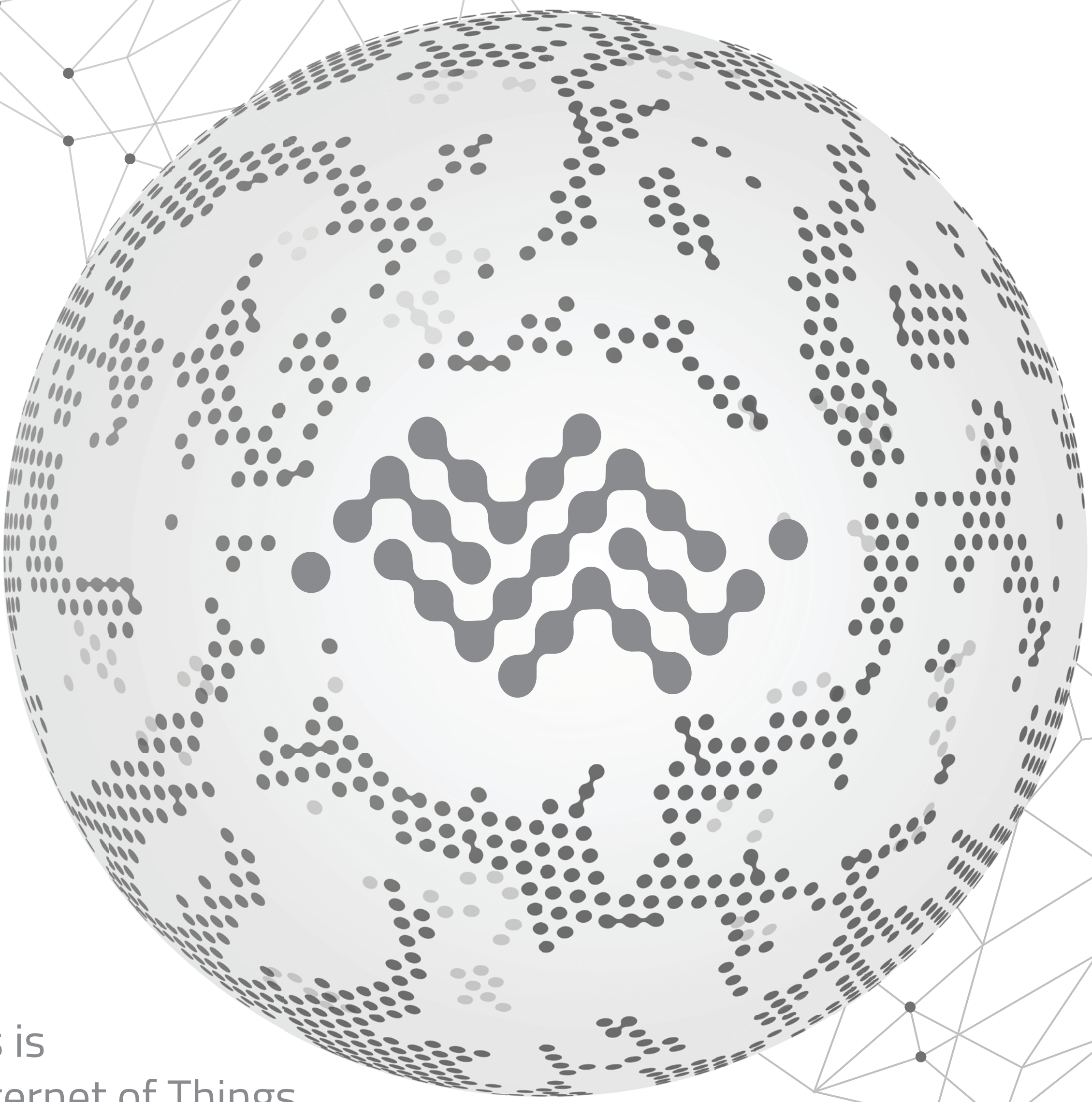
SIERRA WIRELESS®

# Q1 2016

## First Quarter Report
## For the three months ended March 31



Sierra Wireless is
building the Internet of Things.

# Table of Contents

(This page intentionally left blank)

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") provides information for the three months ended March 31, 2016, and up to and including May 6, 2016. This MD&A should be read together with our unaudited interim consolidated financial statements for the three months period ended March 31, 2016 and March 31, 2015, respectively, and our audited annual consolidated financial statements and the accompanying notes for the year ended December 31, 2015 (collectively, "the consolidated financial statements"). The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"). Except where otherwise specifically indicated, all amounts in this MD&A are expressed in United States dollars.*

*We have prepared this MD&A with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. Under the U.S./Canada Multijurisdictional Disclosure System, we are permitted to prepare this MD&A in accordance with the disclosure requirements of Canada, which requirements are different than those of the United States.*

*Certain statements in this MD&A constitute forward-looking statements or forward-looking information within the meaning of applicable securities laws. You should carefully read "Cautionary Note Regarding Forward-Looking Statements" in this MD&A and should not place undue reliance on any such forward-looking statements.*

*Throughout this document, references are made to certain non-GAAP financial measures that are not measures of performance under U.S. GAAP. Management believes that these non-GAAP financial measures provide useful information to investors regarding the Company's results of operations as they provide additional measures of its performance and assist in comparisons from one period to another. These non-GAAP financial measures do not have any standardized meaning prescribed by U.S. GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. These non-GAAP financial measures are defined and reconciled to their nearest GAAP measure in "Non-GAAP Financial Measures" and "Liquidity and Capital Resources".*

*In this MD&A, unless the context otherwise requires, references to the "Company", "Sierra Wireless", "we", "us" and "our" refer to Sierra Wireless, Inc. and its subsidiaries.*

*Additional information about the Company, including our most recent consolidated financial statements and our Annual Information Form, is available on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.*

## *Cautionary Note Regarding Forward-looking Statements*

*This MD&A contains certain statements and information that are not based on historical facts and constitute forward-looking statements or forward-looking information within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and Canadian securities laws (collectively, "forward-looking statements"), including our business outlook for the short and longer term and statements regarding our strategy, plans and future operating performance. Forward-looking statements are provided to help you understand our views of our short and longer term plans, expectations and prospects. We caution you that forward-looking statements may not be appropriate for other purposes.*

*Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, identified by words or phrases such as "expects", "is expected", "anticipates", "believes", "plans", "projects", "estimates", "assumes", "intends", "strategy", "goals", "objectives", "potential", "possible" or variations thereof or stating that certain actions, events, conditions or results "may", "could", "would", "should", "might" or "will" be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be forward-looking statements. Forward-looking statements are not promises or guarantees of future performance, they represent our current views and may change significantly. Forward-looking statements are based on a number of material assumptions, including, but not limited to, those listed below, which could prove to be significantly incorrect:*

- *our ability to develop, manufacture and sell new products and services that meet the needs of our customers and gain commercial acceptance;*
- *our ability to continue to sell our products and services in the expected quantities at the expected prices and expected times;*
- *expected cost of goods sold;*
- *expected component supply constraints;*
- *our ability to "win" new business;*
- *our ability to integrate acquired businesses and realize expected benefits;*
- *expected deployment of next generation networks by wireless network operators;*
- *our operations not being adversely disrupted by component shortages or other development, operating or regulatory risks; and*
- *expected tax rates and foreign exchange rates.*

*Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ significantly from those expressed or implied in our forward-looking statements, including, without limitation:*

- *competition from new or established service providers or from those with greater resources;*
- *our financial results are subject to fluctuation;*
- *disruption of, and demands on, our ongoing business and diversion of management's time and attention in connection with acquisitions or divestitures;*
- *the loss of any of our significant customers;*
- *cyber-attacks or other breaches of our information technology security;*
- *we may be found to infringe on intellectual property rights of others;*
- *we may not be able to obtain necessary rights to use software or components supplied by third parties;*
- *we may be unable to enforce our intellectual property rights;*
- *difficult or uncertain global economic conditions;*
- *our ability to attract or retain key personnel;*

- *we may experience difficulty responding to changing technology, industry standards and customer requirements;*
- *unanticipated costs associated with litigation or settlements;*
- *failures of our products or services due to design flaws and errors, component quality issues, manufacturing defects or other quality issues;*
- *our dependence on a limited number of third party manufacturers;*
- *our reliance on single source suppliers for certain components used in our products;*
- *our dependence on wireless network carriers to promote and offer acceptable wireless data services;*
- *risks related to contractual disputes with counterparties;*
- *we are subject to governmental regulation;*
- *the transmission, use and disclosure of user data and personal information could give rise to liability or additional costs; and*
- *we have operations outside of North America and therefore are subject to risks inherent in foreign jurisdictions.*

*This list is not exhaustive of the factors that may affect any of our forward-looking statements. Forward-looking statements are statements about the future and are inherently uncertain, and our actual achievements or other future events or conditions may differ materially from those reflected in the forward-looking statements due to a variety of risks, uncertainties and other factors, including, without limitation, those referred to below under "Risks and Uncertainties" and those referred to in our other regulatory filings with the U.S. Securities and Exchange Commission (the "SEC") in the United States and the provincial securities commissions in Canada.*

*Our forward-looking statements are based on the beliefs, expectations and opinions of management on the date the statements are made, and we do not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change, except as required by applicable law. For the reasons set forth above, investors should not place undue reliance on forward-looking statements.*

# OVERVIEW

## Business Overview

Sierra Wireless is building the Internet of Things ("IoT") with intelligent wireless solutions that empower organizations to innovate in the connected world. We offer the industry's most comprehensive portfolio of second generation ("2G"), third generation ("3G") and fourth generation ("4G") cellular embedded wireless modules and gateways, seamlessly integrated with our secure cloud and connectivity services. Original Equipment Manufacturers ("OEMs") and enterprises worldwide trust our innovative solutions to get their connected products and services to market faster.

