# Management's Discussion & Analysis

## Three months ended December 31, 2018 and 2017

# General Information

This Management's Discussion and Analysis ("MD&A") contains important information about our business and our performance for the three months ended December 31, 2018, 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 months ending December 31, 2018, 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, 2018 ("2018 Annual MD&A"); our audited consolidated financial statements for the years ended September 30, 2018 and 2017 and notes thereto ("2018 Annual Audited FS"), which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB; our 2018 annual information form ("2018 AIF") for the fiscal year ended September 30, 2018; and our other recent filings with Canadian securities regulatory authorities, which are available on SEDAR at sedar.com.

Effective October 1, 2018, we adopted IFRS 15, *Revenue from Contracts with Customers,* which has had a significant effect on our reported results. Refer to the Critical Accounting Policies and Estimates section below for a description of our revenue recognition policy under the new accounting standard and an assessment of its impact on our reported results.

All dollar amounts within this MD&A are presented in thousands of Canadian dollars ("CAD") 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 February 5, 2019 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 "Current Quarter" refers to the three months ended December 31, 2018, which is the first quarter of our 2019 fiscal year. All financial performance commentary compared to the three months ended December 31, 2017 is referred to as the "Prior Period".

This MD&A contains references to certain non-GAAP financial measures such as; "Hardware Revenue"; "Subscription Fee Revenue"; "Professional Services Revenue"; "Cash-based Operating Expenses"; "Adjusted EBITDA"; and, "Adjusted EBITDA Margin" and key performance indicators (KPIs) such as a "Subscriber"; "Subscriber Additions"; "Subscriber Churn"; and "Average Revenue Per Subscriber or 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 results of operations reported under the Company's GAAP in accordance with IFRS. These measures are identified, defined and further discussed in the "Non-GAAP Financial Measures and KPIs" section of this MD&A.

# Description of the Business

BSM is a leading provider of Internet of Things ("IoT") enabled telematics and asset management solutions. Focused on the Government, Service, Rail and Construction markets, BSM provides the technology, tools and services required to connect, analyze and optimize fleets, equipment and people, empowering data driven operational decision making. BSM illuminate is BSM's software platform, which enables companies to leverage data insights, analytics and optimization tools for competitive advantage. The Company operates as one reportable segment.

When deploying solutions with BSM, customers typically purchase a combination of hardware, professional services and recurring software subscription services. The Company sells both proprietary technology solutions as well third-party technology through the licensing and resale of selected partner and vendor solutions. BSM relies on acquired, licensed and internally developed technologies to provide its solutions. BSM has several patents and has filed patent applications directed at different aspects of the Company's end-to-end solutions.

BSM's customers operate in a broad range of markets across North America, including, among others, rail, construction, utility, transportation, services, oil and gas and government. The Company continues to refine its development and go-to-market efforts around target verticals – with an emphasis on the government, service, rail and construction markets. The Company uses direct sales representatives in most of its major markets as its primary distribution channel but also leverages the use of channel partners. BSM's sales and marketing teams work primarily within dedicated sales groups which are assigned to key vertical markets. By assigning sales representatives to a key vertical market, the Company's sales representatives develop strong industry specific knowledge which assists them in working with customers.

The Company's pricing models affords its customers flexibility in determining which solution fits their needs. Hardware devices may be purchased up-front, through installment payments or through a perpetual managed service subscription. In addition to hardware devices, the Company sells monthly subscriptions to customers to access the Company's software solutions and gain insight on the data captured by hardware devices. Subscription pricing is based upon a fee matrix that includes certain base service levels derived from the number of users a customer requires and the options selected. Base service levels are typically designed to accommodate the perceived needs of a large percentage of our target market, with incremental fees charged for additional services as selected by the customer. Customer subscription pricing may 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 used; (iv) the number of subscriptions purchased; (v) the location of customer.

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 2018 AIF.

