bsmwireless

# Management's Discussion & Analysis

## Three Months Ended December, 2014 and 2013

*This management discussion and analysis ("**MD&A**") of operating results and financial position of BSM Technologies Inc. ("**BSM**" or the "**Company**") should be read in conjunction with the condensed interim consolidated financial statements – (unaudited) for the three months ended December 31, 2014 and 2013, and related notes therein, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board. Additional information relating to the Company is available on SEDAR at www.sedar.com.*

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

*This MD&A is prepared using information that is current as of February 5, 2015, and was approved by the Company's Board of Directors on February 5, 2015.*

*This MD&A contains references to certain non-GAAP financial performance measures such as EBITDA, adjusted EBITDA and recurring revenue which 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 performance measures should be viewed as a supplement to, and not a substitute for the Company's results of operations reported under IFRS. These measures are identified and defined in Section 6 of this MD&A "**Non-GAAP financial performance measures**".*

*All figures are in thousands of Canadian dollars, except for share, per share, per unit, unit, or subscriber data.*

**TABLE OF CONTENTS**

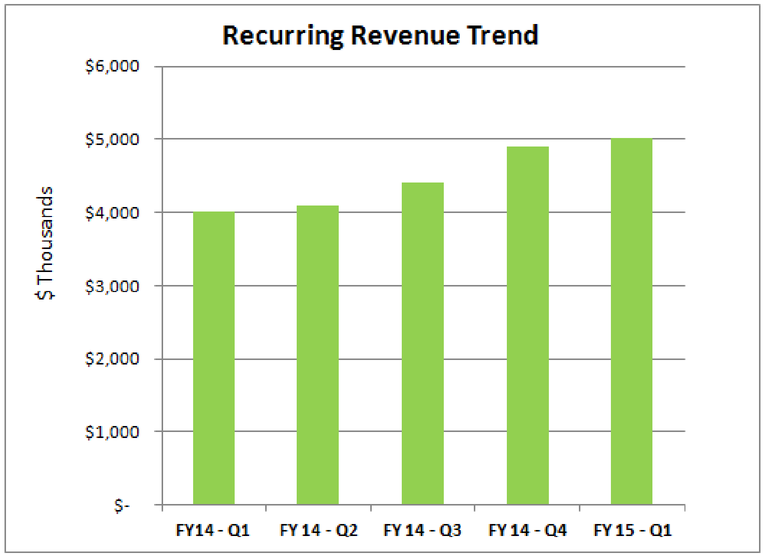
*All figures are in thousands of Canadian dollars, except for share, per share, per unit, unit or subscriber data unless otherwise noted.*

# 1. FINANCIAL RESULTS & HIGHLIGHTS

## 1.1. Highlights

Highlights for the three months ended December 31, 2014 are as follows:

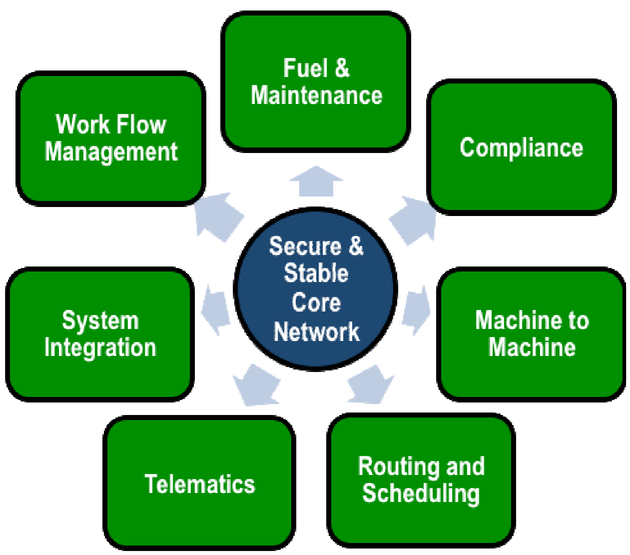
- Recurring revenue of $5,025 for the three months ended December 31, 2014 represents an increase of 25% over the three months ended December 31, 2013.
- Total revenue of $7,857 for the three months ended December 31, 2014 represents a 1% decrease over the three months ended December 31, 2013.
- Adjusted EBITDA of $788 for the three months ended December 31, 2014 represents a decrease of 49% as compared to the three months ended December 31, 2013.
- Hardware and other revenue of $2,832 for three months ended December 31, 2014 represents a decrease of 28% over the three months ended December 31, 2013.




# 2. CORE BUSINESS AND STRATEGY

## 2.1. Core business

Our business is to develop and provide proprietary hardware and software solutions to our customers in Canada, the USA and throughout the world to help them better manage their assets, both stationary and mobile. Our customers operate in a broad range of markets, including rail, construction, utility and energy. Our software and hardware solutions provide a key link between our customers' operations and the systems they use to run their business, thereby facilitating cost reduction, improved customer service, greater efficiency, and enhanced security. Our solutions promote safety and facilitate compliance with safety, workplace and environmental regulations. Our solutions are communication agnostic – capable of being deployed over cellular, Wi-Fi or satellite networks. Our services are delivered over a secure network utilizing the Internet and are provided on a software as a service ("**SaaS**") basis.