In 2015, we significantly advanced our device-to-cloud strategy by successfully completing three acquisitions and rapidly expanding our cloud and connectivity services business. On January 16, 2015, we acquired all of the shares of Wireless Maingate AB ("Maingate"), a Sweden-based provider of M2M connectivity and data management services. On June 18, 2015, we acquired substantially all of the assets of Accel Networks LLC ("Accel"), a leader in managed cellular broadband technology and connectivity services in North America. On September 2, 2015, we acquired all of the shares of MobiquiThings SAS ("MobiquiThings"), a France-based mobile virtual network operator focused on the global machine-to-machine and telematics marketplace.

As a result of the three business acquisitions and a reorganization to drive focus and growth in our key lines of business, since October 1, 2015 we have operated the Company under three reportable segments: (i) OEM Solutions; (ii) Enterprise Solutions; and (iii) Cloud and Connectivity Services. Prior to October 1, 2015, our Enterprise Solutions segment included the business operations that now comprise our new Cloud and Connectivity Services segment.

Our OEM Solutions segment includes cellular embedded modules, software and tools for OEM customers to integrate wireless cellular connectivity into products and solutions across a broad range of industries, including automotive, transportation, energy, enterprise networking, sales and payment, mobile computing, security, industrial monitoring, field services, residential, healthcare and others. Within our OEM Solutions segment, our embedded wireless module portfolio spans 2G, 3G, and 4G cellular technologies. This product portfolio also includes cloud-based remote device management capability and support for on-board embedded applications using our open source, Linux-based application framework, called Legato and MangOh, a low cost customizable product development platform to accelerate prototypes and simplify the industrialization of IoT solutions.

Our Enterprise Solutions segment includes a range of intelligent routers and gateways along with management tools and applications that enable cellular connectivity for mobile, industrial and enterprise customers. Our 2G, 3G and 4G LTE intelligent cellular routers and gateways are designed for use where reliability and security are essential, and are used in transportation, public safety, field services, energy, industrial, and enterprise networking applications worldwide. Our routers and gateways can be easily configured for specific customer applications, and also support on-board embedded applications using our ALEOS application framework.

The Cloud and Connectivity Services business segment comprises three main areas of operation: (i) our cloud services business, which provides a secure and scalable cloud based platform for deploying and managing IoT applications; (ii) our connectivity services, which includes our Smart SIMs and core network platforms; and (iii) our managed wireless broadband services business. The Cloud and Connectivity services support our fully integrated device-to-cloud strategy and are designed to enable worldwide IoT deployments by our customers. Our cloud based platform services can be used to collect, manage and process data from any number of connected fixed and mobile assets. This device-to-cloud data connection provides our customers with a fully integrated, end-to-end solution that is simple to deploy and allows our customers to build and scale their IoT applications without investing in infrastructure. Our cloud based platform can also be used to centrally deploy and monitor IoT devices at the edge of the network, including configuring device settings and delivering firmware and embedded application updates remotely over the air. Our SIM and connectivity services provide global, multi-operator subscriptions with unique benefits for IoT deployments such as quality of service improvements and multi-operator network coverage. Our broadband services provide proactive network management solutions utilizing cellular broadband gateways, routers and advanced antennas.

We continue to seek opportunities to acquire or invest in businesses, products and technologies that expand, complement or otherwise relate to our business.

## First Quarter Overview

Aligned with our expectations, revenue of $142.8 million in the first quarter of 2016 represents a decrease of 5.1% compared to the same period of 2015. This decrease was mainly driven by lower revenues for our OEM Solutions segment partially offset by year-over-year growth in our Enterprise Solutions and Cloud and Connectivity Services segments. In the first quarter of 2016 compared to the same period of 2015, the OEM Solutions segment revenue decreased by 9.1% to $120.9 million, the Enterprise Solutions segment revenue increased by 9.0% to $15.0 million, and the Cloud and Connectivity Services segment revenue increased by 92.0% to $6.9 million. Our gross margin in the first quarter of 2016 was 32.8%, compared to 32.5% in the same period of 2015. During the quarter, we received $2.3 million from a legal settlement with a supplier related to a quality issue with a component used in some of our gateway products, of which $1.9 million was applied to cost of goods sold, and $0.4 million was applied to administration expense.

Foreign exchange rate changes impact our foreign currency denominated revenue and operating expenses. We estimate that changes in exchange rates between the first quarter of 2016 and the same period of 2015 reduced our gross margin and operating expenses by approximately $0.2 million and $1.4 million, respectively, in the first quarter of 2016.

During the quarter, we received approval from the TSX of our Notice of Intention to make a Normal Course Issuer Bid (the "NCIB") and utilized $6.1 million to repurchase and cancel 549,583 shares (see section on Liquidity and Capital Resources for details). We also used $4.2 million to purchase shares for our Restricted Share Unit long term incentive plan.

**Financial highlights for the first quarter of 2016:**

**GAAP:**

- Revenue was $142.8 million, a decrease of 5.1%, compared to $150.4 million in the first quarter of 2015.
- Gross margin was 32.8%, compared to 32.5% in the first quarter of 2015.
- Loss from operations was $1.3 million, compared to earnings from operations of $2.5 million in the first quarter of 2015.
- Net earnings were $0.7 million, or $0.02 per diluted share, compared to a net loss of $9.7 million, or $0.30 per diluted share, in the first quarter of 2015.
- Cash and cash equivalents at the end of the first quarter of 2016 were $86.1 million, a decrease of $7.8 million, compared to the end of the fourth quarter of 2015.

**NON-GAAP[(1)]:**

- Gross margin was 32.9%, compared to 32.6% in the first quarter of 2015.
- Earnings from operations were $3.6 million, compared to $8.8 million in the first quarter of 2015.
- Adjusted EBITDA was $6.7 million, compared to $11.3 million in the first quarter of 2015.
- Net earnings were $2.6 million or $0.08 per diluted share, compared to net earnings of $7.2 million, or $0.22 per diluted share in the first quarter of 2015.

(*1) Non-GAAP financial measures exclude the impact of stock-based compensation expense and related social taxes, acquisition amortization, impairment, acquisition-related costs, integration costs, restructuring costs, foreign exchange gains or losses on translation of balance sheet accounts and certain tax adjustments. Refer to the section titled "Non-GAAP Financial Measures" for additional details.*