## Summary of Consolidated Financial Results

| | Three months ended December 31 | | | |
|---|---|---|---|---|
| *($ thousands, except margins and per share amounts)* | **2018** | 2017 (restated) | Change $ | Change (%) |
| Hardware Revenue [i] | **$ 3,349** | $ 3,271 | $ 78 | 2% |
| Subscription Fee Revenue [i] | **11,364** | 11,251 | 113 | 1% |
| Professional Services Revenue [i] | **956** | 869 | 87 | 10% |
| Total revenue | **15,669** | 15,391 | 278 | 2% |
| | | | | |
| Hardware gross profit margin | **29.8%** | 31.5% | (1.7%) | (5%) |
| Subscription fee gross profit margin | **70.0%** | 73.3% | (3.3%) | (5%) |
| Professional services gross profit margin | **13.7%** | 6.3% | 7.4% | 117% |
| Total gross profit margin | **58.0%** | 60.7% | (2.7%) | (4%) |
| | | | | |
| Research and development expenses | **3,142** | 2,983 | 159 | 5% |
| Sales and marketing expenses | **1,918** | 2,128 | (210) | (10%) |
| General and administrative expenses | **2,559** | 2,634 | (75) | (3%) |
| Cash-based Operating Expenses [i] | **7,619** | 7,745 | (126) | (2%) |
| | | | | |
| Net loss for the period | **$ (85)** | $ (2,008) | $ 1,923 | (96%) |
| | | | | |
| Net loss per share – basic | **$ (0.001)** | $ (0.025) | $ 0.024 | (96%) |
| Net loss per share – diluted | **$ (0.001)** | $ (0.025) | $ 0.024 | (96%) |
| | | | | |
| Operating cash flow before non-cash operating working capital changes | **$ 1,642** | $ 796 | $ 846 | 106% |
| Changes in non-cash operating working capital items | **(909)** | (1,230) | 321 | (26%) |
| Cash flows from operating activities | **$ 733** | $ (434) | $ 1,167 | (269%) |
| | | | | |
| Adjusted EBITDA [i] | **$ 1,620** | $ 1,713 | $ (93) | (5%) |
| Adjusted EBITDA Margin [i] | **10.3%** | 11.1% | (0.8%) | (7%) |

*(i) Hardware Revenue, Subscription Fee Revenue, Professional Services Revenue, Cash-based Operating Expenses, Adjusted EBITDA and Adjusted EBITDA Margin are non-GAAP financial measures and do not have any standardized meaning under IFRS and 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 a reconciliation of these measures to their most comparable GAAP financial measure.*

### *Revenues by Geography (based upon customer locations)*

| | Three months ended December 31 | | | |
|---|---|---|---|---|
| *($ thousands)* | **2018** | | 2017 (restated) | |
| Canada | **$ 6,661** | **43%** | $ 6,367 | 42% |
| United States | **8,873** | **56%** | 8,823 | 57% |
| International | **135** | **1%** | 201 | 1% |
| Total revenue | **$ 15,669** | **100%** | $ 15,391 | 100% |

# Critical Accounting Policies and Estimates

The accounting policies applied in the Company's condensed interim consolidated financial statements are consistent with those disclosed in note 3 of the Company's annual consolidated financial statements for the year ended September 30, 2018, with the exception of the adoption of IFRS 15, *Revenue from Contracts with Customers,* which has had a significant impact on our reported results, and IFRS 9, *Financial Instruments,* both of which were adopted on October 1, 2018. The impact of these new accounting standards is further explained in this section as well as throughout this MD&A.

The Company is required to make estimates and assumptions to determine the carrying amount of assets and liabilities reported in its financial results. The significant areas requiring estimates and assumptions in determining the reported amounts relate to: the average expected contract renewal rate in contracts with customers, the allocation of revenue between performance obligations; the recoverable amount of goodwill; the valuation of the Company's warranty obligation; and, the recoverability of the Company's deferred tax asset recognized in the financial statements.

**IFRS 15, Revenue from Contracts with Customers**

Effective October 1, 2018, we adopted IFRS 15, which establishes a single comprehensive principles-based model of accounting for revenue arising from contracts with customers that an entity will apply to determine the measurement of revenue and the timing of when it is recognized. The standard also provides guidance on whether revenue should be recognized at a point in time or over time as well as requirements for more informative, relevant disclosures. This standard replaces IAS 18, Revenue, which covers contracts for goods and services and IAS 11, Construction Contracts, which covers revenue from construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer, replacing the prior notion of the transfer of risks and rewards of ownership. The standard requires revenue to be recognized in a manner that depicts the transfer of goods and services to a customer at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services. The standard sets out a five-step framework to complete this evaluation as follows:

1. identify the contract with a customer;
2. identify the performance obligations in the contract;
3. determine the transaction price;
4. allocate the transaction price to the performance obligations in the contract; and
5. recognize revenue when (or as) the entity satisfies a performance obligation

In our application of the new standard, we determined that the value of hardware products is consumed together with the recurring software platform data access as our customers utilize the Company's solutions over time. Under our evaluation of the IFRS 15 framework, hardware products and subscription services represent a bundle of goods and services which comprise a single performance obligation. Accordingly, the consideration associated with hardware is recognized into revenue over time, on a consistent basis with the related software subscription services. Historically, the Company has accounted for revenue from hardware products separately from subscription services revenue. Under our prior accounting policy in accordance with IAS 18, hardware revenue was recognized at the time

that title of such products passed to the customer, which is generally at the time of shipping.