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

- **Telematics:** The equipment captures and transmits vehicle parameters, logistical data and vehicle location in real time facilitating a compelling return on investment ("**ROI**") through cost reduction.
- **Fuel and maintenance:** Our proprietary algorithms enable our systems to track and evaluate vehicle fuel consumption. This information assists our customers in monitoring fuel costs and preventing fraudulent fuel purchases. We have developed robust maintenance software that allows our customers to manage their asset preventative maintenance electronically, thereby eliminating manual paperwork and tracking.
- **Compliance:** The software and hardware components of our solutions connect directly through the engine control unit of a vehicle and captures real-time data to ensure compliance with government regulations and company-specific standards. This includes hours-of-service, speeding, harsh/extreme acceleration or braking as well as location and time spent at designated areas. We produce various reports to comply with government reporting requirements.
- **Routing and scheduling:** By combining real-time vehicle location information with mapping and fuel usage data, companies are able to optimize their fleet operations by managing routes in real time, including considerations such as:
    - Plan vs. actual
    - Notifications based on identified parameters or key metrics
    - Route optimizations
- **Work flow management:** We have developed solutions that help companies manage their workflow and/or mobile work force by facilitating business processes such as event confirmation, signature verification and form processing while they are in the field**.**
- **Machine to machine:** Machine to machine, or M2M, communication refers to information passing through two devices for the purpose of monitoring or delivering alerts. For example, geographically diverse gas or liquid storage tanks, generators and other stationary assets are monitored throughout the world through the deployment of proprietary remote hardware and integrated software solutions.
- **System integration:** The provision of current and historical data in a variety of standard formats, including activity reports and maps are integrated with a company's inventory, enterprise resource planning ("**ERP**"), payroll or business development systems to maximize value and minimize costs.

Our competitive advantages include:

- **Custom solutions for our customers**: Total control of our technology (both the software and hardware elements) allows us to effectively create solutions unique to the specific needs of our customers.
- **Advanced level of network security**: Our systems can be deployed in high-risk and mission critical applications.

## 2.2. Strategy

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

| Strategic Objectives | Initiatives |
|---|---|
| • **Develop and implement defined vertical market plans** | • Continue to invest in new product and application development, with a particular focus on application convergence<br>• Continue to drive sales success by focusing on core verticals (rail, construction, utility and energy) and assessing strategies to expand into new ones, as appropriate |
| • **Evolve our channel strategy and implement an aggressive sales program** | • Develop and implement a clear direct channel strategy<br>• Continue to develop and expand on our partner strategies |
| • **Streamline business processes with view of business execution.** | • Continue to develop efficient internal processes to support sales initiatives and to provide full-service customer support |
| • **Strategic Partnerships** | • Complement organic growth by acquiring businesses with ancillary technology and market verticals which present strategic synergies |

Risks to our strategy:

| Risks | Mitigation |
|---|---|
| **Technology:**<br>Lose our leading edge | • Continue to improve, develop and incorporate new technologies<br>• Continue to invest in our research and development team with leading technology skills |
| **Economy:**<br>Impact timing of customer decision to invest | • Ensure customer satisfaction to drive longstanding customer relationships and recurring revenue<br>• Maintain strong cash management procedures to provide adequate financial flexibility.<br>• Continue to approach market with a ROI sales approach |
| **Competition:**<br>New entrant | • Vertical focus<br>• Drive technical value proposition |

# 3. RESULTS FROM OPERATIONS

## 3.1. Financial Results

The following table sets forth certain information regarding sales, net income, and other information for the period presented, and should be read in conjunction with the condensed interim consolidated financial statements for the three months ended December 31, 2014 and 2013. The Company has identified one operating segment, Telematics. Within Telematics we have identified recurring revenue and hardware & other revenue as two distinct revenue streams. As such revenue and gross profit have been disclosed separately throughout this MD&A.

| Statement of Operations | Three months ended December 31 | | |
|---|---|---|---|
| *($ thousands)* | **2014** | 2013 | % change |
| Recurring revenue(i) | **$ 5,025** | $ 4,015 | *25%* |
| Hardware & other revenue | **2,832** | 3,921 | *(28)%* |
| Revenue | **7,857** | 7,936 | *(1)%* |
| Cost of revenue | **3,088** | 3,569 | *(13)%* |
| Impairment of inventories | **389** | - | *nm* |
| Gross profit | **4,380** | 4,367 | *0%* |
| Interest income from finance leases | **29** | 21 | *38%* |
| Expenses | **5,230** | 3,396 | *54%* |
| Fair value adjustments & other expense (recovery) | **(176)** | (84) | *110%* |
| Net interest expense | **175** | 125 | *40%* |
| Total Expenses | **5,229** | 3,437 | *52%* |
| Income (loss) before tax | **(820)** | 951 | *(186)%* |
| Current tax expense (recovery) | **-** | - | *nm* |
| Deferred tax expense (recovery) | **(35)** | 308 | *(111)%* |
| Net income (loss) for the period | **(785)** | 643 | *(222)%* |
| Foreign exchange gain on foreign operations, net of tax | **63** | - | *nm* |
| Total comprehensive income (loss) for the period | **(722)** | 643 | *(212)%* |
| EBITDA(i) | **343** | 1,550 | *(78)%* |
| Adjusted EBITDA(i) | **788** | 1,550 | *(49)%* |