## Selected Consolidated Financial Information:

| *(in thousands of U.S. dollars, except where otherwise stated)* | 2016 Q1 | 2015 Total | 2015 Q4 | 2015 Q3 | 2015 Q2 | 2015 Q1 |
|---|---|---|---|---|---|---|
| **Statement of Operations data:** | | | | | | |
| Revenue | $ 142,797 | $ 607,798 | $ 144,846 | $ 154,581 | $ 157,965 | $ 150,406 |
| Gross Margin | | | | | | |
| - GAAP | $ 46,815 | $ 193,855 | $ 45,063 | $ 49,009 | $ 50,947 | $ 48,836 |
| - Non-GAAP (1) | 46,921 | 194,502 | 45,169 | 49,155 | 51,094 | 49,084 |
| Gross Margin % | | | | | | |
| - GAAP | 32.8% | 31.9% | 31.1% | 31.7% | 32.3% | 32.5% |
| - Non-GAAP (1) | 32.9% | 32.0% | 31.2% | 31.8% | 32.4% | 32.6% |
| Earnings (loss) from operations | | | | | | |
| - GAAP | $ (1,255) | $ 10,114 | $ (674) | $ 4,202 | $ 4,112 | $ 2,474 |
| - Non-GAAP (1) | 3,642 | 32,361 | 3,315 | 9,475 | 10,725 | 8,846 |
| Adjusted EBITDA(1) | $ 6,680 | $ 42,911 | $ 6,345 | $ 12,110 | $ 13,148 | $ 11,308 |
| Net earnings (loss) | | | | | | |
| - GAAP | $ 718 | $ (2,674) | $ (383) | $ 3,286 | $ 4,076 | $ (9,653) |
| - Non-GAAP (1) | 2,621 | 25,774 | 2,536 | 7,419 | 8,637 | 7,182 |
| **Revenue by Segment:** | | | | | | |
| OEM Solutions | $ 120,874 | $ 523,366 | $ 121,540 | $ 130,653 | $ 138,133 | $ 133,040 |
| Enterprise Solutions | 14,995 | 63,072 | 16,506 | 17,734 | 15,074 | 13,758 |
| Cloud and Connectivity Services | 6,928 | 21,360 | 6,800 | 6,194 | 4,758 | 3,608 |
| **Share and per share data:** | | | | | | |
| Basic net earnings (loss) per share (in dollars) | | | | | | |
| - GAAP | $ 0.02 | $ (0.08) | $ (0.01) | $ 0.10 | $ 0.13 | $ (0.30) |
| - Non-GAAP (1) | $ 0.08 | $ 0.80 | $ 0.08 | $ 0.23 | $ 0.27 | $ 0.22 |
| Diluted net earnings (loss) per share (in dollars) | | | | | | |
| - GAAP | $ 0.02 | $ (0.08) | $ (0.01) | $ 0.10 | $ 0.12 | $ (0.30) |
| - Non-GAAP (1) | $ 0.08 | $ 0.80 | $ 0.08 | $ 0.23 | $ 0.26 | $ 0.22 |
| Common shares (in thousands) | | | | | | |
| At period-end | 31,906 | 32,337 | 32,337 | 32,263 | 32,205 | 32,133 |
| Weighted average - basic | 32,156 | 32,166 | 32,282 | 32,231 | 32,166 | 31,983 |
| Weighted average - diluted | 32,500 | 32,166 | 32,282 | 32,823 | 32,915 | 31,983 |

*(1) Non-GAAP financial measures exclude the impact of stock-based compensation expense and related social taxes, acquisition amortization, impairment, acquisition-related costs, integration costs, restructuring costs, foreign exchange gains or losses on translation of balance sheet accounts and certain tax adjustments. Refer to the section titled "Non-GAAP Financial Measures" for additional details.*

See discussion under "Consolidated Results of Operations" for factors that have caused period-to-period variations.

**Other key business highlights for the first quarter of 2016:**

- Our AirPrime EM7455, the industry's first embedded module to support LTE-Advanced, was selected by Lenovo to provide fast and reliable LTE-Advanced cellular connectivity in next-generation notebooks, tablets, and 2-in-1s.

- Our new HL7690 LTE Cat-1 embedded modules were selected by Sagemcom, a leading European communications equipment provider, for its smart meters to be deployed by Enexis in the Netherlands.

- Our AirPrime HL Series embedded modules were selected by Parkeon, a global leader in parking, transit and urban mobility solutions, to enable cellular connectivity in smart parking deployments worldwide.

- Our smart automotive modules were selected by Valeo, a global automotive products and systems company, for a new generation of telematics control units to enable connected car services internationally.

- We introduced our Smart SIM technology and connectivity service that provides customers with superior coverage and service quality to maximize the reliability of global IoT applications.

- We released an advanced fleet management feature to support the company's AirLink GX450 mobile gateway, allowing it to collect OBD-II vehicle telemetry data.

- Using our AirLink LTE gateways, Transdev, a leading international transport operator has selected QoS Telecom to deploy and operate WiFi Internet on-board services in buses.

## Outlook

For the full year 2016, we expect revenue to be in the range of $630 million to $670 million and non-GAAP earnings per share to be in the range of $0.60 to $0.90, which remains unchanged from the guidance that we provided on February 4, 2016. In the second quarter of 2016, we expect revenue to be in the range of $150 million to $160 million and non-GAAP earnings per share to be in the range of $0.09 to $0.17.

We believe that the market for wireless IoT solutions has strong long-term growth prospects. We anticipate strong growth in the number of devices being wirelessly connected, driven by key enablers, such as lower wireless connectivity costs, faster wireless connection speeds, new wireless technologies designed specifically for the IoT, new devices and tools to simplify the development of IoT applications, and increased focus and investment from large ecosystem players. More importantly, we see strong customer demand emerging in many of our target verticals driven by increasing recognition of the value created by deploying IoT solutions, such as new revenue streams and cost efficiencies.

Key factors that we expect will affect our results in the near term are:
- the timely ramp up of sales of our new products recently launched or currently under development;
- the timely launch and ramp up of new customer programs;
- our ability to secure future design wins with both existing and new customers;
- the availability of components from key suppliers;
- contributions to our operating results from the acquisitions we completed in 2015;
- successful implementation and roll-out of our integrated cloud based platform;
- the level of success our customers achieve with sales of connected solutions to end users;
- fluctuations in foreign exchange rates;
- the continuation of our device-to-cloud strategy as we evaluate future acquisitions;

- general economic conditions in the markets we serve;
- the strength of our competitive position in the market; and
- seasonality in demand.

We expect that product and price competition from other wireless device manufacturers and solution providers will continue to play a role in the IoT market. As a result of these factors, we may experience volatility in our results on a quarter-to-quarter basis. Gross margin percentage may fluctuate from quarter-to-quarter depending on product and customer mix, average selling prices and product costs.

See "Cautionary Note Regarding Forward-Looking Statements".

## CONSOLIDATED RESULTS OF OPERATIONS

| | Three months ended March 31 | | | |
|---|---|---|---|---|
| *(in thousands of U.S. dollars, except where otherwise stated)* | **2016** | | **2015** | |
| | **$** | **% of Revenue** | **$** | **% of Revenue** |
| Revenue | 142,797 | *100.0 %* | 150,406 | *100.0%* |
| Cost of goods sold | 95,982 | *67.2 %* | 101,570 | *67.5%* |
| Gross margin | 46,815 | *32.8 %* | 48,836 | *32.5%* |
| Expenses | | | | |
| Sales and marketing | 15,629 | *10.9 %* | 13,145 | *8.7%* |
| Research and development | 18,778 | *13.2 %* | 19,092 | *12.7%* |
| Administration | 9,527 | *6.7 %* | 10,420 | *6.9%* |
| Acquisition-related and integration | 374 | *0.3 %* | 1,103 | *0.7%* |
| Amortization | 3,762 | *2.6 %* | 2,602 | *1.7%* |
| | 48,070 | *33.7 %* | 46,362 | *30.8%* |
| Earnings (loss) from operations | (1,255) | *(0.9)%* | 2,474 | *1.7%* |
| Foreign exchange gain (loss) | 2,292 | | (11,893) | |
| Other income | 26 | | 105 | |
| Earnings (loss) before income taxes | 1,063 | | (9,314) | |
| Income tax expense | 345 | | 339 | |
| Net earnings (loss) | 718 | | (9,653) | |
| Basic and diluted net earnings (loss) per share (in dollars) | $ 0.02 | | $ (0.30) | |

***Revenue***
Revenue decreased by $7.6 million, or 5.1%, in the first quarter of 2016 compared to the same period of 2015. The decrease was mainly driven by lower revenues from certain OEM Solutions customers in the field services, enterprise networking, transportation and mobile computing market segments offset by improved contributions from our Enterprise Solutions and Cloud and Connectivity Services segments.

***Gross margin***
Gross margin was 32.8% in the first quarter of 2016, and included a $1.9 million recovery from a legal settlement with a supplier related to a quality issue with a component used in some of our gateway products. Excluding this recovery, gross margin was 31.5% in the first quarter of 2016 compared to 32.5% in the same period of 2015, down primarily due to a shift in product mix as a result of higher sales volume of lower margin products and higher product costs for a component that has been declared end of life by the supplier.

In the first quarter of 2016 and 2015, gross margin included stock-based compensation expense and related social taxes of $0.1 million and $0.2 million, respectively.

***Sales and marketing***
Sales and marketing expenses increased by $2.5 million, or 18.9%, in the first quarter of 2016 compared to the same period of 2015. This increase was primarily driven by the targeted investments in resources to support our go-to-market strategy and costs added as a result of the acquisitions undertaken in 2015, partially offset by the favorable impact of foreign exchange.

Sales and marketing expenses included stock-based compensation expense and related social taxes of $0.4 million and $0.6 million in the first quarter of 2016 and 2015, respectively.

***Research and development***
Research and development ("R&D") expenses decreased by $0.3 million, or 1.6%, in the first quarter of 2016 compared to the same period of 2015. This decrease in R&D expenses was primarily related to lower acquisition related amortization costs and the favorable impact of foreign exchange, partially offset by higher product certification costs.

In the first quarter of both 2016 and 2015, R&D expenses included stock-based compensation expense and related social taxes of $0.4 million. R&D expenses also included acquisition amortization of $0.1 million in the first quarter of 2016, compared to $0.9 million in the same period of 2015.

***Administration***
Administration expenses decreased by $0.9 million, or 8.6%, in the first quarter of 2016 compared to the same period of 2015 primarily due to lower professional fees, recovery of $0.4 million of legal and other costs associated with the above-noted legal settlement with a supplier and the favorable impact of foreign exchange. This decrease was partially offset by costs added as a result of recent acquisitions.

