

Condensed Interim Consolidated Financial Statements (Unaudited) of

## **BSM TECHNOLOGIES INC.**

Three and six months ended March 31, 2017 and 2016

### **NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, Subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated financial statements of BSM Technologies Inc. have been prepared by and are the responsibility of BSM Technologies Inc.'s management. BSM Technologies Inc.'s independent auditor has not performed a review of these interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim consolidated financial statements by an entity's auditor.

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# BSM TECHNOLOGIES INC.

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Three and six months ended March 31, 2017 and 2016

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# BSM TECHNOLOGIES INC.

Interim Consolidated Statement of Financial Position – (Unaudited)

In 000s of Canadian Dollars

|                                                 | Note | As at March 31, 2017 | As at September 30, 2016 |
|-------------------------------------------------|------|----------------------|--------------------------|
| <b>Assets</b>                                   |      |                      |                          |
| Current assets:                                 |      |                      |                          |
| Cash and cash equivalents                       |      | \$ 8,442             | \$ 24,900                |
| Accounts receivable                             |      | 12,721               | 12,780                   |
| Current portion of investment in finance leases |      | 1,527                | 1,103                    |
| Inventories                                     |      | 4,784                | 4,501                    |
| Prepaid expenses and other assets               |      | 1,224                | 827                      |
| Total current assets                            |      | 28,698               | 44,111                   |
| Property and equipment                          | 6    | 1,781                | 1,392                    |
| Long-term investment in finance leases          |      | 1,934                | 1,848                    |
| Intangible assets                               | 6    | 35,992               | 26,159                   |
| Deferred tax asset                              |      | 20,701               | 21,037                   |
| Goodwill                                        | 11   | 26,189               | 22,163                   |
| Total assets                                    |      | \$ 115,295           | \$ 116,710               |
| <b>Liabilities and Shareholders' Equity</b>     |      |                      |                          |
| Current liabilities:                            |      |                      |                          |
| Accounts payable                                |      | \$ 2,036             | \$ 2,925                 |
| Accrued liabilities                             |      | 4,256                | 4,194                    |
| Current portion of provisions                   |      | 989                  | 954                      |
| Current portion of finance lease obligation     |      | 253                  | -                        |
| Current portion of contingent consideration     | 10   | 3,064                | 631                      |
| Deferred revenue                                |      | 3,339                | 2,465                    |
| Share repurchase commitment                     | 5    | 678                  | -                        |
| Total current liabilities                       |      | 14,615               | 11,169                   |
| Long-term debt                                  | 7    | 1,613                | 7,721                    |
| Provisions                                      |      | 71                   | 179                      |
| Finance lease obligation                        |      | 252                  | -                        |
| Contingent consideration                        | 10   | 6,306                | 3,872                    |
| Shareholders' equity:                           |      |                      |                          |
| Common shares                                   | 5    | 85,099               | 85,861                   |
| Contributed surplus                             |      | 8,910                | 7,946                    |
| Accumulated other comprehensive income          |      | 539                  | 426                      |
| Deficit                                         |      | (2,110)              | (464)                    |
| Total shareholders' equity                      |      | 92,438               | 93,769                   |
| Total liabilities and shareholders' equity      |      | \$ 115,295           | \$ 116,710               |

See accompanying notes to the condensed interim consolidated financial statements.

'Andrew Gutman' - Director

'Aly Rahemtulla' - Director

# BSM TECHNOLOGIES INC.

Interim Consolidated Statements of Operations and Comprehensive Income – (Unaudited)