Hardware revenue was previously recognized when hardware devices were sold pursuant to a leasing arrangement which gave rise to a finance lease receivable that was recorded on the statement of financial position. At the time of hardware shipment, a lease finance receivable would be recorded at the present value of the future lease payments with a corresponding increase to hardware revenue. In accordance with the Company's adoption of IFRS 15, hardware revenue is recognized rateably over time as opposed to at the time when title passes at shipment. As a result, a finance lease receivable is no longer recognized on the interim consolidated statement of financial position and revenue from the receipt of lease payments for hardware devices is recognized over the term of the contract.

The recognition of revenue and related costs of revenue over the contract life may be different from the time which customers are invoiced and time that the Company incurs costs to fulfill its contract obligations. These timing differences result in the recognition of deferred revenue or deferred contract costs in the Company's statement of financial position. We often engage with customers where they pay for hardware devices under an upfront payment model (as opposed to a deferred payment plan). Under this model, the receipt of cash received is initially recognized as deferred revenue and then recognized as revenue over the life of the contract. Irrespective of the customer's purchasing model, the Company incurs costs when hardware devices are shipped and released from inventory. This cost is recorded as a deferred contract costs asset at inception and then amortized into cost of revenue over the life of the contract. The Company has recognized significant balances of deferred revenue and deferred contract costs for these timing difference as of the date of adoption. Despite the impact of IFRS 15 adoption on the timing of revenue recognition, the application of the standard does not affect our cash flows from operations, or the methods or underlying economics through which we transact with customers.

IFRS 15 also provides guidance with respect to the treatment of contract acquisition costs and contract fulfilment costs. This includes sales commissions which are generally expected to be capitalized and then recognized as a cost over the period that the related performance obligations are satisfied. Under the Company's sales commission plan, commissions are earned and payable upfront at the inception of a sales contract with a customer. Accordingly, sales commission costs are capitalized and amortized into the results of operations over the term of the related contract. Historically, the Company has expensed commission as paid and earned, at the time a contract is booked. The impact of accounting for sales commissions on a deferred basis as opposed to upfront did not have a significant impact on the Company's results from operations. The unamortized balance of deferred sales commissions is recorded within other assets in the interim consolidated statement of financial position.

The Company has applied the full retrospective approach to adoption of IFRS 15 given the significant impact on its operations as compared to its historically reported results. As a result, all comparative information in these financial statements has been prepared as if IFRS 15 had been in effect since October 1, 2017. Specifically, the results of operations for the three months ended December 31, 2017 and the interim consolidated statement of financial position as at October 1, 2017 and September 30, 2018 have been adjusted from the amounts previously reported under the Company's prior accounting policies, to be prepared in accordance with the accounting policies described herein.

Refer to note 3 of the Company's condensed interim consolidated financial statements for the three months ended December 31, 2018 and 2017 for a reconciliation of the impact of the adoption of IFRS 15 on the restated amounts presented for the Prior Period. Furthermore, refer to note 4 of the Company's condensed interim financial statements for the three months ended December 31, 2018 and 2017 for a full description of the Company's revenue recognition policy under IFRS 15.

**IFRS 9 – Financial Instruments**

IFRS 9 was mandatory for adoption effective October 1, 2018. This standard replaces IAS 39, *Financial Instruments: Recognition and Measurement* and includes revised guidance to the classification and measurement of financial assets and financial liabilities as well as the impairment of financial assets. The adoption of IFRS 9 did not have a significant impact on our reported results and Prior Period amounts have not been restated for the adoption of the new standard.

# Overall Company Performance and Key Changes in Financial Results

Overall performance for the Company is discussed throughout this document and in further detail within this section including a focused discussion on revenue, gross profit, gross profit margin, operating expenses, net loss and Adjusted EBITDA.