Administration expenses included stock-based compensation expense and related social taxes of $1.1 million and $1.3 million in the first quarter of 2016 and 2015, respectively.

***Acquisition-related and integration***
In the first quarter of 2016, we incurred acquisition-related and integration costs of $0.4 million, compared to $1.1 million for the same period of 2015 due to the lower level of acquisition and integration activities in the first quarter of 2016.

***Amortization***
Amortization expense increased by $1.2 million in the first quarter of 2016 compared to the same period of 2015. This increase reflects a change in our estimate of useful life of some of our assets and higher acquisition related amortization in 2016 driven by recent acquisitions. Amortization expense for the first quarter of 2016 included $2.4 million of acquisition amortization, compared to $1.8 million in the same period of 2015.

***Foreign exchange gain (loss)***
Foreign exchange gain was $2.3 million for the first quarter of 2016, compared to a foreign exchange loss of $11.9 million in the same period of 2015. The improvement reflects the impact of an unrealized loss of $6.2 million on revaluation of a Euro denominated loan (the "Intercompany Loan") to a self-sustaining subsidiary in the first quarter of 2015, and overall weakness in US dollar exchange rates in the first quarter of 2016. In the second quarter of 2015, we classified the Intercompany Loan as a net investment in a foreign subsidiary. This resulted in the foreign exchange gain or loss from revaluation of the Intercompany Loan being recognized in other comprehensive income on a prospective basis. Prior to the second quarter of 2015, we had the intention to repay the Intercompany Loan and, as such, the foreign exchange fluctuations from the revaluation of the Intercompany Loan were recognized through foreign exchange gain or loss as part of net earnings.

***Income tax expense***
In both the first quarter of 2016 and 2015, income tax expense was $0.3 million. Despite the higher earnings in the first quarter of 2016, income tax expense remained comparable between the two periods due to a shift of earnings between jurisdictions and a lower release of FASB Interpretation No. 48 provisions that became statue barred in 2016.

***Net earnings (loss)***
In the first quarter of 2016, net earnings were $0.7 million compared to a net loss of $9.7 million in the same period of 2015. The improvement was primarily a result of a foreign exchange gain in 2016 compared to a foreign exchange loss in 2015.

Net earnings in the first quarter of 2016 included stock-based compensation expense and related social taxes of $2.0 million and acquisition amortization of $2.5 million. Net loss in the first quarter of 2015 included stock-based compensation expense and related social taxes of $2.6 million and acquisition amortization of $2.7 million.

## SEGMENTED INFORMATION

### OEM Solutions

| *(in thousands of U.S. dollars, except where otherwise stated)* | **Q1, 2016** | **Q1, 2015** | *% change* |
|---|---|---|---|
| Revenue | 120,874 | 133,040 | *(9.1)%* |
| Cost of goods sold | 86,584 | 93,079 | *(7.0)%* |
| Gross margin | $ 34,290 | $ 39,961 | *(14.2)%* |
| Gross margin % | *28.4%* | *30.0%* | |

In the first quarter of 2016, OEM Solutions revenue decreased by $12.2 million, or 9.1%, compared to the same period of 2015. This decrease was primarily due to lower revenues from certain field services, enterprise networking, transportation and mobile computing customers, partially offset by increases in revenue from automotive, home security and energy customers.

Gross margin for OEM Solutions decreased by $5.7 million, or 14.2%, in the first quarter of 2016 compared to the same period of 2015. The decrease in gross margin reflects the impact of lower revenues combined with unfavorable product mix reflecting higher sales of lower margin products and higher product costs for a component that was declared end of life by the supplier.

**Enterprise Solutions**

| *(in thousands of U.S. dollars, except where otherwise stated)* | **Q1, 2016** | **Q1, 2015** | *% change* |
|---|---|---|---|
| Revenue | 14,995 | 13,758 | *9.0 %* |
| Cost of goods sold | 5,243 | 6,296 | *(16.7)%* |
| Gross margin | $ 9,752 | $ 7,462 | *30.7 %* |
| Gross margin % | *65.0%* | *54.2%* | |

In the first quarter of 2016, Enterprise Solutions revenue increased by $1.2 million, or 9.0%, compared to the same period of 2015. The increase was driven by the introduction of our new industrial gateway product.

Gross margin for Enterprise Solutions increased by $2.3 million, or 30.7%, in the first quarter of 2016 compared to the same period of 2015. This increase in gross margin reflects a recovery of $1.9 million from a legal settlement with a supplier related to a quality issue with a component used in some of our gateway products. Excluding this recovery, gross margin percentage for the first quarter of 2016 would have been 52.4%, a decrease of 1.8% compared to the same period of 2015 as a result of unfavorable product mix due to lower sales of higher margin AirLink products.

**Cloud and Connectivity Services**

| *(in thousands of U.S. dollars, except where otherwise stated)* | **Q1, 2016** | **Q1, 2015** | *% change* |
|---|---|---|---|
| Revenue | 6,928 | 3,608 | *92.0%* |
| Cost of goods sold | 4,155 | 2,195 | *89.3%* |
| Gross margin | $ 2,773 | $ 1,413 | *96.2%* |
| Gross margin % | *40.0%* | *39.2%* | |

In the first quarter of 2016, Cloud and Connectivity Services revenue increased by $3.3 million, or 92.0%, compared to the same period of 2015 mainly as a result of the inclusion of revenues for Accel and MobiquiThings, which were acquired after the first quarter of 2015. The increase in gross margin percentage for the first quarter of 2016 was nominal compared to the same period of 2015.

## SUMMARY OF QUARTERLY RESULTS OF OPERATIONS

The following table highlights selected consolidated financial information for each of the eight most recent quarters that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements for the year ended December 31, 2015. The selected consolidated financial information presented below reflects all adjustments, consisting primarily of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of results for the interim periods. These results are not necessarily indicative of results for any future period. You should not rely on these results to predict future performance.

| *(in thousands of U.S. dollars, except where otherwise stated)* | **2016** | | **2015** | | | | **2014** | |
|---|---|---|---|---|---|---|---|---|
| | **Q1** | **Q4** | **Q3** | **Q2** | **Q1** | **Q4** | **Q3** | **Q2** |
| **Revenue** | $ 142,797 | $ 144,846 | $ 154,581 | $ 157,965 | $ 150,406 | $ 149,078 | $ 143,270 | $ 135,012 |
| Cost of goods sold | 95,982 | 99,783 | 105,572 | 107,018 | 101,570 | 99,072 | 96,215 | 91,691 |
| **Gross margin** | 46,815 | 45,063 | 49,009 | 50,947 | 48,836 | 50,006 | 47,055 | 43,321 |
| *Gross margin %* | *32.8%* | *31.1%* | *31.7%* | *32.3%* | *32.5%* | *33.5%* | *32.8%* | *32.1%* |
| **Expenses** | | | | | | | | |
| Sales and marketing | 15,629 | 14,315 | 13,856 | 12,828 | 13,145 | 12,682 | 12,633 | 12,795 |
| Research and development | 18,778 | 18,539 | 17,987 | 18,402 | 19,092 | 21,012 | 19,887 | 20,021 |
| Administration | 9,527 | 9,393 | 9,416 | 11,092 | 10,420 | 9,008 | 9,006 | 9,680 |
| Restructuring | — | 201 | 39 | 711 | — | 540 | 71 | 987 |
| Acquisition-related and integration | 374 | (616) | 443 | 1,015 | 1,103 | 1,273 | 356 | 71 |
| Impairment | — | — | — | — | — | — | — | 3,756 |
| Amortization | 3,762 | 3,905 | 3,066 | 2,787 | 2,602 | 2,092 | 2,159 | 2,275 |
| | 48,070 | 45,737 | 44,807 | 46,835 | 46,362 | 46,607 | 44,112 | 49,585 |
| **Operating earnings (loss)** | (1,255) | (674) | 4,202 | 4,112 | 2,474 | 3,399 | 2,943 | (6,264) |
| Foreign exchange gain (loss) | 2,292 | (1,398) | (102) | 1,550 | (11,893) | (3,852) | (8,039) | (891) |
| Other income (expense) | 26 | (16) | 13 | 13 | 105 | 246 | 317 | 265 |
| Earnings (loss) before income tax | 1,063 | (2,088) | 4,113 | 5,675 | (9,314) | (207) | (4,779) | (6,890) |
| Income tax expense (recovery) | 345 | (1,705) | 827 | 1,599 | 339 | 1,494 | (1,875) | 1,353 |
| **Net earnings (loss)** | $ 718 | $ (383) | $ 3,286 | $ 4,076 | $ (9,653) | $ (1,701) | $ (2,904) | $ (8,243) |
| **Earnings (loss) per share - in dollars** | | | | | | | | |
| Basic | $ 0.02 | $ (0.01) | $ 0.10 | $ 0.13 | $ (0.30) | $ (0.05) | $ (0.09) | $ (0.26) |
| Diluted | $ 0.02 | $ (0.01) | $ 0.10 | $ 0.12 | $ (0.30) | $ (0.05) | $ (0.09) | $ (0.26) |
| **Weighted average number of shares (in thousands)** | | | | | | | | |
| Basic | 32,156 | 32,282 | 32,231 | 32,166 | 31,983 | 31,759 | 31,582 | 31,466 |
| Diluted | 32,500 | 32,282 | 32,823 | 32,915 | 31,983 | 31,759 | 31,582 | 31,466 |

See "Overview" and "Consolidated Results of Operations" in this MD&A, for details of our results for the first quarter of 2016 compared to results for the first quarter of 2015.