*In 000s of Canadian Dollars*

|                                                                |      | Three months ended March 31 |            | Six months ended March 31 |            |
|----------------------------------------------------------------|------|-----------------------------|------------|---------------------------|------------|
|                                                                | Note | 2017                        | 2016       | 2017                      | 2016       |
| Revenue                                                        |      | \$ 16,004                   | \$ 15,239  | \$ 34,367                 | \$ 30,940  |
| Cost of revenue                                                |      | 6,546                       | 6,731      | 13,997                    | 13,761     |
| Gross profit                                                   |      | 9,458                       | 8,508      | 20,370                    | 17,179     |
| Other income:                                                  |      |                             |            |                           |            |
| Interest income from finance leases                            |      | 61                          | 51         | 124                       | 100        |
| Expenses:                                                      |      |                             |            |                           |            |
| General and administrative                                     |      | 3,040                       | 2,542      | 6,903                     | 5,369      |
| Research and development                                       |      | 3,046                       | 2,079      | 6,063                     | 4,436      |
| Sales and marketing                                            |      | 3,830                       | 3,278      | 7,779                     | 6,557      |
| Acquisition, integration and restructuring expenses            | 4    | -                           | 344        | 335                       | 880        |
| Foreign exchange (gain)/loss                                   |      | 167                         | 661        | (233)                     | 304        |
| Interest expense                                               |      | 368                         | 181        | 862                       | 359        |
| Interest received                                              |      | (7)                         | (45)       | (17)                      | (104)      |
| Total expenses                                                 |      | 10,444                      | 9,040      | 21,692                    | 17,801     |
| Net loss before tax                                            |      | (925)                       | (481)      | (1,198)                   | (522)      |
| Current tax expense                                            | 12   | 26                          | 44         | 95                        | 52         |
| Deferred tax expense                                           | 12   | 230                         | 333        | 353                       | 791        |
| Net loss for the period                                        |      | (1,181)                     | (858)      | (1,646)                   | (1,365)    |
| Other comprehensive income/(loss):                             |      |                             |            |                           |            |
| Foreign exchange gain/(loss) on foreign operations, net of tax |      | (123)                       | (175)      | 113                       | (109)      |
| Total comprehensive loss for the period                        |      | \$ (1,304)                  | \$ (1,033) | \$ (1,533)                | \$ (1,474) |
| Earnings/(loss) per share                                      | 5    |                             |            |                           |            |
| Basic                                                          |      | \$ (0.015)                  | \$ (0.010) | \$ (0.020)                | \$ (0.016) |
| Diluted                                                        |      | \$ (0.014)                  | \$ (0.010) | \$ (0.020)                | \$ (0.016) |
| Weighted average number of shares                              | 5    |                             |            |                           |            |
| Basic                                                          |      | 81,322,687                  | 85,586,847 | 81,335,889                | 86,776,430 |
| Diluted                                                        |      | 82,346,719                  | 86,162,409 | 82,201,137                | 87,333,864 |

*See accompanying notes to the condensed interim consolidated financial statements.*

## BSM TECHNOLOGIES INC.

Interim Consolidated Statements of Changes in Shareholders' Equity – (Unaudited)

In 000s of Canadian Dollars

|                                                                | Note | Common<br>shares | Contributed<br>surplus | Accumulated<br>other<br>comprehensive<br>income / (loss) | Deficit           | Total equity     |
|----------------------------------------------------------------|------|------------------|------------------------|----------------------------------------------------------|-------------------|------------------|
| <b>Balance September 30, 2016</b>                              |      | <b>\$ 85,861</b> | <b>\$ 7,946</b>        | <b>\$ 426</b>                                            | <b>\$ (464)</b>   | <b>\$ 93,769</b> |
| Share repurchase commitment                                    | 5    | (678)            | -                      | -                                                        | -                 | (678)            |
| Shares repurchased and cancelled                               | 5    | (116)            | -                      | -                                                        | -                 | (116)            |
| Share-based compensation expense                               | 5    | -                | 985                    | -                                                        | -                 | 985              |
| Options, RSUs, DSUs or warrants exercised                      | 5    | 32               | (21)                   | -                                                        | -                 | 11               |
| Net loss for the period                                        |      | -                | -                      | -                                                        | (1,646)           | (1,646)          |
| Foreign exchange gain (loss) on foreign operations, net of tax |      | -                | -                      | 113                                                      | -                 | 113              |
| <b>Balance March 31, 2017</b>                                  |      | <b>\$ 85,099</b> | <b>\$ 8,910</b>        | <b>\$ 539</b>                                            | <b>\$ (2,110)</b> | <b>\$ 92,438</b> |
| <b>Balance September 30, 2015</b>                              |      | <b>\$ 92,249</b> | <b>\$ 7,768</b>        | <b>\$ 539</b>                                            | <b>\$ (8,073)</b> | <b>\$ 92,483</b> |
| Shares repurchased and cancelled                               | 5    | (7,371)          | -                      | -                                                        | -                 | (7,371)          |
| Share-based compensation expense                               | 5    | -                | 350                    | -                                                        | -                 | 350              |
| Options, RSUs, DSUs or warrants exercised                      | 5    | 742              | (379)                  | -                                                        | -                 | 363              |
| Net loss for the period                                        |      | -                | -                      | -                                                        | (1,365)           | (1,365)          |
| Foreign exchange gain (loss) on foreign operations, net of tax |      | -                | -                      | (109)                                                    | -                 | (109)            |
| <b>Balance March 31, 2016</b>                                  |      | <b>\$ 85,620</b> | <b>\$ 7,739</b>        | <b>\$ 430</b>                                            | <b>\$ (9,438)</b> | <b>\$ 84,351</b> |

See accompanying notes to the condensed interim consolidated financial statements.

