs of $116 and $116 (2016 - $7,324 and $7,371).

Credit Facilities

On August 24, 2016, the Company replaced its prior term credit facility with a $20 million revolving credit facility ("Revolver"). The Company may draw on the Revolver in either US dollars or Canadian dollars and as at March 31, 2017, the Company had US$1,393 drawn against the Revolver.

The Revolver is secured by a first ranking security interest over all personal property of the Company. The Revolver also contains certain financial covenants including maximum debt leverage, minimum profitability ratios, and other non-financial covenants with which the Company is required to comply. The Company is in compliance with these covenants as at March 31, 2017. 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

In the fiscal year to date period, the Company's contractual commitments increased due to the deferred contingent consideration issued in accordance with the Mobi acquisition. Combined with amounts outstanding for other acquisitions, the Company has total contractual commitments of $32.9 million for deferred contingent consideration payments for which payments may come due at different milestone dates over the next three years. The conditions of deferred acquisition consideration payments are contingent upon each of the acquired businesses generating specified levels of operating cash flow and therefore the contractual commitments will be funded by a combination of the required increase in cash flow from each respective acquisition; cash on hand; and available capacity on our revolving credit facility. In addition to contingent consideration, the Company has $5.7 million in contractual commitments for operating leases and supplier purchase commitments. As at March 31, 2017 the Company has $8.4M in cash on hand and $18.1M in cash available on its revolving credit facility for total liquidity of $26.5M. In aggregate, the Company expects to have adequate liquidity to meet its contractual commitments as they come due over future periods.

Overview of Financial Position

Condensed Consolidated Statement of Financial Position

Balance	**As at March 31, 2017 ($)**	As at September 30, 2016 ($)	Change ($)	Change (%)	Comments
Assets					
Current assets	**28,698**	44,111	(15,413)	(35%)	The largest factors contributing to the decrease were cash payments of $7,727 and $2,639 related to the acquisition of Mobi. Cash further decreased due to $6,349 in debt repayments made on the Company's revolving credit facility. See "Managing Liquidity and Financial Resources" section for further explanation of the change in cash.
Long-Term assets	**86,597**	72,599	13,998	19%	Increase of long-term assets is attributed to the increase in intangible assets and goodwill recognized in connection with the acquisition of Mobi.
Total assets	**115,295**	116,710	(1,415)	(1%)	
Liabilities					
Current liabilities	**14,615**	11,169	3,446	31%	Increase in current liabilities is primarily due to a $2,685 increase in the current portion of contingent consideration due to the acquisition of Mobi.
Long-term liabilities	**8,242**	11,772	(3,530)	(30%)	Decrease in long-term liabilities is mainly attributed repayment of $6,349 in financing costs associated with the Revolver, offset by contingent consideration recognized (net of payments) on the Mobi acquisition.
Total liabilities	**22,857**	22,941	(84)	-	
Shareholders' equity					
Common shares	**85,099**	85,861	(762)	(1%)	
Contributed surplus	**8,910**	7,946	964	12%	Contributed surplus increased in the year to date period due to share based compensation expense recognized in association with the vesting of stock options, RSUs and DSUs.
Accumulated other comprehensive income	**539**	426	113	27%	Increase in AOCI is attributable to the USD appreciation on the Company's net investment in foreign operations in the fiscal year to date period.
Deficit	**(2,110)**	(464)	(1,646)	355%	
Total shareholders' equity	**92,438**	93,769	(1,331)	(1%)	
Total liabilities and shareholders' equity	**115,295**	116,710	(1,415)	(1%)	

Outstanding Share Data

Our authorized share capital consists of an unlimited number of common shares. As at March 31, 2017, there were 82,533,536 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 attaining certain revenue and EBITDA targets over the five years from the acquisition date; and 500,000 common shares in escrow subject to the acquired Praxis business attaining certain revenue targets over the six years from the acquisition date.

The Company authorized an unlimited number of First Preferred Shares and Second Preferred Shares, all without par value. As at March 31, 2017, there were no First Preferred Shares and Second Preferred Shares issued and outstanding.

As at March 31, 2017, there were 2,937,568 outstanding stock options, which have been issued to directors, officers and employees of the Company with a weighted average exercise price of $1.36. As at March 31, 2017 there were 2,538,986 outstanding restricted share units which have been issued to officers and employees of the Company and 332,207 outstanding deferred share units which have been issued to directors of the Company.

Critical Accounting Policies and Estimates

Please see our 2016 Annual MD&A and our 2016 Annual Audited FS for a discussion of the accounting policies and estimates that are critical to the understanding of our business operations and the results of our operations. There were no changes to these policies nor the nature of items requiring accounting estimates in this quarter.

Updates to Risks and Uncertainties

Please see our 2016 Annual MD&A and our 2016 AIF for a discussion of the principal risks and uncertainties and legal proceedings that could have a material adverse effect on our business and financial results as at May 10, 2017, which should be reviewed in conjunction with this interim quarterly MD&A. There have been no material changes to the risk factors or ongoing legal proceedings as at May 9, 2017.

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. We believe that Recurring Revenue provides useful information to our investors because it shows the long-term nature of revenue earned from our customer relationships. **"Hardware Revenue"** is comprised of revenue recognized for the sale of our proprietary and third party telematics devices. **"Professional Service Revenue"** includes installation fees, project management fees, custom development fee revenue, cancellation fees and other one-time services provided to our customers. We believe that separately disclosing these revenue categories helps us to explain period over period variation in financial performance. Furthermore, gross profit margin generated by each revenue categories varies and we believe disclosure of these different categories helps our investors to better understand the composition of our total revenue and the impact of relative changes in revenue categories on total gross profit margin. The revenue, cost of revenue, gross profit and gross profit margin by revenue category table disclosed in the summary of consolidated financial results section shows how each of these categories comprise total revenue as disclosed in the Company's financial statements.

“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;
- depreciation of property and equipment and amortization of 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;
- write-off 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 statement 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 EBITDA and adjusted EBITDA to Net Income/(Loss)

EBITDA and Adjusted EBITDA are calculated from net income/(loss) as follows:

	Three months ended March 31				**Six months ended March 31**			
($ thousands)	**2017 ($)**	2016 ($)	Change ($)	Change (%)	**2017 ($)**	2016 ($)	Change ($)	Change (%)
Net income/(loss) as reported	**(1,181)**	(858)	(323)	38%	**(1,646)**	(1,365)	(281)	21%
Add (deduct):								
Interest expense, net of interest received	**361**	136	225	165%	**845**	255	590	231%
Tax expense/(recovery)	**256**	378	(122)	(32%)	**448**	843	(395)	(47%)
Amortization	**2,121**	1,550	571	37%	**4,254**	3,170	1,084	34%
EBITDA	**1,557**	1,206	351	29%	**3,901**	2,903	998	34%
Add (deduct):								
Share-based compensation	**446**	114	332	291%	**985**	350	635	181%
Foreign exchange (gain)/loss	**167**	661	(494)	(75%)	**(233)**	304	(537)	(177%)
Acquisition, integration and restructuring costs	**-**	344	(344)	(100%)	**335**	880	(545)	(62%)
Adjusted EBITDA	**2,170**	2,325	(155)	(7%)	**4,988**	4,437	551	12%

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 we no longer bill the Subscriber for Recurring Revenue services 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.

Off-Balance Sheet Arrangements

As at March 31, 2017, we do not have any off-balance sheet arrangements, other than lease commitments as disclosed in this MD&A.

Subsequent Events

There are no subsequent events to disclose for the Company.

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 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.

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