*(i) Recurring revenue, EBITDA, and Adjusted EBITDA are non-GAAP financial performance measures. See the definition of these terms under "Non-GAAP Financial Performance Measures".*

| Key Financial Measures | Three months ended December 31 | |
|---|---|---|
| | **2014** | 2013 |
| Gross margin | | |
| Recurring revenue | **77%** | 76% |
| Hardware & other revenue | **18%** (1) | 33% |
| Total Revenue | **56%** | 55% |
| Expenses as a percentage of revenue | **67%** | 43% |

*(1) Hardware & other revenue gross margin for the three months ended December 31, 2014 includes the impact of the impairment charge to inventories. Gross margin not including the impairment charge would have been 31.9%.*

| Balance Sheet Highlights | | |
|---|---|---|
| *($ thousands, except shares)* | **As at December 31, 2014** | As at September 30, 2014 |
| Cash and cash equivalents | **$ 14,766** | $ 23,621 |
| Restricted cash and cash equivalents | **8,800** | - |
| Working capital | **3,374** | 5,718 |
| Total assets | **77,195** | 80,925 |
| Total liabilities | **25,444** | 28,698 |
| Shareholders' equity | **51,751** | 52,227 |
| Number of shares outstanding, end of period | **45,030,784** | 44,955,784 |

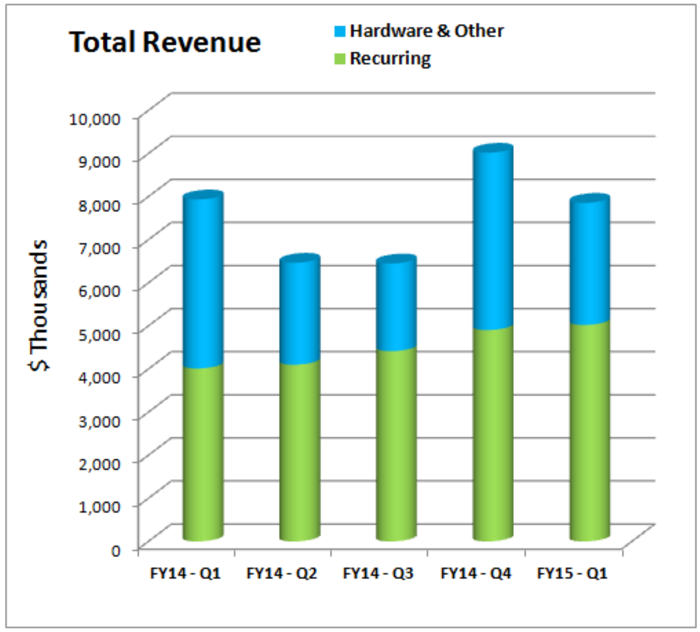
The narratives that follow will discuss the term "**Prior period**", which is the comparison of the results for the three months ended December 31, 2014, as compared to the three months ended December 31, 2013.

## 3.2. Revenue

We derive our revenue from one comprehensive product line: Telematics, which provides monitoring of fixed and mobile assets from our core product line Sentinel as well as AutoVision, Mobicom, Lat-Lon, APEC (JMM's core product), and ITRAX; and

Within these product lines, we have two revenue streams:

- **Recurring revenue**, which includes monthly Application Service Provider ("**ASP**") fees, monthly monitoring fees, and resale of cellular and satellite data. We enter into services contracts with our customers, most of which are for durations of 36 months or longer. Recurring revenue is recognized monthly as services are delivered; and
- **Hardware and other revenue**, is comprised of revenue recognized for outright hardware sales as well as for the hardware portion of multiple element arrangements ("**Bundle Sales**"). Development fees, project management fees, license fees and installation fees are ancillary one-time services which are included in hardware and other revenue.




Total revenue of $7,857 for the three months ended December 31, 2014, represents a decrease of 1% over the $7,936 for the prior period.

***Recurring revenue:***
Recurring revenue for the three months ended December 31, 2014 increased $1,010 or 25% compared to the prior period. The growth in recurring revenue for the three months ended December 31, 2014 is largely attributable to the increased number of subscribers obtained with the acquisition of JMM, Lat-Lon and Praxis.

***Hardware and other revenue:***
The Company recorded hardware and other revenue in the three months ended December 31, 2014 of $2,832 representing a decrease of $1,089 or 28% over the prior period. Hardware revenue was lower due to lower hardware unit sales as compared to the prior period which included a particularly large hardware replacement order from our largest customer that was not repeated in the current period.