# BSM TECHNOLOGIES INC.

Interim Consolidated Statements of Cash Flows – (Unaudited)

In 000s of Canadian Dollars

|                                                                     |      | Six months ended March 31 |                  |
|---------------------------------------------------------------------|------|---------------------------|------------------|
| Cash provided by (used in):                                         | Note | 2017                      | 2016             |
| <b>Operating activities:</b>                                        |      |                           |                  |
| Net loss for the period                                             |      | \$ (1,646)                | \$ (1,365)       |
| Items not involving cash:                                           |      |                           |                  |
| Amortization of property and equipment                              |      | 497                       | 370              |
| Amortization of intangible assets                                   |      | 3,757                     | 2,884            |
| Amortization of financing costs                                     |      | 38                        | 48               |
| Unrealized foreign exchange (gain)/loss                             |      | (78)                      | 91               |
| Deferred tax recovery, net of SRED credits                          |      | 353                       | 843              |
| Interest accrued on revolving credit facility                       | 7    | 120                       | -                |
| Accreted interest on contingent consideration                       | 10   | 630                       | 158              |
| Share-based compensation expense                                    | 5    | 985                       | 350              |
| Change in non-cash operating working capital                        | 8    | (3,569)                   | (1,432)          |
| <b>Net cash provided by/(used in) operating activities</b>          |      | <b>1,087</b>              | <b>1,947</b>     |
| <b>Financing activities:</b>                                        |      |                           |                  |
| Change in restricted cash                                           |      | -                         | 6,000            |
| Repayment of long-term debt                                         | 7    | (6,349)                   | (1,378)          |
| Finance lease payments                                              |      | (148)                     | -                |
| Payment of contingent consideration                                 | 10   | (2,639)                   | (126)            |
| Capitalized costs on debt restructuring                             |      | -                         | -                |
| Options and warrants exercised                                      | 5    | -                         | 363              |
| Common shares repurchased and cancelled                             | 5    | (116)                     | (7,371)          |
| <b>Net cash provided by/(used in) financing activities</b>          |      | <b>(9,252)</b>            | <b>(2,512)</b>   |
| <b>Investing activities:</b>                                        |      |                           |                  |
| Acquisition of subsidiaries net of cash acquired                    | 4    | (7,727)                   | -                |
| Investment in intangible assets                                     | 6    | (325)                     | (556)            |
| Purchase of property and equipment                                  | 6    | (302)                     | (325)            |
| <b>Net cash provided by/(used in) investing activities</b>          |      | <b>(8,354)</b>            | <b>(881)</b>     |
| Impact of foreign currency revaluation on cash and cash equivalents |      | 61                        | (84)             |
| <b>Net decrease in cash and cash equivalents during the period</b>  |      | <b>(16,458)</b>           | <b>(1,530)</b>   |
| Cash and cash equivalents, beginning of period                      |      | 24,900                    | 23,980           |
| <b>Cash and cash equivalents, end of period</b>                     |      | <b>\$ 8,442</b>           | <b>\$ 22,450</b> |
| Cash paid for interest expense                                      |      | \$ 16                     | \$ 153           |
| Cash paid (received) for income tax                                 |      | -                         | -                |

See accompanying notes to the condensed interim consolidated financial statements.

# BSM TECHNOLOGIES INC.

Notes to the Condensed Interim Consolidated Financial Statements – (Unaudited)

Three and six months ended March 31, 2017 and 2016

In 000s of Canadian Dollars

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## 1. General information

BSM Technologies Inc. and its subsidiaries (together “BSM” or the “Company”) is a provider of real-time GPS fleet and asset management solutions. The address of its registered office is 75 International Blvd., Suite 100, Toronto, Ontario, Canada M9W 6L9. The Company is incorporated and domiciled in Canada. The Company is a public company whose shares trade under the symbol “GPS” on the Toronto Stock Exchange (“TSX”).

These condensed interim consolidated financial statements were authorized for issue by the Company's Board of Directors on May 10, 2017.

## 2. Basis of presentation

These condensed interim consolidated financial statements for the three and six months ended March 31, 2017 and 2016 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to the preparation of interim financial statements, including International Accounting Standard 34 (“IAS 34”), *Interim Financial Reporting*. The accounting policies in these condensed interim consolidated financial statements are consistent with those disclosed in the Company's annual consolidated financial statements for the year ended September 30, 2016. The condensed interim consolidated financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended September 30, 2016, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (“IASB”).