Our quarterly results may fluctuate from quarter to quarter, driven by variation in sales volume, product mix, the combination of variable and fixed operating expenses and other factors.

# LIQUIDITY AND CAPITAL RESOURCES

## Selected Consolidated Financial Information

| *(in thousands of U.S. dollars)* | Three months ended March 31 2016 | 2015 | Change |
|---|---|---|---|
| Cash flows provided (used) before changes in non-cash working capital: | $ 8,325 | $ 3,965 | $ 4,360 |
| Changes in non-cash working capital | | | |
| Accounts receivable | (434) | (22,277) | 21,843 |
| Inventories | 7,080 | (2,594) | 9,674 |
| Prepaid expense and other | 771 | 1,641 | (870) |
| Accounts payable and accrued liabilities | (7,868) | (3,143) | (4,725) |
| Deferred revenue and credits | (274) | 458 | (732) |
| | (725) | (25,915) | 25,190 |
| **Cash flows provided by (used in):** | | | |
| **Operating activities** | **7,600** | **(21,950)** | **29,550** |
| | | | |
| **Investing activities** | **(3,135)** | **(90,593)** | **87,458** |
| Acquisitions | — | (88,449) | 88,449 |
| Capital expenditures and increase in intangible assets | (3,138) | (2,144) | (994) |
| | | | |
| **Financing activities** | **(10,245)** | **1,202** | **(11,447)** |
| Issue of common shares | 528 | 2,145 | (1,617) |
| Repurchase of common shares for cancellation | (6,144) | — | (6,144) |
| Purchase of treasury shares for RSU distribution | (4,214) | (797) | (3,417) |
| Taxes paid related to net settlement of equity awards | (352) | (1,742) | 1,390 |
| Excess tax benefits from equity awards | — | 1,670 | (1,670) |
| | | | |
| **Free Cash Flow** [(1)] | $ 4,462 | $ (24,094) | 28,556 |

*(1) See section titled "Non-GAAP Financial Measures."*

***Operating Activities***

In the first quarter of 2016, cash provided by operating activities increased by $29.6 million compared to the same period in 2015. This increase was primarily due to lower working capital requirements.

***Investing Activities***

In the first quarter of 2016, cash used in investing activities was $87.5 million lower compared to the same period of 2015. Higher cash requirements in 2015 were driven by the acquisition of Maingate in the first quarter of 2015.

Capital expenditures utilized $3.1 million and were primarily for production and tooling equipment, research and development equipment, leasehold improvements, computer equipment and software, while cash used for intangible assets was driven primarily by patent registration costs.

***Financing Activities***

Cash used for financing activities increased by $11.4 million in the first quarter of 2016, compared to the same period of 2015, primarily due to lower proceeds received from stock option exercises, repurchase of common shares under our NCIB and higher spending on purchases of common shares to satisfy obligations under our restricted share unit plan.

### *Free Cash Flow*

Our free cash flow for the first quarter of 2016 was $4.5 million compared to negative $24.1 million in the same period of 2015. The improvement was primarily a result of lower working capital requirements year-over-year. See "Non-GAAP Financial Measures".

### *Cash Requirements*

Our near-term cash requirements are primarily related to funding our operations, including inventory and other working capital items, capital expenditures, intellectual property (“IP”) licenses and other obligations discussed below. Cash may also be used to finance acquisitions of businesses in line with our long-term growth strategy. We continue to believe our cash and cash equivalents balance of $86.1 million at March 31, 2016 and cash generated from operations will be sufficient to fund our expected working capital requirements for at least the next twelve months based on current business plans. Our capital expenditures during the second quarter of 2016 are expected to be primarily for R&D equipment, production and tooling equipment, leasehold improvements, software licenses and patents. However, we cannot be certain that our actual cash requirements will not be greater than we currently expect.

The following table presents the aggregate amount of future cash outflows for contractual obligations as of March 31, 2016.

| *Payments due by period (in thousands of U.S. dollars)* | **Total** | **2016** | **2017** | **2018** | **2019** | **2020** | **Thereafter** |
|---|---|---|---|---|---|---|---|
| Operating lease obligations | $ 25,798 | $ 3,645 | $ 3,488 | $ 3,709 | $ 3,339 | $ 3,329 | $ 8,288 |
| Capital lease obligations | 565 | 183 | 179 | 127 | 70 | 6 | — |
| Purchase obligations (1) | 118,825 | 118,825 | — | — | — | — | — |
| Acquisition contingent consideration (2) | 532 | 16 | 204 | 312 | — | — | — |
| Other long-term liabilities (3) | 45,815 | 470 | — | 229 | — | — | — |
| **Total** | **$191,535** | **$123,139** | **$ 3,871** | **$ 4,377** | **$ 3,409** | **$ 3,335** | **$ 8,288** |

*(1) Purchase obligations represent obligations with certain contract manufacturers and suppliers to buy a minimum amount of designated products between April 2016 and June 2016. In certain of these arrangements, we may be required to acquire and pay for such products up to the prescribed minimum or forecasted purchases.*

*(2) Acquisition contingent consideration relates to expected payments to be made under the performance-based earnout formulas for the MobiquiThings acquisition. The obligation include the portion recognized as purchase price consideration and do not reflect the effect of discount rates.*

*(3) Other long-term liabilities include the long-term portions of accrued royalties which because of their contingent nature are not directly attributable to any specific period.*

### *Normal Course Issuer Bid*

On February 4, 2016, we received approval from the TSX of our Notice of Intention to make a Normal Course Issuer Bid. Pursuant to the NCIB, we may purchase for cancellation up to 3,149,199 of our common shares, representing 10% of the public float as of the date of the announcement. The NCIB commenced on February 9, 2016 and will terminate on the earlier of: (i) February 8, 2017, (ii) the date the Company completes its purchases pursuant to the notice of intention filed with the TSX, or (iii) the date of notice by the Company of termination of the NCIB.

On February 29, 2016, we established an automatic share purchase plan in connection with the previously announced NCIB with a designated broker to allow for the purchase of Common Shares under the NCIB at times when the Company would ordinarily not be permitted to purchase shares due to regulatory restrictions.

As of May 6, 2016, we had purchased 553,932 common shares at an average price of $11.20 per share.

### *Capital Resources*

The source of funds for our future capital expenditures and commitments includes cash, accounts receivables, cash from operations and borrowings under our credit facilities.

| | 2016 | 2015 | | | |
|---|---|---|---|---|---|
| *(in thousands of U.S. dollars)* | **Mar 31** | **Dec 31** | **Sep 30** | **Jun 30** | **Mar 31** |
| Cash and cash equivalents | $ 86,120 | $ 93,936 | $ 88,369 | $ 96,474 | $ 99,555 |
| Unused credit facilities | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| **Total** | **$ 96,120** | **$ 103,936** | **$ 98,369** | **$ 106,474** | **$ 109,555** |

### *Credit Facilities*

We have a $10 million revolving term credit facility (the "Revolving Facility") with Toronto Dominion Bank and the Canadian Imperial Bank of Commerce expiring on January 31, 2017. The Revolving Facility is for working capital requirements, is secured by a pledge against all of our assets and is subject to borrowing base limitations. As at March 31, 2016, there were no borrowings under the Revolving Facility.

### *Letters of Credit*

We have access to a revolving standby letter of credit facility of $10 million from Toronto Dominion Bank. The credit facility is used for the issuance of letters of credit for project related performance guarantees and is guaranteed by Export Development Canada. As of March 31, 2016, there were no letters of credit issued against the revolving standby letter of credit facility.

## NON-GAAP FINANCIAL MEASURES

Our consolidated financial statements are prepared in accordance with U.S. GAAP on a basis consistent for all periods presented. In addition to results reported in accordance with U.S. GAAP, we use non-GAAP financial measures as supplemental indicators of our operating performance. The term “non-GAAP financial measure” is used to refer to a numerical measure of a company’s historical or future financial performance, financial position or cash flows that: (i) excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with U.S. GAAP in a company’s statement of earnings, balance sheet or statement of cash flows; or (ii) includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented.