Period to period variation in Company performance is not materially impacted by seasonality. Generally, customer deployment cycles are not impacted by seasonality, and Subscription Fee Revenue is invoiced on a recurring basis over time. Within the government customer vertical market, a portion of the monitored assets utilizes 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 Average Revenue Per Subscriber ("ARPU") as a result of this seasonality is explained throughout this MD&A when relevant.

### *Revenue*

The Company has disaggregated revenue by product and service types as follows: Hardware Revenue, Subscription Fee Revenue and Professional Services Revenue. 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 is billed either upfront at the time of shipping or in installment payments over the term of a financing contract. Where billed in advance, Hardware Revenue is deferred and recognized over the contract term as the hardware devices are used by the customer to consume data via BSM's software portal applications. The change in deferred revenue is shown in the following table. The Company also bills for Subscription Fee Revenue and Professional Services revenue in advance. Included in the following table is a reconciliation of the ending amount of deferred Hardware Revenue to total deferred revenue as of the end of each period presented.

| | **Three months ended December 31** | | | |
|---|---|---|---|---|
| *($ thousands)* | **2018 ($)** | 2017 ($) | Change ($) | Change (%) |
| Deferred Hardware Revenue, beginning of period | **25,231** | 26,598 | (1,367) | (5%) |
| Hardware products shipped and invoiced in the period | **1,747** | 2,500 | (753) | (30%) |
| Recognition of deferred revenue for satisfied performance obligations | **(2,968)** | (2,798) | (170) | 6% |
| Deferred Hardware Revenue, end of the period | **24,010** | 26,300 | (2,290) | (9%) |
| | | | | |
| Deferred Hardware Revenue, end of the period | **24,010** | 26,300 | (2,290) | (9%) |
| Deferred Professional Services Revenue, end of period | **104** | 290 | (186) | (64%) |
| Deferred Subscription Fee Revenue, end of the period | **4,094** | 3,913 | 181 | 5% |
| Deferred revenue, end of the period | **28,208** | 30,503 | (2,295) | (8%) |

Hardware shipped and invoiced in the Quarter decreased by $753 or 30% as compared to the Prior Period. The decrease is due to a lower number of units shipped in the Current Quarter as well as a lower average selling price on hardware products. On a net basis, the deferred Hardware Revenue balance decreased by $1,221 in the Quarter as revenue recognized on a deferred basis was greater that the value of products shipped and invoiced in the Current Quarter.

Professional Services Revenue includes installation fees, project management fees, custom development fee revenue and other one-time services provided to our customers. Professional Services Revenue in the Current Quarter increased by $87 or 10%. We completed two large deployments in the Current Quarter which included project management and installation services and in aggregate the volume of professional services in the current period was greater than the Prior Period.

Subscription Fee Revenue is comprised of monthly software application subscription fees which are charged to customers for access to our data portal and for the data reported from their monitored assets. Subscription fees are generally invoiced monthly and are 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". Subscription Fee Revenue is billed either annually, quarterly or monthly and is recognized as the services are delivered.

For the three months ended December 31, 2018 we achieved gross Subscriber additions of 6,200 and experienced Subscriber churn of 2,700 resulting in a December 31, 2018 Subscriber base of 168,100 up from 164,600 as at September 30, 2018. The increase in Subscribers in the Current Quarter reflects the completion of a few large deployments in the quarter to existing and new customers.

ARPU in the Current Quarter was $22.77 compared to $22.88 in the three months ended December 31, 2017 and $22.35 in the fourth quarter of fiscal 2018. On a constant currency basis, ARPU of $22.77 for the Current Quarter compared to $23.39 in the first quarter of fiscal 2018 and $22.49 in the fourth quarter of fiscal 2018. The decrease in ARPU on a year over year basis is the reflects a change in the mix of ARPU on gross Subscriber Additions relative to Subscriber Churn. The increase in ARPU as compared to the the fourth quarter of fiscal 2018 reflects an increase from higher seasonal billing on winter operations assets which were converted from standby to an active billing rate at the start of the winter season.

Subscription Fee Revenue increased by $113 or 1% in the Current Quarter as compared to the Prior Period. The increase is primarily attributable to an increase in the relative value of the US dollar to the Canadian dollar in the Current Quarter compared to the Prior Period. On a constant current basis, as compared to the Prior Period. Subscription Fee Revenue decreased by $137 because of a lower ARPU, however, this was partially offset by a higher average number of subscribers between the periods.