These condensed interim consolidated financial statements are presented in thousands of Canadian dollars.

## 3. Significant accounting policies

The accounting policies applied in these 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, 2016. In preparing these condensed interim consolidated financial statements, the Company is required to make estimates and assumptions to determine the carrying amount of assets and liabilities reported. The significant areas requiring estimates and assumptions in determining the reported amounts relate to: the recoverable amount of goodwill; the valuation of contingent consideration classified as a liability; the valuation of assets and liabilities acquired in a business combination; the valuation of the Company's warranty obligation; and the recoverability of the Company's deferred tax asset recognized in the financial statements.

## 4. Acquisition of Mobi Corp.

On October 4, 2016, pursuant to an asset purchase agreement (“the Agreement”) the Company acquired substantially all of the assets and assumed specified liabilities of Mobi Corp. (“Mobi”). Following the closing of the acquisition, the Company continues to operate the Mobi business under the Mobi name. The Mobi product offering enables its customers to manage operational activities such as planning, scheduling, routing and dispatching and uses available GPS data to provide additional analytics.

Pursuant to the agreement, the Mobi business was acquired with payment of initial cash consideration before working capital adjustments of US\$8 million. Additional cash consideration of up to US\$17 million is eligible to be paid during a two-year period immediately following the closing of the acquisition. The deferred cash consideration is contingent upon the Mobi products achieving specified recurring revenue and adjusted EBITDA milestones calculated in accordance with

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US GAAP. For purposes of calculating adjusted EBITDA pursuant to the Agreement, adjusted EBITDA is defined as earnings before interest, taxes, depreciation and amortization and further adjusted by any non-cash expenses such as share based compensation. The deferred contingent consideration is payable in cash and has been recorded as a liability on the consolidated balance sheet at fair value based on management's best estimate of the probability of the Mobi business achieving the specified performance targets. The estimate of fair value takes into consideration the variability of when the performance targets will be met during the two-year window and a discount rate which is reflective of the risk inherent in the business attaining the performance targets.

The following table summarizes the fair value of consideration paid on the acquisition date and the allocation of the purchase price to the assets and liabilities acquired. In accordance with the Company's accounting policy, the Company has up to one-year following the acquisition date to finalize the accounting for a business combination. Accordingly, the accounting for the Mobi acquisition has been completed using provisional amounts within these condensed consolidated interim financial statements. Specifically, we note that the fair value of deferred contingent consideration, acquired assets and assumed liabilities may be adjusted from these provisional amounts within the one-year measurement period based on facts and circumstances which existed as of the acquisition date; however, have not been reflected herein.

|                                                 |                  |
|-------------------------------------------------|------------------|
| Cash paid on closing                            | \$ 7,727         |
| Fair value of deferred contingent consideration | 6,748            |
| <b>Total consideration</b>                      | <b>\$ 14,475</b> |

**Allocated to identifiable assets acquired and liabilities assumed:**

|                                                                                |                   |
|--------------------------------------------------------------------------------|-------------------|
| Accounts receivable                                                            | \$ 755            |
| Investment in finance lease receivables                                        | 738               |
| Inventories                                                                    | 230               |
| Pre-paid expenses                                                              | 121               |
| Property and equipment                                                         | 572               |
| Accounts payable                                                               | (155)             |
| Accrued liabilities                                                            | (520)             |
| Capital lease obligations                                                      | (520)             |
| Deferred revenue                                                               | (3,609)           |
| <b>Total allocated to identifiable assets acquired and liabilities assumed</b> | <b>\$ (2,388)</b> |

**Allocated to intangible assets and goodwill:**

|                                                          |                  |
|----------------------------------------------------------|------------------|
| Customer contracts and relationships                     | \$ 8,395         |
| Acquired technology                                      | 4,591            |
| Goodwill                                                 | 3,877            |
| <b>Total allocated to intangible assets and goodwill</b> | <b>\$ 16,863</b> |

The goodwill recognized on the acquisition represents the incremental cost not specifically attributable to the identifiable assets and liabilities acquired. The goodwill is underpinned by an assembled work force that was retained as well as by the operating synergies we aim to achieve through leveraging our consolidated product offering. All of the goodwill acquired is expected to be deductible for tax purposes.

During the three months and six months ended March 31, 2017, the Company incurred \$nil and \$335 in acquisition related costs associated with the acquisition of Mobi which have been separately classified on the statement of

# BSM TECHNOLOGIES INC.

Notes to the Condensed Interim Consolidated Financial Statements – (Unaudited)

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operations and comprehensive income. In the year ended September 30, 2016, the Company had incurred \$224 in acquisition related costs for professional fees incurred related to the acquisition as of that date. In aggregate, a total of \$559 in acquisition related costs were incurred related to the acquisition of Mobi.