Our non-GAAP financial measures include non-GAAP gross margin, non-GAAP earnings (loss) from operations, Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization), non-GAAP net earnings (loss), non-GAAP diluted earnings (loss) per share and free cash flow. Non-GAAP results exclude the impact of stock-based compensation expense and related social taxes, amortization related to acquisitions, acquisition and disposition costs, restructuring costs, integration costs, impairment, foreign exchange gains or losses on translation of certain balance sheet accounts and certain tax adjustments. We disclose non-GAAP financial measures as we believe they provide useful information to evaluate our operating results, for financial and operational decision-making purposes and to assist in comparisons from one period to another. Readers are cautioned that non-GAAP financial measures do not have any standardized meaning prescribed by U.S. GAAP and therefore may not be comparable to similar measures presented by other companies. We strongly encourage investors to review our financial information in its entirety and not to rely on a single financial measure. We therefore believe that despite these limitations, it is appropriate to supplement the U.S. GAAP measures with certain non-GAAP measures defined in this section of our MD&A.

Adjusted EBITDA is defined as earnings (loss) from operations plus stock-based compensation expense and related social taxes, acquisition-related and integration costs, restructuring costs, impairment and amortization. Adjusted EBITDA can also be calculated as non-GAAP earnings (loss) from operations plus amortization excluding acquisition related amortization. We believe that Adjusted EBITDA is an important indicator of our operating performance and our ability to generate liquidity through operating cash flow that will fund future working capital needs and fund future capital expenditures. Adjusted EBITDA is also used by investors and analysts for valuation purposes. Free cash flow is defined as cash flow from operating activities less capital expenditures and increases in intangibles. We believe that disclosure of free cash flow provides a good measure of our ability to generate cash that can be used for expansion of the business.

The following table provides a reconciliation of the non-GAAP financial measures to our U.S. GAAP results:

| | **2016** | | **2015** | | | |
|---|---|---|---|---|---|---|
| *(in thousands of U.S. dollars, except where otherwise stated)* | **Q1** | **Total** | **Q4** | **Q3** | **Q2** | **Q1** |
| **Gross margin - GAAP** | $ 46,815 | $ 193,855 | $ 45,063 | $ 49,009 | $ 50,947 | $ 48,836 |
| Stock-based compensation and related social taxes | 106 | 647 | 106 | 146 | 147 | 248 |
| **Gross margin - Non-GAAP** | $ 46,921 | $ 194,502 | $ 45,169 | $ 49,155 | $ 51,094 | $ 49,084 |
| **Earnings (loss) from operations - GAAP** | $ (1,255) | $ 10,114 | $ (674) | $ 4,202 | $ 4,112 | $ 2,474 |
| Stock-based compensation and related social taxes | 1,993 | 9,685 | 1,670 | 2,557 | 2,858 | 2,600 |
| Acquisition-related and integration | 374 | 1,945 | (616) | 443 | 1,015 | 1,103 |
| Restructuring | — | 951 | 201 | 39 | 711 | — |
| Acquisition related amortization | 2,530 | 9,666 | 2,734 | 2,234 | 2,029 | 2,669 |
| **Earnings from operations - Non-GAAP** | $ 3,642 | $ 32,361 | $ 3,315 | $ 9,475 | $ 10,725 | $ 8,846 |
| Amortization (excluding acquisition related amortization) | 3,038 | 10,550 | 3,030 | 2,635 | 2,423 | 2,462 |
| **Adjusted EBITDA** | $ 6,680 | $ 42,911 | $ 6,345 | $ 12,110 | $ 13,148 | $ 11,308 |
| **Net earnings (loss) - GAAP** | $ 718 | $ (2,674) | $ (383) | $ 3,286 | $ 4,076 | $ (9,653) |
| Stock-based compensation and related social taxes, restructuring, impairment, acquisition-related, integration, and acquisition related amortization, net of tax | 4,893 | 22,063 | 4,016 | 5,232 | 6,443 | 6,372 |
| Foreign exchange loss (gain) | (2,292) | 11,596 | 1,393 | (51) | (1,581) | 11,835 |
| Income tax adjustments | (698) | (5,211) | (2,490) | (1,048) | (301) | (1,372) |
| **Net earnings - Non-GAAP** | $ 2,621 | $ 25,774 | $ 2,536 | $ 7,419 | $ 8,637 | $ 7,182 |
| **Diluted net earnings (loss) per share** | | | | | | |
| GAAP - (in dollars) | $ 0.02 | $ (0.08) | $ (0.01) | $ 0.10 | $ 0.12 | $ (0.30) |
| Non-GAAP - (in dollars) | $ 0.08 | $ 0.80 | $ 0.08 | $ 0.23 | $ 0.26 | $ 0.22 |

The following table provides a reconciliation of free cash flow:

| | Three months ended March 31 | |
|---|---|---|
| *(in thousands of U.S. dollars)* | **2016** | **2015** |
| Cash flows from operating activities | $ 7,600 | $ (21,950) |
| Capital expenditures and increase in intangible assets | (3,138) | (2,144) |
| Free Cash Flow | $ 4,462 | $ (24,094) |

## OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements during the three months ended March 31, 2016 and 2015.

## TRANSACTIONS BETWEEN RELATED PARTIES

We did not undertake any transactions with related parties during the three months ended March 31, 2016 and 2015.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We prepare our consolidated financial statements in accordance with U.S. GAAP and we make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosure of contingent liabilities. On an ongoing basis, we evaluate our estimates and judgments, including those related to business combinations, revenue recognition, adequacy of allowance for doubtful accounts, adequacy of inventory reserve, valuation of goodwill and intangible assets, income taxes, useful lives of assets, adequacy of warranty reserve, royalty obligations, contingencies, stock-based compensation, and fair value measurement. We base our estimates on historical experience, anticipated results and trends and on various other assumptions that we believe are reasonable under the circumstances. By their nature, estimates are subject to an inherent degree of uncertainty. Actual results could differ from our estimates.

The discussion on the accounting policies and estimates that require management's most difficult, subjective and complex judgments, and which are subject to a degree of measurement uncertainty, can be found in our 2015 annual MD&A, a copy of which is available on SEDAR at www.sedar.com and the SEC's website at www.sec.gov. There were no significant changes in our critical accounting policies in the first quarter of 2016.

## OUTSTANDING SHARE DATA

As of the date of this MD&A, the Company had 31,905,784 common shares issued and outstanding, 1,486,381 stock options exercisable into common shares and 418,521 restricted treasury share units outstanding.

## IMPACT OF ACCOUNTING PRONOUNCEMENTS AFFECTING CURRENT PERIOD

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*. The update simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax assets and liabilities into current and non-current amounts in the consolidated balance sheets. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented. Early adoption is permitted. We have early adopted this standard in the first quarter of 2016 on a retrospective basis. As a result of the adoption, we reclassified $4.7 million current deferred income tax assets to non-current deferred income tax assets on the balance sheet at December 31, 2015. Our adoption of the standard had no impact on our statements of operations and comprehensive earnings (loss) or statements of cash flows.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*. The update provides that an entity should measure inventory within the scope of the standard at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The standard is effective for interim and annual periods ending after December 15, 2016 and applied prospectively. Early application is permitted. We early adopted this standard in the first quarter of 2016 and there was no material impact to our financial statements and business.

In April 2015, the FASB issued ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. The update provides accounting guidance for customers with cloud computing arrangements. The standard is effective for interim and annual periods ending after December 15, 2015. We adopted this standard as of January 1, 2016 on a prospective basis and there was no material impact to our financial statements and business.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The update provides guidance about management's responsibility in evaluating whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. We early adopted this standard in the first quarter of 2016 and there was no impact to our disclosures.

## IMPACT OF ACCOUNTING PRONOUNCEMENTS AFFECTING FUTURE PERIODS

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASC 606). The update is intended to clarify the principles of recognizing revenue, and to develop a common revenue standard for U.S. GAAP and IFRS that would remove inconsistencies in revenue requirements, leading to improved comparability of revenue recognition practices across entities and industries. ASC 606 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual and interim financial statements for fiscal years beginning after December 15, 2017. Early application is permitted in fiscal years beginning after December 15, 2016. We are in the process of evaluating the impact of this update and cannot reasonably estimate the effect on our financial statements at this time.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This update is to improve transparency and comparability among organizations by requiring lessees to recognize right-of-use assets and lease liabilities on the balance sheet and requiring additional disclosure about leasing arrangements. The standard is effective for fiscal years beginning after December 15, 2018. Early application is permitted. We are in the process of evaluating the impact of this update and cannot reasonably estimate the effect on our financial statements and business at this time.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. This update affects several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The standard is effective for interim and annual periods beginning after December 15, 2016. Early application is permitted. We are in the process of evaluating the impact of this update and cannot reasonably estimate the effect on our financial statements and business at this time.