### *Gross Profit Margin*

Gross profit margins vary depending on both the mix of revenue from hardware products and services recognized in a given period. Hardware products typically generate lower gross margins than Subscription Fee Revenue. Furthermore, larger volume hardware sales will typically generate lower gross margins than smaller volume sales as a result of volume discounts.

During the three months ended December 31, 2018, gross profit margin from Hardware Revenue of 29.8% was relatively unchanged from the Prior Period (a decrease of 170 basis points). Hardware Revenue gross profit margin generally fluctuates based on the mix of hardware products sold and the volume of shipments relative to fixed costs of production. Gross profit margin from Professional Services Revenue was 13.7% in the Current Quarter as compared to 6.3% in the Prior Period. The increase is attributable to a higher return on fixed installation and project management headcount costs relative to an increase in Professional Services Revenue between the periods. Gross profit margin from Subscription Fee Revenue was 70.0% as compared to 73.3% in the Prior Period. The decrease in gross profit margin is attributable to a shift in resource allocation from operating expenses, specifically general and administrative and research and development costs, to recurring costs of revenue, between the periods. As we work through our platform migration projects and transition customers, we have proactively focused on ensuring a high level of customer support.

### *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. R&D expenses increased by $159 in the three months ended December 31, 2018 compared to the Prior Period. The increase is attributable to an increase in salaries and wage costs between the periods as we continue to invest in the development of the BSM illuminate platform and various product modules which were launched in January 2019.

### *Sales and Marketing Expenses*

Sales and marketing ("S&M") expenses include employee costs of our pre-sales team of solutions engineers; the salaries, benefits, travel and commission costs of our direct sales team; and, advertising and marketing costs. S&M expenses decreased by $210 between the periods due to a reduction of certain sales support staff and solutions engineering roles in connection with restructuring activities that were completed in the last quarter of fiscal 2018.

### *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. G&A expenses decreased by $75 compared to the Prior Period which is primarily the result of a reduction of certain employment positions resulting from restructuring activities that were completed in the last quarter of fiscal 2018.

### *Acquisition, Integration and Restructuring Expenses*

Acquisition, integration and restructuring expenses include costs we incur to acquire and integrate the businesses we purchase as well as expenses incurred to realign parts of our business. Acquisition, integration and restructuring expenses of $696 were recognized in the Prior Period for employee termination costs in connection with a restructuring that was completed where certain employment positions were eliminated.

### *Foreign Exchange Gain*

Foreign exchange gains and losses arise from the translation of assets and liabilities denominated in foreign currencies (primarily US dollar working capital). During the Current Quarter, the strengthening of the US dollar relative to the Canadian dollar led to a foreign exchange gain included in net income of $297. Net income for the Prior Period included a foreign exchange gain of $136 which was also due to a strengthening of the US dollar relative to the Canadian dollar. Foreign exchange gains and losses in net income will fluctuate between periods due to foreign exchange rate changes and changes in US dollar working capital balances.

### *Net Loss*

The results of operations generated a net loss of $85 in the Current Quarter as compared to a net loss of $2,008 in the Prior Period. The decrease in the loss is primarily attributable to a $1,089 decrease in intangible asset amortization. Specified intangible assets were determined to be impaired as of September 30, 2018 and accordingly were no longer amortized into net loss in the Current Quarter. The Prior Period also included $696 in restructuring expenses which were not incurred in the Current Quarter.

### *Adjusted EBITDA*

Adjusted EBITDA normalizes the results of operations by adjusting for financing costs, specified non-cash charges and non-recurring items. Refer to the "Non-GAAP Financial Measures & KPI's" section below for our description of Adjusted EBITDA and a reconciliation to net income. Adjusted EBITDA was $1,574 in the Current Quarter compared to $1,650 in the Prior Period, a 5% decrease. Operating performance between the two periods was relatively consistent. As compared to the Prior Period, a decrease in gross profit was partially offset by lower cash operating expenses.