Our strategy is to continue to actively increase sales of our core product lines and to improve gross margins by increasing our recurring service revenue subscriber base. Growing our subscriber base will further insulate us from the volatility in operating results which can arise from fluctuations in hardware sales. Despite hardware sales generally experiencing lower gross margins, we continue to focus on increasing hardware sales volumes as hardware unit sales are a strategic enabler for BSM to increase future higher margin recurring revenue. Part of our growth strategy is to continue to aggressively grow our sales pipeline. We expect to continue to increase our investment in staffing to provide the necessary resources to achieve this growth.

***Revenues by geographical location (based upon customer location):***

| | Three months ended December 31 | | | | | |
|---|---|---|---|---|---|---|
| *($ thousands)* | **2014** | | | 2013 | | |
| Canada | **$** | **3,731** | *47%* | $ | 5,901 | *74%* |
| United States | | **3,935** | *50%* | | 1,801 | *23%* |
| International | | **191** | *3%* | | 234 | *3%* |
| | | **7,857** | *100%* | | 7,936 | *100%* |

We have been successful in increasing our revenue from clients located in the United States by 118% in the three months ended December 31, 2014 as compared to prior period. United States based revenue represented 50% of our total revenue in the three month period ended December 31, 2014. This is a reflection of Sentinel growth into the US market and as a result of our US-based acquisitions (Lat-Lon and JMM). We expect to continue to increase our sales in the United States with particular focus on the United States railroad and construction markets.

***Composition of revenue by stream:***

| | Three months ended December 31 | | | | | |
|---|---|---|---|---|---|---|
| *($ thousands)* | **2014** | | | 2013 | | |
| Recurring revenue | **$** | **5,025** | *64%* | $ | 4,015 | *51%* |
| Hardware & other | | **2,832** | *36%* | | 3,921 | *49%* |
| Total revenue | | **7,857** | *100%* | | 7,936 | *100%* |

## 3.3. Gross profit and margins

Gross profit margins vary depending on both the mix of hardware product lines sold and the revenue stream mix in the period. Hardware sales typically generate lower gross margins than recurring revenue. Furthermore, larger volume hardware sales typically generate lower gross margins than smaller volume sales as a result of volume discounts.

| | Three months ended December 31 | | | |
|---|---|---|---|---|
| *($ thousands)* | **2014** | 2013 | *Increase (Decrease)* | |
| **Gross Profit** | | | | |
| Recurring revenue | **$ 3,866** | $ 3,058 | 808 | *26%* |
| Hardware & other revenue | **514** | 1,309 | (795) | *(61)%* |
| | **4,380** | 4,367 | 13 | *0%* |
| **Gross Margin** | | | | |
| Recurring revenue | **77%** | 76% | N/A | *1%* |
| Hardware & other revenue | **18%** [1] | 33% | N/A | *(15%)* |
| | **56%** | 55% | N/A | *1%* |

[1] *Hardware & other revenue gross margin for the three months ended December 31, 2014 includes the impact of the impairment charge to inventories. Gross margin not including the impairment charge would have been 31.9%.*

Gross profit was relatively constant for the three months ended December 31, 2014 when compared to the prior period. Gross profit on hardware and other revenue decreased by $795 or 61% in the three months ended December 31, 2014 as compared to the prior period. Of the $795 decrease, $389 is attributable to the impairment charge on inventories recognized in the current period. This reduction in the carrying value of certain inventories was the result of the realignment of our hardware product portfolio in connection with the outsourcing of our production function as well as the decision to end of life a number of our older products. During the quarter, the Company's production function was fully transitioned to an external contract manufacturer. We expect that the decision to outsource production will, over the coming quarters, provide increased capacity, more closely align production costs to unit sales volumes and ultimately result in improved hardware gross margins. The remaining decrease of $406 in gross profit, is attributable to lower sales volumes in comparison to strong sales volumes in the prior period which were the result of a significant hardware replacement order in the prior period that was not repeated in the current period.

Gross margin on recurring revenue remained relatively consistent at 77% in the three months ended December 31, 2014 as compared the prior period and is in line with our expected range of between 75% and 80%.

## 3.4. Expenses

The following table presents a summary of total expenses for the three months ended December 31, 2014.

| | Three months ended December 31 | | | |
|---|---|---|---|---|
| *($ thousands)* | **2014** | 2013 | *Increase (Decrease)* | |
| Sales & marketing *(i)* | **$ 1,459** | $ 919 | 540 | *59%* |
| R&D *(ii)* | **1,332** | 769 | 563 | *73%* |
| G&A *(iii)* | **1,452** | 967 | 485 | *50%* |
| Operations *(iv)* | **931** | 741 | 190 | *26%* |
| Acquisition and integration related costs | **56** | - | 56 | *nm* |
| Fair value adjustments and other expenses (recovery) | **(176)** | (84) | (92) | *(110)%* |
| Interest expense | **251** | 156 | 95 | *61%* |
| Interest received | **(76)** | (31) | (45) | *(145)%* |
| Total Expenses | **$ 5,229** | $ 3,437 | 1,792 | *52%* |