## INTERNAL CONTROL OVER FINANCIAL REPORTING

We did not make any significant changes in our internal control over financial reporting during the three months ended March 31, 2016 that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting. The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of certain events occurring. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

## LEGAL PROCEEDINGS

In January 2012, a patent holding company, M2M Solutions LLC ("M2M"), filed a patent infringement lawsuit in the United States District Court for the District of Delaware asserting patent infringement by us and our competitors. The lawsuit makes certain allegations concerning the AirPrime embedded wireless module products, related AirLink products and related services sold by us for use in M2M communication applications. The claim construction order has determined one of the two patents-in-suit to be indefinite and therefore invalid. The lawsuit was dismissed with prejudice in April 2016. In August 2014, M2M filed a second patent infringement lawsuit against us in the same court with respect to a recently issued patent held by M2M, which patent is a continuation of one of the patents-in-suit in the original lawsuit filed against us by M2M.  The lawsuit has been administratively closed pending the result of several *Inter Partes* Review proceedings filed by us and the other defendants with the United States Patent and Trial Appeal Board (PTAB) in August and October of 2015. The PTAB has instituted proceedings in respect of two of these filings, including ours, and has yet to make a determination on a second filing made by us in April 2016.

Although there can be no assurance that an unfavorable outcome would not have a material adverse effect on our operating results, liquidity or financial position, we believe the claims made in the foregoing legal proceedings are without merit and intend to defend ourselves and our products vigorously in all cases.

***IP Indemnification Claims***

We have been notified by one or more of our customers in each of the following matters that we may have an obligation to indemnify them in respect of the products we supply to them:

In June 2015, Adaptix filed amended complaints in the Eastern District of Texas against two carriers asserting patent infringement against them in relation to certain cellular communication devices sold by the carriers for use on their 4G LTE wireless networks, which products include certain products which may utilize modules sold to the original equipment manufacturer by us and certain AirCard products sold to the carriers by us prior to the transfer of the AirCard business to Netgear. The two cases have been consolidated and the claim construction hearing is scheduled for July 2016, with the first trial for the consolidated cases to occur in May 2017.

In February 2012, a patent holding company, Intellectual Ventures (comprised of Intellectual Ventures I LLC and Intellectual Ventures II LLC), filed a patent infringement lawsuit in the United States District Court for the District of Delaware against two of our customers asserting patent infringement in relation to several of our customer's products and services, including the mobile hotspots sold to them by us prior to the transfer of the AirCard business to Netgear. The lawsuit was split into several separate lawsuits and amended complaints were filed in October 2013. We are currently intervening in two of the cases in defense of our products with respect to one patents-in-suit alleged to relate to Wi-Fi standards. The lawsuits are in the discovery stage. A claim construction order was issued in March 2015.

Although there can be no assurance that an unfavorable outcome would not have a material adverse effect on our operating results, liquidity or financial position, we believe the claims made in the foregoing legal proceedings are without merit and intend to defend ourselves and our products vigorously in all cases.

We are engaged in certain other claims, legal actions and arbitration matters, all in the ordinary course of business, and believe that the ultimate outcome of these claims, legal actions and arbitration matters will not have a material adverse effect on our operating results, liquidity or financial position.

## RISKS AND UNCERTAINTIES

*Our business is subject to significant risks and uncertainties and past performance is no guarantee of future performance. The risks and uncertainties described below are those which we currently believe to be material, and do not represent all of the risks that we face. Additional risks and uncertainties, not presently known to us, may become material in the future or those risks that we currently believe to be immaterial may become material in the future. If any of the following risks actually occur, alone or in combination, our business, financial condition and results of operations, as well as the market price of our common shares, could be materially adversely affected.*

***Competition from new or established IoT, cloud services and wireless services companies or from those with greater resources may prevent us from increasing or maintaining our market share and could result in price reductions and/or loss of business with resulting reduced revenues and gross margins.***

The market for IoT products and services is highly competitive and rapidly evolving. We have experienced and expect to continue to experience intense competition. More established and larger companies with strong brands and greater financial, technical and marketing resources or companies with different business models sell products and services that compete with ours and we expect this competition to intensify. Business combinations or strategic alliances by our competitors could weaken our competitive position. We may also introduce new products or services that will put us in direct competition with major new competitors. Existing or future competitors may be able to respond more quickly to technological developments and changes and introduce new products before we do or may independently develop and patent technologies and products that are superior to ours or achieve greater acceptance due to factors such as more favorable pricing, more desired or better quality features or more efficient sales channels. If we are unable to compete effectively with our competitors' pricing strategies, technological advances and other initiatives, we may lose customer orders and market share and we may need to reduce the price of our products, resulting in reduced revenue and reduced gross margins. In addition, new market entrants or alliances between customers and suppliers could emerge to disrupt the markets in which we operate through disintermediation of our modules business or other means. There can be no assurance that we will be able to compete successfully and withstand competitive pressures.

***Our financial results are subject to fluctuations that could have a material adverse effect on our business and that could affect the market price of our common shares.***

Our revenue, gross margin, operating earnings and net earnings may vary from quarter-to-quarter and could be significantly impacted by a number of factors, including but not limited to the following:

- price and product competition which may result in lower selling prices for some of our products or lost market share;
- price and demand pressure on our products from our customers as they experience pressure in their businesses;
- demand fluctuation based on the success of our customers in selling their products and solutions which incorporate our wireless products and software;
- development and timing of the introduction of our new products including the timing of sales orders, OEM and distributor customer sell through and design win cycles in our embedded wireless module business;

- transition periods associated with the migration to new technologies;
- potential commoditization and saturation in certain markets;
- our ability to accurately forecast demand in order to properly align the purchase of components and the appropriate level of manufacturing capability;
- product mix of our sales (our products have different gross margins — for example the embedded wireless module product line has lower gross margins than the higher margin rugged mobile product line);
- possible delays or shortages in component supplies;
- possible delays in the manufacture or shipment of current or new products;
- possible product quality or factory yield issues that may increase our cost of goods sold;
- concentration in our customer base;
- seasonality in demand;
- amount of inventory held by our channel partners;
- possible fluctuations in certain foreign currencies relative to the U.S. dollar that may affect foreign denominated revenue, cost of goods sold and operating expenses;
- impairment of our goodwill or intangible assets which may result in a significant charge to earnings in the period in which an impairment is determined;
- achievement of milestones related to our professional services contracts; and
- operating expenses that are generally fixed in the short-term and therefore difficult to rapidly adjust to different levels of business.

Any of the factors listed above could cause significant variations in our revenues, gross margin and earnings in any given quarter. Therefore, our quarterly results are not necessarily indicative of our overall business, results of operations, and financial condition.

Quarterly variations in operating results or any of the other factors listed above, changes in financial estimates by securities analysts, or other events or factors may result in wide fluctuations in the market price of our common shares. Broad market fluctuations or any failure of our operating results in a particular quarter to meet market expectations may adversely affect the market price of our common shares.

***Acquisitions and divestitures of businesses or technologies may result in disruptions to our business or may not achieve the anticipated benefits.***

The growth of our Company through the successful acquisition and integration of complementary businesses is an important component of our business strategy. For example, on January 16, 2015 we completed the acquisition of Maingate, on June 18, 2015 we completed the acquisition of substantially all of the assets of Accel and on September 2, 2015 we completed the acquisition of all of the outstanding shares of MobiquiThings. We continue to seek opportunities to acquire or invest in businesses, products and technologies that expand, complement or otherwise relate to our business. Any acquisitions, investments or business combinations by us may be accompanied by risks commonly encountered including, but not limited to, the following:

- exposure to unknown liabilities or risks of acquired companies, including unknown litigation related to acts or omissions of an acquired company and/or its directors and officers prior to the acquisition, deficiencies in disclosure controls and procedures of the acquired company and deficiencies in internal controls over financial reporting of the acquired company;
- higher than anticipated acquisition and integration costs and expenses;
- the difficulty and expense of integrating the operations and personnel of the acquired companies;
- use of cash to support the operations of an acquired business;
- increased foreign exchange translation risk depending on the currency denomination of the revenue and expenses of the acquired business;
- disruption of, and demands on, our ongoing business as a result of integration activities including diversion of management's time and attention from the ongoing business;
- failure to maximize our financial and strategic position by the successful incorporation of acquired technology;

- the inability to implement uniform standards, disclosure controls and procedures, internal controls over financial reporting and other procedures and policies in a timely manner;
- the potential loss of key employees and customers;
- decrease in our share price if the market perceives that an acquisition does not fit our strategy, the price paid is excessive in light of other similar transactions or that the terms of the acquisition are not favorable to our earnings growth;
- litigation and settlement costs if shareholders bring lawsuits triggered by acquisition or divestiture activities;
- decrease in our share price, if, as a result of our acquisition strategy or growth, we decide to raise additional capital through an offering of securities; and
- dilution to our shareholders if the purchase price is paid in common shares or securities convertible into common shares.

In addition, geographic distances and cultural differences may make integration of businesses more difficult. We may not be successful in overcoming these risks or any other problems encountered in connection with any acquisitions. If realized, these risks could reduce shareholder value.