## Summary of Quarterly Data

The following table sets forth certain information for each of the eight most recent quarters, including the current quarter ended December 31, 2018. 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, with the exception of amounts presented for quarters in the 2017 fiscal year. Amounts for the 2017 fiscal year have not been restated to conform with IFRS 15 and the current period accounting policies adopted by the Company. These amounts are presented on a basis consistent with historical accounting policies in effect for those periods and are not directly comparable to the current period performance.

| *($ thousands, except per share data)* | **FY 2017 (pre-IFRS 15 adoption)** | | | **FY 2018 (restated)** | | | | **FY 2019** |
|---|---|---|---|---|---|---|---|---|
| | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | **Q1** |
| Revenue | $ 16,004 | $ 16,660 | $ 15,690 | $ 15,391 | $ 15,479 | $ 15,660 | $ 15,303 | **$ 15,669** |
| Gross profit | 9,458 | 9,819 | 9,150 | 9,336 | 9,122 | 9,084 | 8,876 | **9,083** |

| Net income (loss) | (1,181) | (1,336) | (1,218) | (2,008) | 1,918 | (509) | (18,253) | **(85)** |
|---|---|---|---|---|---|---|---|---|
| Adjusted EBITDA | 2,170 | 2,150 | 1,189 | 1,713 | 1,896 | 1,880 | 1,670 | **1,620** |
| EPS - basic | $ (0.015) | $ (0.017) | $ (0.014) | $ (0.025) | $ 0.024 | $ (0.006) | $ (0.226) | **$ (0.001)** |
| EPS - diluted | $ (0.014) | $ (0.016) | $ (0.014) | $ (0.025) | $ 0.023 | $ (0.006) | $ (0.226) | **$ (0.001)** |

# Managing our Liquidity and Financial Resources

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

| | Three months ended December 31 | | | |
|---|---|---|---|---|
| *($ thousands)* | **2018 ($)** | 2017 ($) | Change ($) | Change (%) |
| Cash and cash equivalents, beginning of period | **5,908** | 8,708 | (2,800) | (32%) |
| Cash and cash equivalents, end of period | **5,319** | 6,731 | (1,412) | (21%) |
| Increase (decrease) in cash and cash equivalents | **(589)** | (1,977) | 1,388 | (70%) |
| Change due to: | | | | |
| Operating activities before working capital changes | **1,642** | 796 | 846 | (106%) |
| Changes in other non-cash operating working capital items | **(909)** | (1,230) | 321 | (26%) |
| Operating activities | **733** | (434) | 1,167 | (269%) |
| Investing activities | **(273)** | (340) | 67 | (20%) |
| Financing activities | **(1,290)** | (1,228) | (62) | 5% |
| Impact of foreign currency revaluation on cash and cash equivalents | **241** | 25 | 216 | 864% |
| Total change in cash and cash equivalents | **(589)** | (1,977) | 1,388 | (70%) |

**Operating activities:**

In the three months ended December 31, 2018, $1,642 in cash was generated from operations before non-cash operating working capital changes. A change in deferred revenue and deferred contract costs within changes in non-cash working capital contributed to a $1,469 decrease in cash flow. Of this amount, $872 was related to deferred Subscription Fee Revenue for an enterprise customer which is billed annually in advance. Other non-cash operating working capital changes provided a $560 source of cash which was primarily from the collections of accounts receivable.

**Investing activities:**

In the three months ended December 31, 2018, $273 in cash was used in investing activities. Investing activities in the Current Quarter were limited to capital expenditures for fixed assets to maintain our physical infrastructure in support of the provisioning of our software services and external consultant costs associated with the internal software systems and customer data platforms. These amounts are relatively consistent with investing cash flows in the Prior Period.

**Financing activities:**

In the three months ended December 31, 2018, $1,290 in cash was used in financing activities. During the Current Quarter, we made a $979 payment against the Company's revolving line of credit. In addition, we used $229 to repurchase and cancel common shares in accordance with our normal course issuer bid.

## *NCIB and Share Repurchases*

On December 20, 2018, 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 5,301,709 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 27, 2018 and will conclude on December 26, 2019, 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 11,686 common shares which represents 25% of the average daily trading volume on the TSX for the period from June 1, 2018 to November 30, 2018.

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 December 31, 2018, 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 $230 in the interim consolidated statement of financial position. The share repurchase liability has been recorded at the maximum purchase exposure under the Plan during the period of January 2, 2019 through February 7, 2019 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 months ended December 31, 2018, the Company repurchased and cancelled 275,500 common shares in accordance with the Bid or a previous normal course issuer bid.

### *Credit Facilities*

The Company’s long-term debt balance is comprised of a $20 million revolving credit facility (“Revolver”) with the Toronto-Dominion Bank. The Company may draw on the Revolver in either US dollars or Canadian dollars and as at December 31, 2018, the Company had CAD$370 drawn against the Revolver.

As at December 31, 2018, the Company had not drawn upon any letters of credit, which have been issued in the maximum amount of $318 for performance guarantees to customers.