### *(i) Sales and marketing expenses*

| | Three months ended December 31 | | | |
|---|---|---|---|---|
| *($ thousands)* | **2014** | 2013 | *Increase (Decrease)* | |
| **Sales & Marketing:** | | | | |
| Expenses, before non cash items | **$ 834** | $ 643 | 191 | *30%* |
| Stock based compensation | **25** | 11 | 14 | *127%* |
| Amortization | **600** | 265 | 335 | *126%* |
| **Total** | **1,459** | 919 | 540 | *59%* |

Sales and marketing expenses (before amortization and stock based compensation) include the salaries and commissions of sales staff, commissions of third parties, advertising, promotions and other costs such as travel, meals and telephone. These expenses increased by $191 or 30% for the three months ended December 31, 2014 due to the higher headcount from acquisitions and the addition of sales and marketing personnel.

Sales and marketing amortization increased by $335 or 126% for the three months ended December 31, 2014 due to the amortization of the customer contracts and relationships acquired as a part of the JMM, Lat-Lon, and Praxis acquisitions.

### *(ii) 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. Scientific research and development investment tax credits ("**ITCs**") are offset as a recovery against R&D expenses.

| | Three months ended December 31 | | | |
|---|---|---|---|---|
| *($ thousands)* | **2014** | 2013 | *Increase (Decrease)* | |
| **R&D expenses** | | | | |
| Expenses, before other items | **$ 1,257** | $ 789 | 468 | *59%* |
| Capitalized cost | **(47)** | - | (47) | *nm* |
| ITCs | **(50)** | (50) | - | *0%* |
| Stock based compensation | **6** | 7 | (1) | *(14%)* |
| Amortization | **166** | 23 | 143 | *nm* |
| **Total** | **1,332** | 769 | 563 | *73%* |

R&D expenses (before capitalized cost, ITCs, amortization and share based compensation) increased by $468 or 59% for the three months ended December 31, 2014 as compared to the prior period, due to the Company's continued investment in developing its technologies and applications. The current period includes the impact of the costs of the R&D team retained from the acquisition of JMM and Lat-Lon. We have expanded our R&D team and invested in R&D activities to maintain our technical leadership and to enhance our solutions roadmap with particular focus on the integration of JMM, Lat-Lon and Praxis. We believe that investing in R&D will lower existing manufacturing costs as well as allow us to add new product features and services that will increase our revenue and margins in future periods.

### *(iii) General and administrative expenses*

General and administrative ("**G&A**") expenses consists of employee salaries related to finance and administration personnel, professional fees (legal, audit, tax, 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.

| | Three months ended December 31 | | | |
|---|---|---|---|---|
| *($ thousands)* | **2014** | 2013 | *Increase (Decrease )* | |
| **G&A expenses** | | | | |
| Expenses, before non cash items | **$ 1,344** | $ 920 | 424 | *46%* |
| Stock based compensation | **105** | 35 | 70 | *200%* |
| Amortization | **3** | 12 | (9) | *(75)%* |
| **Total** | **1,452** | 967 | 485 | *50%* |

G&A expenses (before amortization and stock based compensation) increased by $424 or 46% for the three months ended December 31, 2014 as compared to the prior period due to increased general business activity levels and the added headcount as a result of the acquisition of JMM, Lat-Lon and Praxis.

### (iv) Operations expenses

Operations expenses include the costs of providing customer support including: call center, help desk and technical support as well as project management and other support functions for our customers.

| | Three months ended December 31 | | | |
|---|---|---|---|---|
| *($ thousands)* | **2014** | 2013 | *Increase (Decrease )* | |
| **Operation expenses** | | | | |
| Expenses, before non cash items | **$ 868** | $ 635 | 233 | *37%* |
| Stock based compensation | **2** | 95 | (93) | *(98%)* |
| Amortization | **61** | 11 | 50 | *nm* |
| **Total** | **931** | 741 | 190 | *26%* |

Operation expenses (before amortization and stock based compensation) increased by $233 or 37% for the three months ended December 31, 2014 as compared to the prior period. This increase is a result of additional headcount acquired with the acquisitions of JMM, Lat-Lon, and Praxis. We have also increased our investments in key operational parts of our business including the customer care and project management functions to better support our growing customer base.

### (v) Other expenses

The following table presents a summary of other expenses for the three months ended December 31, 2014.

| | Three months ended December 31 | | | |
|---|---|---|---|---|
| *($ thousands)* | **2014** | 2013 | *Increase (Decrease)* | |
| Acquisition and integration related costs | **$ 56** | $ - | 56 | *nm* |
| Fair value adjustments and other expenses (recovery) | **(176)** | (84) | (92) | *(110)%* |
| Interest expense | **251** | 156 | 95 | *61%* |
| Interest income | **(76)** | (31) | (45) | *(145)%* |
| **Total** | **55** | 41 | 14 | *34%* |

Acquisition and integration related costs in the three months ended December 31, 2014 include the costs of our internal M&A team as well as the external legal and tax professional fees incurred to complete the amalgamation of Praxis and to support the integration of JMM, Lat-Lon and Praxis.