During the three months and six months ended March 31, 2017, the acquisition of Mobi resulted in revenue of \$1,985 and \$3,943 and a net loss of \$668 and \$1,426. Included in the net loss is \$547 and \$1,098 in amortization expense for the amortization of intangible assets in the three and six months ended March 31, 2017. The net loss also includes \$205 and \$517 in the three and six months respectively for accretion on contingent consideration with respect to the Mobi acquisition.

## 5. Share capital

### a) Common shares:

Authorized: Unlimited common shares (no par value)

|                                                                                          | March 31, 2017 |           | March 31, 2016 |           |
|------------------------------------------------------------------------------------------|----------------|-----------|----------------|-----------|
|                                                                                          | Number         | Amount    | Number         | Amount    |
| <b>Issued and outstanding:</b>                                                           |                |           |                |           |
| Balance, beginning of period excluding shares to be issued subject to future performance | 81,319,954     | \$ 85,861 | 87,886,946     | \$ 92,249 |
| Shares issued for options exercised                                                      | 37,412         | 32        | 613,193        | 609       |
| Shares issued for RSUs vested                                                            | -              | -         | 67,500         | 104       |
| Shares issued for DSUs exercised                                                         | -              | -         | 20,000         | 29        |
| Shares repurchased and cancelled <sup>(i)</sup>                                          | (78,200)       | (116)     | (7,523,500)    | (7,371)   |
| Shares repurchase commitment <sup>(i)</sup>                                              | -              | (678)     | -              | -         |
| Shares released from escrow                                                              | -              | -         | -              | -         |
| Balance, excluding shares to be issued subject to future performance                     | 81,279,166     | \$ 85,099 | 81,064,139     | \$ 85,620 |
| <b>Shares issued in escrow:</b>                                                          |                |           |                |           |
| subject to Company's performance                                                         | 54,795         | -         | 54,795         | -         |
| subject to earn-out clause - AWI                                                         | -              | -         | 714,286        | -         |
| subject to earn-out clause - JMM                                                         | 699,575        | -         | 699,575        | -         |
| subject to earn-out clause - Praxis                                                      | 500,000        | -         | 500,000        | -         |
| Balance of issued shares, end of period                                                  | 82,533,536     | \$ 85,099 | 83,032,795     | \$ 85,620 |

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

From time to time, the Company may make purchases under the Bid via an automatic securities repurchase plan (the "Plan") through which the timing for the purchase of common shares, the number of common shares purchased and the price payable for the common shares will be determined by the Company's broker,

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in its sole discretion. Such purchases are subject to a prescribed maximum price payable having regard to the price limitations and other terms of the Plan and the rules of the TSX. As at March 31, 2017, the Company had a Plan in place with its broker. Given the automatic nature of the Plan, the Company has recognized a share repurchase liability of \$678 in the statement of financial position. The share repurchase liability has been recorded at the maximum purchase exposure under the Plan during the period of April 3, 2017 through May 11, 2017 which is the period the Company anticipates being prohibited from cancelling or making amendments to the Plan due to TSX “blackout” restrictions.

During the three and six months ended March 31, 2017, the Company repurchased and cancelled 78,200 and 78,200 common shares in accordance with the Bid or previous normal course issuer bids (2016 – 7,470,500 and 7,523,500).

### b) Preferred shares:

The Company authorized an unlimited number of first preferred shares and second preferred shares, all without par value. The terms allow the Company’s directors to issue shares in one or more series and to set the number and the conditions for each series. There were no first preferred shares or second preferred shares issued and outstanding as at March 31, 2017.

The first preferred shares of all series rank on a parity with each other and in priority to all other shares of the Company with respect to payment of dividends and with respect to distribution of assets in the event of liquidation, dissolution or winding up of BSM.