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 December 31, 2018. 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*

As at December 31, 2018, the Company has total contractual commitments of US$0.2 million for deferred contingent consideration payments. The fair value of this commitment has been recorded at $nil within the interim consolidated statement of financial position as the Company does not expect the related earn out target to be achieved. In addition to contingent consideration, the Company has $6.5 million of contractual commitments for: purchase commitments to suppliers; operating lease payments for the premises it occupies; and letters of credit issued to customers as performance guarantees. As at December 31, 2018, the Company has $4.9 million in net cash and approximately $14.4 million of availability on its revolving credit facility for total liquidity of $19.3 million. 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 Interim Consolidated Statement of Financial Position*

| *($ thousands)* | As at December 31, 2018 ($) | As at September 30, 2018 (restated) ($) | Change ($) | Change (%) | Comments |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets | **$ 31,187** | $ 32,066 | $ (879) | (3%) | Current assets decreased primarily from a $751 decrease in accounts receivable as a result of cash collections. The cash balance also decreased by $589 which is explained in further detail in the managing liquidity section above. |
| Long-term assets | **71,159** | 71,936 | (777) | (1%) | The decrease in long-term assets is primarily attributable to amortization of intangible assets, a decrease in the deferred tax asset and a decrease in deferred contract costs. These decreases were offset by an increase to goodwill and intangible assets for a higher USD valuation of US-based assets. |
| **Total assets** | **$ 102,346** | $ 104,002 | (1,656) | (2%) | |
| **Liabilities** | | | | | |
| Current liabilities | **$ 23,097** | $ 24,142 | (1,045) | (4%) | The decrease in current liabilities was primarily related to a $770 decrease in the current portion of deferred revenue. |
| Long-term liabilities | **13,631** | 15,973 | (2,342) | (15%) | The decrease in long-term liabilities was primarily related to a $1,262 decrease in the long-term portion of deferred revenue and a $939 decrease in the long-term debt balance. |
| **Total liabilities** | **36,728** | 40,115 | (3,387) | (8%) | |
| **Shareholders' equity** | | | | | |
| Common shares | **83,268** | 83,156 | 112 | - | Refer to the statement of changes in equity in the condensed interim consolidated financial statements for further information on the changes in equity balances. |
| Contributed surplus | **9,992** | 9,779 | 213 | 2% | |
| Accumulated other comprehensive income | **1,715** | 224 | 1,491 | 666% | |
| Deficit | **(29,357)** | (29,272) | (85) | - | |
| **Total shareholders' equity** | **$ 65,618** | $ 63,887 | $ 1,731 | 3% | |
| **Total liabilities and shareholders' equity** | **$ 102,346** | $ 104,002 | $ (1,656) | (2%) | |

### *Outstanding Share Data*

Our authorized share capital consists of an unlimited number of common shares. As at December 31, 2018, there were 80,835,511 issued common shares, including: 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 December 31, 2018, there were no First Preferred Shares and Second Preferred Shares issued and outstanding.

As at December 31, 2018 there were 3,172,476 outstanding stock options, which have been issued to directors, officers and employees of the Company with a weighted average exercise price of $1.22. As at December 31, 2018 there were 1,937,497 outstanding restricted share units, which have been issued to officers and employees of the Company, and 706,578 outstanding deferred share units, which have been issued to directors of the Company.

# Updates to Risks and Uncertainties

Please see our 2018 Annual MD&A and our 2018 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 of February 5, 2019, 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 of the date of this MD&A.

# 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 results of operations reported under the Company's GAAP in accordance with IFRS. BSM believes that investors use these non-GAAP financial measures as indicators to help assess our performance and are similar to the non-GAAP financial measures used by other companies in our industry. These financial measures are identified and defined below:

| Non-GAAP Measure: | Why We Use It | How We Calculate or Define It | Most Comparable IFRS Financial Measure |
|---|---|---|---|
| Subscription Fee Revenue<br><br>Hardware Revenue<br><br>Professional Services Revenue | • We believe that separately disclosing these revenue categories helps us to explain period-over-period variation in our financial performance. Furthermore, gross profit margin generated by each revenue category 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. | • Subscription Fee Revenue is comprised of recurring software application subscription fees which are charged to customers for access to our data portal and for the data reported from their monitored assets. Subscription fees are generally invoiced monthly and are charged to customers on a per asset basis where those assets are vehicles, equipment or other types of stationary and mobile equipment.<br><br>• Hardware Revenue is defined by us as revenue from the sale of our proprietary and third-party telematics devices.<br><br>• Professional Services Revenue is defined by us as: revenue from installation fees, project management fees, custom development fees, fees for integration of systems and other one-time fees for services provided to our customers. | Revenue<br><br>These categories of revenue, when added together, are equivalent to total revenue as reported by the Company under IFRS. |