Fair value adjustments and other contains the profit and loss impact of fair value adjustments on the revaluation of contingent consideration as well as realized and unrealized foreign exchange gains and losses on working capital balances. During the three months ended December 31, 2014 management did not make any revisions to its fair value measurement estimates and as such there we no fair value adjustments. Other expenses were positively impacted by $166 in realized foreign exchange gains and $10 in unrealized foreign exchange gains in the three months ended December 31, 2014. Foreign exchange gains are the result of the impact of the strengthening of the US dollar relative to the Canadian dollar on net current assets denominated in US dollars during the quarter.

Interest expense includes $94 in cash interest on the Company's long-term debt for the three months ended December 31, 2014. Interest expense also includes interest accretion of $133 in the three months ended December 31, 2014 as a result of the accretion to fair value on the contingent consideration related to the acquisition of AWI, JMM, Lat-Lon and Praxis. Interest accretion is a non-cash interest expense item. Interest income arises from interest earned on short term investments and has increased as a result of higher cash balances in the current period compared to the prior period.

## 3.5. Net income

| | Three months ended December 31 | | | |
|---|---|---|---|---|
| *($ thousands, except shares and per share data)* | **2014** | 2013 | *Increase (Decrease)* | |
| Numerator - Net income for the period | **$ (785)** | $ 643 | $ (1,428) | (222%) |
| Denominator - Weighted average number of common shares outstanding | | | | |
| - basic | **45,495,943** | 35,868,550 | 9,627,393 | 27% |
| - diluted | **45,534,054** | 36,798,186 | 8,735,868 | 24% |
| Earnings per share | | | | |
| - basic | **$ (0.017)** | $ 0.018 | $ (0.035) | (194%) |
| - diluted | **(0.017)** | 0.017 | (0.034) | (200%) |

Net income decreased by $1,428 for the three months ended December 31, 2014 as compared to the prior period. Net income decreased period over period largely as a result of higher operating expenses relative to gross profit. Gross profit was negatively impacted in the current period due to an impairment charge for certain inventories as well as a result of lower unit sales volume relative to the comparative period. Total operating expenses increased in the current period compared to the prior period as a result of the amortization of the intangibles recognized with the acquisitions of JMM, Lat-Lon and Praxis. Operating expenses before amortization, share-based compensation and other items are higher than the prior period due to increased headcount from acquisitions and the increased investments we have made in sales and marketing, operations and research and development.

## 3.6. Total assets:

Total assets were $77,195 as of December 31, 2014, a decrease of $3,730 from $80,925 as at September 30, 2014. As of December 31, 2014 $20,542 of the Company's assets are domiciled in the United States. The decrease is mainly attributable to a reduction in accounts receivable.

## 3.7. 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, 2014. The quarterly information has been derived from our condensed interim consolidated financial statements which have been prepared on a basis consistent with the audited consolidated financial statements (except for any changes in accounting policy in such years, as further described in Section 9) and include all adjustments necessary for the fair presentation of the information presented.

| *($ thousands, except per share data)* | FY 2013 | | | FY 2014 | | | | FY 2015 |
|---|---|---|---|---|---|---|---|---|
| | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | **Q1** |
| Revenue | $ 4,502 | $ 4,684 | $ 5,163 | $ 7,936 | $ 6,467 | $ 6,450 | $ 9,020 | **$ 7,857** |
| Gross profit | 2,610 | 3,055 | 3,484 | 4,367 | 3,767 | 3,891 | 4,777 | **4,380** |
| Net income (loss) | 213 | (1,353) | 9,841 | 643 | 304 | (389) | (225) | **(785)** |
| EBITDA[1] | 807 | (1,005) | 1,184 | 1,550 | 1,097 | 234 | 793 | **343** |
| Adjusted EBITDA[1] | 807 | 992 | 986 | 1,550 | 1,097 | 515 | 948 | **788** |
| EPS - basic | $ 0.01 | $ (0.04) | $ 0.28 | $ 0.018 | $ 0.007 | $ (0.009) | $ (0.005) | **$ (0.017)** |
| EPS - diluted | $ 0.01 | $ (0.04) | $ 0.27 | $ 0.018 | $ 0.007 | $ (0.009) | $ (0.005) | **$ (0.017)** |