### c) Stock options:

A summary of the Company's stock options for the six months ended March 31, 2017 and 2016 is presented below:

|                              | March 31, 2017    |                                 | March 31, 2016    |                                 |
|------------------------------|-------------------|---------------------------------|-------------------|---------------------------------|
|                              | Number of Options | Weighted average exercise price | Number of Options | Weighted average exercise price |
| Balance, beginning of period | 1,766,824         | \$ 1.41                         | 3,211,665         | \$ 1.18                         |
| Issued                       | 1,250,000         | 1.27                            | -                 | -                               |
| Exercised                    | (54,985)          | 0.66                            | (623,479)         | 0.62                            |
| Cancelled                    | -                 | -                               | (76,122)          | 0.81                            |
| Forfeited                    | -                 | -                               | (397,580)         | 1.39                            |
| Expired                      | (24,271)          | 1.22                            | (9,609)           | 0.81                            |
| Balance, end of period       | 2,937,568         | \$ 1.36                         | 2,104,875         | \$ 1.33                         |

# BSM TECHNOLOGIES INC.

Notes to the Condensed Interim Consolidated Financial Statements – (Unaudited)

Three and six months ended March 31, 2017 and 2016

*In 000s of Canadian Dollars*

The following table summarizes information about stock options outstanding as at March 31, 2017:

| Exercise price         | Number Outstanding | Weighted average remaining contractual life (years) |
|------------------------|--------------------|-----------------------------------------------------|
| \$0.00 - \$0.50        | 341,331            | 2.60                                                |
| \$0.51 - \$1.00        | 283,237            | 2.46                                                |
| \$1.01 - \$1.50        | 1,953,000          | 3.21                                                |
| \$1.51 - \$2.00        | -                  | -                                                   |
| \$2.01 - \$2.50        | 95,000             | 2.24                                                |
| \$2.51 - \$3.00        | -                  | -                                                   |
| \$3.00 - \$3.50        | 265,000            | 1.77                                                |
| Balance, end of period | 2,937,568          | 2.90                                                |

As at March 31, 2017, 1,626,407 stock options were exercisable (2016 - 1,814,784).

During the three and six months ended March 31, 2017, the Company granted nil and nil stock options to officers and directors (2016 – nil and nil). The 1,250,000 stock options granted in the six-month period were granted to Mobi employees in association with the acquisition of Mobi. The terms of the stock options granted are consistent with the Company's stock option plan where such options vest over a three-year period following the date of grant.

For the three months and six months ended March 31, 2017, the Company recognized share-based compensation expense of \$103 and \$207 (2016 – \$17 in expense and a \$83 recovery of share-based compensation expense due to a revision in the estimate of stock option forfeitures).

## **d) Restricted share units ("RSUs") and Deferred share units ("DSUs"):**

During the three and six months ended March 31, 2017, the Company granted 691,280 and 1,221,280 RSUs to employees pursuant to the Company's Restricted Share Unit Plan (2016 - nil and 287,000). Each RSU represents the right for the holder to be issued one common share pursuant to vesting conditions over three years. The fair value of RSUs granted was \$1.28 per RSU for 450,000 RSUs; \$1.44 per RSU for 641,280 DSUs; and \$1.50 per RSU for 130,000 RSUs which was the closing price of the Company's common shares on the respective grant dates (2016 - \$0.86 per RSU). Share based compensation expenses of \$285 and \$500 were recognized in the three and six months ended March 31, 2017 related to the vesting of RSUs (2016 - \$96 and \$257). The following is a continuity of the Company's RSUs for the six months ended March 31, 2017:

|                              | 2017      | 2016     |
|------------------------------|-----------|----------|
| Balance, beginning of period | 1,599,906 | 697,906  |
| Issued                       | 1,221,280 | 287,000  |
| Settled in common shares     | -         | (67,500) |
| Canceled                     | (52,500)  | -        |
| Forfeited                    | (229,700) | (7,500)  |
| Balance, end of period       | 2,538,986 | 909,906  |

During the three and six months ended March 31, 2017, the Company granted 39,666 and 194,707 DSUs to directors of the Company pursuant to the Company's Deferred Share Unit Plan (2016 - nil and 204,535). Each DSU represents the right for the holder to be issued one common share and vest upon grant; however, are not exchangeable for common shares until the holder ceases to be a director of the Company. The fair value of DSUs

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granted was \$1.43 per DSU for 155,041 DSUs; and \$1.50 per DSU for 39,666 DSUs (2016 - \$0.86 per DSU), which was the closing price on the respective grant dates. Share-based compensation expense of \$58 and \$278 was recognized in the three and six months ended March 31, 2017 related to the vesting of DSUs (2016 - \$nil and \$176). The following is a continuity of the Company's DSUs for the six months ended March 31, 2017:

|                              | 2017    | 2016     |
|------------------------------|---------|----------|
| Balance, beginning of period | 137,500 | 47,500   |
| Issued                       | 194,707 | 204,535  |
| Settled in common shares     | -       | (20,000) |
| Forfeited                    | -       | -        |
| Balance, end of period       | 332,207 | 232,035  |