| | | | |
|---|---|---|---|
| Cash-based Operating Expenses | • We believe that disclosing operating expenses for the company's core recurring operating activities helps our investors to understand the expenditures of the Company and the relative level of investment in the company's various functional departments. | • Cash-based Operating Expenses are the cash-based expenditures of the Company which are classified with the Company's functional operating classifications: Research & Development, Sales & Marketing, and General & Administrative expenses. | Operating Expenses<br><br>Cash-based Operating Expenses, when combined with intangible asset amortization and depreciation expenses associated with general office equipment, comprise total operating expenses as disclosed in the Company's interim consolidated statement of loss and comprehensive loss. |
| Adjusted EBITDA<br><br>Adjusted EBITDA Margin | • We believe that Adjusted EBITDA provides useful information to our investors because it excludes transactions not related to the core cash operating business activities and normalizes for certain non-recurring charges recognized in net income, allowing for a meaningful analysis of the performance of BSM's core operating activities.<br><br>• We believe Adjusted EBITDA provides a meaningful continuity with respect to the comparison of BSM's operating results over time. | • Adjusted EBITDA is defined by us as net income adjusted for the impact of:<br><br>○ financing activities;<br>○ depreciation of capital assets and the amortization of intangible assets;<br>○ taxes with respect to various jurisdictions;<br>○ acquisition, integration and restructuring related costs<br>○ share-based compensation expenses;<br>○ write-off of goodwill or other impairments to any financial and non-financial assets;<br>○ fair value adjustments<br>○ costs related to certain legal actions; and<br>○ foreign exchange gains and losses recognized in net income.<br><br>• Adjusted EBITDA Margin is calculated by dividing Adjusted EBITDA by total revenue. | Net Income/(Loss)<br><br>See below for a reconciliation of Adjusted EBITDA to net income/(loss) as disclosed in the Company's interim consolidated statement of loss and comprehensive loss. |

Adjusted EBITDA is calculated from net loss as follows:

| | Three months ended December 31 | | | |
|---|---|---|---|---|
| *($ thousands)* | **2018 ($)** | 2017 (restated) ($) | Change ($) | Change (%) |
| **Net loss as reported** | **(85)** | (2,008) | 1,923 | (96%) |
| Add (deduct): | | | | |
| Net interest expense | **53** | 142 | (89) | (63%) |
| Amortization of intangible assets | **952** | 2,041 | (1,089) | (53%) |
| Depreciation of capital assets | **211** | 295 | (84) | (28%) |
| Tax expense | **495** | 267 | 228 | 85% |
| Share-based compensation | **291** | 416 | (125) | (30%) |
| Foreign exchange gain | **(297)** | (136) | (161) | 118% |
| Acquisition, integration and restructuring expenses | **-** | 696 | (696) | (100%) |
| **Adjusted EBITDA** | **1,620** | 1,713 | (93) | (5%) |

## *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 Subscription Fee Revenue from providing recurring service to our customers. Subscriber additions occur when we bill for Subscription Fee Revenue to a new device not previously in our Subscriber base, and Subscriber churn occurs when we no longer bill the Subscriber for Subscription Fee Revenue due to cancellation or expiry of the subscription services.

"**Average Revenue Per User or Subscriber**" or "**ARPU**" is calculated monthly as Subscription Fee 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. ARPU calculated on a constant currency basis is presented in Canadian dollars (the Company's presentation currency) using the effective average foreign exchange rate from the current period for all prior periods presented. Calculating ARPU on a constant currency basis removes the impact of foreign currency fluctuations on foreign denominated revenue when ARPU is presented in the Company's consolidated currency.

"**Subscriber Additions**" is the gross number of Subscribers added to the Company's Subscriber base in a given period and "**Subscriber Churn**" in the gross number of Subscribers reduced from the Company's Subscriber base due to either a temporary or permanent deactivation of subscription services for a monitored asset.

# Off-Balance Sheet Arrangements

As at December 31, 2018 we do not have any off-balance sheet arrangements, other than operating 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