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

# 4. LIQUIDITY AND CAPITAL RESOURCES

## 4.1. Liquidity

The factors impacting the change in cash and cash equivalents during the period are reflected below. As at December 31, 2014 the Company has $14,766 in cash and cash equivalents to be used for acquisitions, further investment in supporting organic growth and for general working capital purposes. In addition to cash on hand, the Company has $2,800 in cash which it has assigned into its earn out reserve account to fund future payments of contingent consideration as well as $6,000 which has been assigned to its lender in connection with its credit agreement. The Company also has access to its $3,000 revolving facility with the Toronto-Dominion Bank ("**TD**") which remained undrawn as at December 31, 2014. The following table summarizes the change in cash and cash equivalents in the period:

| | **Three months ended December 31** | | | |
|---|---|---|---|---|
| *($ thousands)* | **2014** | 2013 | *Increase (Decrease)* | |
| Cash and cash equivalents, beginning of period | **$23,621** | $10,251 | 13,370 | *130%* |
| Cash and cash equivalents, end of period | **14,766** | 9,008 | 5,758 | *64%* |
| Increase (decrease) in cash and cash equivalents | **(8,855)** | (1,243) | (7,612) | *nm* |
| Change due to: | | | | |
| Operating activities | **2,577** | (1,545) | 4,122 | *nm* |
| Financing activities | **(8,451)** | 386 | (8,837) | *nm* |
| Investing activities | **(3,002)** | (84) | (2,918) | *nm* |
| Impact of foreign exchange on cash held in foreign currencies | **21** | - | 21 | *nm* |
| Total change in cash and cash equivalents | **(8,855)** | (1,243) | (7,612) | *nm* |

**Operating activities:**
The Company generated $2,577 in cash from operations during the three months ended December 31, 2014, resulting from $683 in operating cash flow and a $1,894 change non-cash working capital. The primary source of the reduction in non-cash working capital was through $3,732 in net collection of accounts receivable which was partially offset by a $1,200 reduction in accounts payable.

**Financing activities:**
On December 22, 2014, the Company amended its credit agreement with TD to allow it, amongst other adjustments, to repay $2,560 in principle outstanding on the CAD Term Facility. No further quarterly principle payments are required on either of the Facilities until December 31, 2015.

In addition to the normal course financing activities noted above, the Company assigned $6,000 in term deposits to its lender. This restrictions was made in connection with the December 22, 2014 amendment to the Company's credit agreement as noted above.

**Investing activities:**
The Company moved $2,800 of term deposits into its earn out reserve account to fund future payments of contingent consideration.

## 4.2. Capital expenditures

Total capital expenditures for the three months ended December 31, 2014 was $201 which was primarily for the purchase of technology licenses. As at December 31, 2014 the Company does not have any capital expenditure commitments.

## 4.3. Contractual commitments

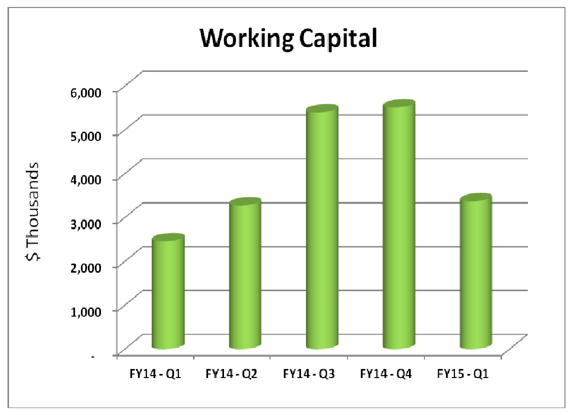
The Company's contractual maturities for its financial liabilities are estimated[1] as follows:

| Contractual obligations | Long-term debt principle repayments (CAD) | Long-term debt principle repayments (USD) | Contingent consideration on acquisitions (CAD) | Contingent consideration on acquisitions (USD) |
|---|---|---|---|---|
| FY 2015 | $ - | $ - | $ 1,698 | $ 3,200 |
| FY 2016 | 2,690 | 1,000 | 2,644 | 680 |
| FY 2017 and later years | - | 5,750 | 132 | 3,120 |

*(1) Contingent consideration represents the full value of contingent consideration payable if performance targets are met. The timing of such payments is presented using management's best estimate. Refer to note 15 of the Company's condensed interim consolidated financial statements for the three months ending December 31, 2014 for further information regarding the contingent consideration classified as a liability.*

## 4.4. Management of capital

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its organic growth strategy, fund R&D and undertake selective acquisitions while, at the same time, taking a conservative approach toward financial leverage and management of financial risk. The Company's capital is composed of share capital, contributed surplus, long-term debt and contingent consideration. Total capital decreased by $1,713 to $79,661 in the three months ended December 31, 2014.




Working capital is defined as non-cash current assets less current liabilities not including current portion of long term debt repayments and current portion of contingent consideration. Long term debt and contingent consideration are not included in the definition as these liabilities relate to the funding of acquisitions. Working capital was $3,374 as at December 31, 2014, an decrease of $2,344 from September 30, 2014. The largest contribution to the decrease in was from a decrease in accounts receivable.