## e) Earnings per share:

The effects of any shares issued in escrow that are subject to performance conditions are not included in the calculation of the weighted average number of common shares outstanding on a diluted basis as they are not expected to have a dilutive impact on earnings per share. Shares released from escrow upon meeting contingent requirements are included in the calculation of basic weighted average number of shares outstanding. The calculation of the diluted weighted average number of common shares outstanding does not include stock options that are not expected to be exercised given their negative intrinsic value and includes vested DSUs which are exchangeable for common shares.

|                                             | Three months ended March 31 |            | Six months ended March 31 |            |
|---------------------------------------------|-----------------------------|------------|---------------------------|------------|
|                                             | 2017                        | 2016       | 2017                      | 2016       |
| Weighted average number of shares – basic   | 81,322,687                  | 85,586,847 | 81,335,889                | 86,776,430 |
| Dilutive effect of stock options and DSUs   | 1,024,032                   | 575,562    | 865,248                   | 557,434    |
| Weighted average number of shares – diluted | 82,346,719                  | 86,162,409 | 82,201,137                | 87,333,864 |

## 6. Capital assets and intangible assets

The Company acquired \$572 in property and equipment and recognized \$12,986 in intangible assets in connection with the Mobi acquisition. Outside of the acquisition of Mobi, capital asset and intangible asset additions for the three and six months ended March 31, 2017 amounted to \$417 and \$627 respectively (2016 - \$274 and \$881). Of these amounts, \$302 was primarily to fund the purchase of servers and general computer equipment and \$325 was to fund external consultant costs for the development of specified technology projects.

## 7. Long-term debt

On August 24, 2016, the Company replaced its prior term credit facility with a \$20 million revolving credit facility ("Revolver"). During the three and six months ended March 31, 2017 the Company incurred interest expense of \$70 and \$120 which was accrued to the outstanding balance on the Revolver (2016 - \$79 and \$153 interest costs paid associated with the prior term credit facilities). The Company may draw on the Revolver in either US dollars or Canadian dollars and as at March 31, 2017, the Company had US\$1,393 drawn against the Revolver.

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

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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.

### 8. Change in non-cash operating working capital

|                                                                | Six months ended March 31 |                   |
|----------------------------------------------------------------|---------------------------|-------------------|
|                                                                | 2017                      | 2016              |
| Accounts receivable                                            | \$ 783                    | \$ 180            |
| Net investment in finance leases (including long-term portion) | 216                       | 192               |
| Inventories                                                    | (68)                      | 2,098             |
| Prepaid expenses and other assets                              | (278)                     | 91                |
| Accounts payable                                               | (1,037)                   | (990)             |
| Accrued liabilities                                            | (444)                     | (2,545)           |
| Provisions (including long-term portion)                       | (72)                      | (77)              |
| Deferred revenue                                               | (2,669)                   | (381)             |
| <b>Total</b>                                                   | <b>\$ (3,569)</b>         | <b>\$ (1,432)</b> |

The change in non-cash operating working capital is the change in balance during the period, adjusted for balances acquired on acquisitions and for foreign exchange revaluation gains and losses. During the six months ended March 31, 2017, deferred revenue decreased by \$2,669 which was attributable to the recognition of revenue for services performed during the period for which cash had been received from customers prior to October 1, 2016. Also during the six months ended March 31, 2017, accounts payable decreased by \$1,037 which was primarily attributable to the increase in payments related to inventory purchases.

### 9. Segmented information

The Company has identified one operating segment for its operations. The Company's evaluation of segmentation is based on internal reporting and its organizational structure, taking into account the different risk and income structures of the key products of the Company. Within the reportable segment, selected financial information by geographical location is as follows:

(a) Revenue by geography, based upon customer location:

|               | Three months ending March 31 |                  | Six months ending March 31 |                  |
|---------------|------------------------------|------------------|----------------------------|------------------|
|               | 2017                         | 2016             | 2017                       | 2016             |
| Canada        | \$ 5,658                     | \$ 6,633         | \$ 11,252                  | \$ 13,921        |
| United States | 10,080                       | 8,257            | 22,555                     | 16,308           |
| International | 266                          | 349              | 560                        | 711              |
| <b>Total</b>  | <b>\$ 16,004</b>             | <b>\$ 15,239</b> | <b>\$ 34,367</b>           | <b>\$ 30,940</b> |

(b) Non-current assets by geography:

|               | As at            |                    |
|---------------|------------------|--------------------|
|               | March 31, 2017   | September 30, 2016 |
| Canada        | \$ 68,570        | \$ 55,131          |
| United States | 18,027           | 17,468             |
| <b>Total</b>  | <b>\$ 86,597</b> | <b>\$ 72,599</b>   |

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## 10. Contingent consideration

The Company has recognized contingent consideration classified as a liability within the consolidated statements of financial position. The liability is recorded as the fair value of future deferred consideration associated with companies acquired in prior periods. Fair value is determined based on management's estimate of the present value of the amounts expected to be paid subject to the contingent performance targets for each respective acquisition.

Re-measurement of the fair value of contingent consideration is performed by the Company at each financial reporting period. Key unobservable inputs comprise management's best estimate of the probability that acquired businesses will achieve specified financial targets in specified time frames following the respective acquisitions. The Company's determination of the estimated probability of the acquired business achieving the specified financial targets includes the review of a number of factors including: the acquired businesses performance and the implied growth rate relative to the earn-out targets; the current sales pipeline; the Company's current operating plan for the acquired business; and the time remaining for the sellers of the acquired business to earn the contingent payment. The estimated fair value of contingent consideration payable increases as the estimated probability associated with the financial targets increase and vice versa for decreases in fair value. During the three months and six months ended March 31, 2017, the Company did not make any revisions to its estimates of the probability of acquired businesses achieving the specified targets.

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

|                                       |                 |
|---------------------------------------|-----------------|
| <b>Balance at September 30, 2016</b>  | <b>\$ 4,503</b> |
| Cash payments                         | (2,639)         |
| Recognized on the acquisition of Mobi | 6,748           |
| Accreted interest                     | 630             |
| Fair value adjustments                | -               |
| Foreign exchange revaluation          | 128             |
| <b>Balance at March 31, 2017</b>      | <b>\$ 9,370</b> |

## 11. Goodwill

The Company performs its impairment test annually for its sole CGU containing goodwill. The Company has not identified any indicators of goodwill impairment during the six months ended March 31, 2017. The Company's assessment could be impacted by a change in market factors or a change in management's estimate of forecasted financial performance. Reasonably possible changes in key estimates and assumptions would not cause the recoverable amount of goodwill to fall below the carrying amount. The following is a summary of the Company's goodwill:

|                                         |                  |
|-----------------------------------------|------------------|
| <b>Balance as at September 30, 2016</b> | <b>\$ 22,163</b> |
| Recognized on the acquisition of Mobi   | 3,877            |
| Foreign exchange revaluation            | 149              |
| <b>Balance as at March 31, 2017</b>     | <b>\$ 26,189</b> |

## 12. Income tax

Income tax expense is recognized based on management's estimate of the weighted average annual income tax rate expected for the full fiscal year. The estimated annual tax rate used for the three and six months ended March 31, 2017 was 26.4% (2016 - 26.5%). The tax rate used represents management's estimate of the weighted average tax rate

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expected to be applicable on taxable income in the period. Current tax expense was \$26 and \$95 and deferred tax expense was \$230 and \$353 in the three and six months ended March 31, 2017 (2016 - current tax expense of \$44 and \$51 and deferred tax expense of \$333 and \$791).

## 13. Subsequent events

There are no subsequent events to disclose for the Company.

## 14. New Accounting Standards

Certain new accounting standards and interpretations have been published that are not mandatory for adoption for reporting periods beginning on October 1, 2016 and have not been early adopted by the Company. The Company has not yet fully assessed the impact of these new standards and amendments or whether these standards and amendments will be early adopted.

- i. IFRS 9, Financial Instruments. In July 2014, the IASB issued the final version of IFRS 9, Financial Instruments, which reflects all phases of the financial instruments project and replaces IAS 39, Financial Instruments - Recognition and Measurement, and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. The Company is evaluating the impact of this standard on its financial statements.
- ii. IFRS 15, Revenue from Contracts with Customers. In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which establishes a single comprehensive 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. This standard will replace 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 - so the notion of control replaces the existing notion of risks and rewards. The new standard will be effective for the fiscal year beginning on or after January 1, 2018 and earlier application is permitted. Adoption of the standard may have flow-on effects on adopting an entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications. Entities will have a choice of full retrospective application, or prospective application with additional disclosures. The Company is evaluating the impact of this standard on its financial statements.
- iii. IFRS 16, Leases. On January 13, 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2019 and earlier application is permitted. Under the new standard, all leases will be recorded on the balance sheet of lessees, except those that meet the limited exception criteria. As the Company has significant contractual obligations in the form of operating leases under the existing standards, there will be a material increase to both assets and liabilities upon adoption of the new standard, and changes to the timing of recognition of expenses associated with the lease arrangements, which could be material. The Company is still evaluating the full impact of this standard on its financial statements.