## 4.5. Operating leases

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

| Year | *($ thousands)* |
|---|---|
| FY 2015 (9 Months) | 533 |
| FY 2016 | 550 |
| FY 2017 | 343 |
| FY 2018 and later years | 1,476 |
| Total | $ 2,902 |

## 4.6. Term loan and revolving credit facilities

As at December 31, 2014 the Company has $2,690 in principle outstanding on its Canadian Term Facility and $6,750 USD in principle outstanding on its US Term Facility. On December 22, 2014, the Company amended its credit agreement to prepay $2,560 in principle outstanding on the CAD Term Facility. As a result, no further quarterly principle payments are required on either of the Facilities until December 31, 2015. These debt facilities provide the Company with financial flexibility to pursue its strategy and to fund working capital. The credit facilities contain certain financial and other covenants that the Company is required to comply with, which the Company is in compliance as at December 31, 2014. Expected covenant compliance is based upon 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.

Long-term debt ratio is presented in the table below which provides an indication of our ability to service long term debt through operations:

| | **As at December 31, 2014** | As at September 30, 2014 |
|---|---|---|
| Term loans (current and long-term portion) | $ 10,248 | $ 12,546 |
| Trailing twelve month Adjusted EBITDA[1] | 3,348 | 4,109 |
| Long-term debt to EBITDA | 3.06 | 3.05 |

[1] *Actual trailing 4 quarters Adjusted EBTIDA which does not include the full contribution of JMM, Lat-Lon, or Praxis.*

## 5. OUTSTANDING SHARE DATA

BSM's authorized share capital consists of an unlimited number of common shares. As at December 31, 2014, there were 47,713,726 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; 1,428,572 common shares in escrow, which are subject to AWI attaining certain recurring revenue targets over the three years following the acquisition date; 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 Praxis attaining certain revenue targets over the six years from the acquisition date.

As at December 31, 2014 there were 1,896,702 outstanding stock options which have been issued to directors, officers and employees of the Company with a weighted average exercise price of $1.84. As at December 31, 2014 there were 792,725 outstanding restricted share units which have been issued to employees and directors of the Company and 47,500 outstanding deferred share units which have been issued to directors of the Company.

## 6. NON-GAAP FINANCIAL PERFORMANCE MEASURES

### 6.1. Identification of non-GAAP financial performance measures

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 performance 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. We enter into services contracts with our customers, most of which are for 36 months or longer. 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 service revenue.

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

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

- the impact of any financing activities;
- amortization of property, equipment and intangible assets;
- write-off of goodwill;
- taxes with respect to various jurisdictions; and
- share-based compensation expense

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

- acquisition and integration related costs;
- restructuring and related costs;
- fair value adjustment on contingent consideration;
- impairments to any financial and non-financial assets; and
- costs related to legal actions.

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 operations and comprehensive income and 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.

### 6.2. Reconciliation of non-GAAP financial performance measures

EBITDA is calculated as follows:

| | Three months ended December 31 | | |
|---|---|---|---|
| *($ thousands)* | **2014** | 2013 | *Increase (Decrease)* |
| Net income as reported | **$ (785)** | $ 643 | (1,428) |
| Add (deduct): | | | |
| Interest expense, net of interest received | **175** | 125 | 50 |
| Tax expense (recovery) | **(35)** | 308 | (343) |
| Amortization | **849** | 326 | 523 |
| Share-based compensation | **139** | 148 | (9) |
| EBITDA | **343** | 1,550 | (1,207) |
| Add (deduct): | | | |
| Impairment of inventories | **389** | - | 389 |
| Acquisition and integration related costs | **56** | - | 56 |
| Fair value adjustments | **-** | - | - |
| Costs related to legal actions | **-** | - | - |
| Adjusted EBITDA | **$ 788** | 1,550 | (762) |

## 7. OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2014, BSM does not have any off-balance sheet arrangements, other than lease commitments as disclosed in this MD&A.

## 8. RELATED PARTY TRANSACTIONS

The Company has entered into lease arrangements for office premises owned by certain executives of its acquired subsidiaries. The leases were negotiated at the time of acquisition and represent fair value rents for the leased premises. Such lease payments amounted to $40,055 for the three months ended December 31, 2014 (2013 - nil). Related party transactions also include compensation earned by key management as shown in the following table:

| | Years ended December 31 | |
|---|---|---|
| | **2014** | 2013 |
| Salaries, wages & benefits | **$ 305** | $ 273 |
| Share-based compensation expense | **38** | 117 |
| **Total** | **$ 343** | $ 390 |

## 9. CHANGES IN ACCOUNTING POLICIES

This MD&A has been prepared with reference to the annual audited consolidated financial statements for the years ended December 31, 2014 and 2013, and the notes thereto, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board. The Company has consistently applied its accounting policies throughout all periods presented. The Audit Committee of the Company's Board of Directors reviews the accounting policies and all quarterly and annual filings and recommends approval of the annual audited consolidated financial statements to the Board of Directors. In preparing this MD&A, the significant judgements made by management in applying the Company's accounting policies were the same as those that applied to the MD&A for the year ended December 31, 2014.

## 10. SUBSEQUENT EVENTS

There are no subsequent events to disclose for the Company and the Company's subsidiaries.

## 11. 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.

## 12. FORWARD LOOKING STATEMENTS

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.