As business circumstances dictate,we may also decide to divest assets, technologies or businesses. For example, on April 2, 2013 we completed the sale of our AirCard business to NetGear, Inc. In a divestiture, we may not be successful in identifying or managing the risks commonly encountered, including: higher than anticipated costs; disruption of, and demands on, our ongoing business; diversion of management's time and attention; adverse effects on existing business relationships with suppliers and customers and employee issues. We may not be successful in overcoming these risks or any other problems encountered in connection with a divestiture of assets, technologies or businesses which, if realized, could reduce shareholder value.

In addition, we may be unsuccessful at bringing to conclusion proposed transactions. Negotiations and closing activities of transactions are complex functions subject to numerous unforeseen events that may impede the speed at which a transaction is closed or even prevent a transaction from closing. Failure to conclude transactions in an efficient manner may prevent us from advancing other opportunities or introduce unanticipated transition costs.

***The loss of any of our significant customers could adversely affect our revenue and profitability, and therefore shareholder value.***

We sell our products to OEM's, enterprises, distributors, resellers and network operators, and we are occasionally party to sales agreements with customers comprising a significant portion of our revenue. Accordingly, our business and future success depends on our ability to maintain and build on existing relationships and develop new relationships with OEMs, enterprises, distributors, resellers and network operators. If certain of our significant customers, for any reason, discontinues their relationship with us or reduces or postpones current or expected purchase orders for products, or suffers from business loss, our revenues and profitability could decline materially.

In addition, our current customers purchase our products under purchase orders. Our customers have no contractual obligation to continue to purchase our products following our fulfillment of current purchase orders and if they do not continue to make purchases, our revenue and our profitability could decline materially.

***Cyber attacks or other breaches of information technology security could have an adverse impact on our business.***

We rely on certain internal processes, infrastructure and information technology systems to efficiently operate our business in a secure manner, including infrastructure and systems operated by third parties. The inability to continue to enhance or prevent a failure of these internal processes, infrastructure or information technology systems could negatively impact our ability to operate our business. In particular, our cloud and connectivity services depend on very high levels of network reliability and availability in order to provide our customers with the ability to continuously monitor and receive data from their devices.

Cyber attacks or other breaches of network or IT systems security may cause disruptions to our operations including the ability to provide device management and other cloud-based services to our customers. A major security breach could result in the loss of critical data, theft of intellectual property, disclosure of confidential information, customer claims and litigation, reduced revenues due to business interruption, costs associated with remediation of infrastructure and systems, class action and derivative action lawsuits and damage to our reputation. Furthermore, the prevalence and sophistication of these types of threats are increasing and our security measures may not be sufficient to prevent the damage that such threats can inflict on our assets and information. Our insurance may not be adequate to fully reimburse us for these costs and losses.

***We may be found to infringe on the intellectual property rights of others.***

The industry has many participants that own, or claim to own, proprietary intellectual property. We license technology, intellectual property and software from third parties for use in our products and may be required to license additional technology, intellectual property and software in the future. In some cases, these licenses provide us with certain pass-through rights for the use of other third party intellectual property. There is no assurance that we will be able to maintain our third party licenses or obtain new licenses when required and this inability could materially adversely affect our business and operating results and the quality and functionality of our products.

In the past we have received, and in the future we are likely to continue to receive, assertions or claims from third parties alleging that our products violate or infringe their intellectual property rights. We may be subject to these claims directly or through indemnities against these claims which we have provided to certain customers and other third parties. Our component suppliers and technology licensors do not typically indemnify us against these claims and therefore we do not have recourse against them in the event a claim is asserted against us or a customer we have indemnified. This potential liability, if realized, could materially adversely affect our operating results and financial condition.

Activity in this area by third parties, particularly those with tenuous claims, is increasing, resulting in us taking a more aggressive defensive approach, which may result in increased litigation. In the last few years, patent claims have been brought against us by third parties whose primary (or sole) business purpose is to acquire patents and other intellectual property rights, and not to manufacture and sell products and services. These entities aggressively pursue patent litigation, resulting in increased litigation costs for us. We expect that this recent development will continue for the foreseeable future. Infringement of intellectual property can be difficult to verify and litigation may be necessary to establish whether or not we have infringed the intellectual property rights of others. In many cases, these third parties are companies with substantially greater resources than us, and they may choose to pursue complex litigation to a greater degree than we could. Regardless of whether these infringement claims have merit or not, we may be subject to the following:

- we may be found to be liable for potentially substantial damages, liabilities and litigation costs, including attorneys' fees;
- we may be prohibited from further use of intellectual property as a result of an injunction and may be required to cease selling our products that are subject to the claim;
- we may have to license third party intellectual property, incurring royalty fees that may or may not be on commercially reasonable terms; in addition, there is no assurance that we will be able to successfully negotiate and obtain such a license from the third party;
- we may have to develop a non-infringing alternative, which could be costly and delay or result in the loss of sales; in addition, there is no assurance that we will be able to develop such a non-infringing alternative;
- management attention and resources may be diverted;

- our relationships with customers may be adversely affected; and
- we may be required to indemnify our customers for certain costs and damages they incur in such a claim.

In addition to potentially being found to be liable for substantial damages in the event of an unfavorable outcome in such a claim and our inability to either obtain a license from the third party on commercial terms or develop a non-infringing alternative, our business, operating results and financial condition may be materially adversely affected and we may have to cease the sale of certain products and restructure our business.

***Misappropriation of our intellectual property could place us at a competitive disadvantage***.

Our intellectual property is important to our success. We rely on a combination of patent protection, copyrights, trademarks, trade secrets, licenses, non-disclosure agreements and other contractual agreements to protect our intellectual property. Third parties may attempt to copy aspects of our products and technology or obtain information we regard as proprietary without our authorization. If we are unable to protect our intellectual property against unauthorized use by others it could have an adverse effect on our competitive position. Our strategies to deter misappropriation could be inadequate due to the following risks:

- non-recognition of the proprietary nature or inadequate protection of our methodologies in the United States, Canada, France or other foreign countries;
- undetected misappropriation of our intellectual property;
- the substantial legal and other costs of protecting and enforcing our rights in our intellectual property; and
- development of similar technologies by our competitors.

In addition, we could be required to spend significant funds and management resources could be diverted in order to defend our rights, which could disrupt our operations.

***Continued difficult or uncertain global economic conditions could adversely affect our operating results and financial condition.***

A significant portion of our business is in the United States, Europe and the Asia-Pacific region and we are particularly exposed to the downturns and current uncertainties that impact the wireless communications industry in those economies. Economic uncertainty may cause an increased level of commercial and consumer delinquencies, lack of consumer confidence resulting in delayed purchases or reduced volumes by our customers, credit tightening by lenders, increased market volatility and widespread reduction of business activity generally. To the extent that we experience further economic uncertainty, or deterioration in one of our large markets in the United States, Europe or the Asia-Pacific region, the resulting economic pressure on our customers may cause them to end their relationship with us, reduce or postpone current or expected orders for our products or services, or suffer from business failure, resulting in a material adverse impact to our revenues, profitability, cash flow and bad debt expense.

It is difficult to estimate or project the level of economic activity, including economic growth, in the markets we serve. As our budgeting and forecasting is based on the demand for our products and services, these economic uncertainties result in it being difficult for us to estimate future revenue and expenses.

***We may be unable to attract or retain key personnel which may harm our ability to compete effectively.***

Our success depends in large part on the abilities and experience of our executive officers and other key employees. The loss of key employees or deterioration in overall employee morale and engagement as a result of organizational change could have an adverse impact on our growth, operations and profitability.

Competition for highly skilled management, technical, research and development and other key employees is intense in the wireless communications industry. We may not be able to retain our current executive officers or key employees and may not be able to hire and transition in a timely manner experienced and highly qualified additional executive officers and key employees as needed to achieve our business objectives. We do not have fixed-term employment agreements with our key personnel. The loss of executive officers and key employees could disrupt our operations and our ability to compete effectively could be adversely affected.

***We may have difficulty responding to changing technology, industry standards and customer requirements, and therefore be unable to develop new products or services in a timely manner which meet the needs of our customers.***

The wireless communications industry is subject to rapid technological change, including evolving industry standards, frequent new product inventions, constant improvements in performance characteristics and short product life cycles. Our business and future success will depend, in part, on our ability to accurately predict and anticipate evolving wireless technology standards and develop products that keep pace with the continuing changes in technology, evolving industry standards and changing customer and end-user preferences and requirements. Our products embody complex technology that may not meet those standards, preferences and requirements. Our ability to design, develop and commercially launch new products depends on a number of factors including, but not limited to, the following:

- our ability to design and manufacture products or implement solutions and services at an acceptable cost and quality;
- our ability to attract and retain skilled technical employees;
- the availability of critical components from third parties;
- our ability to successfully complete the development of products in a timely manner; and
- the ability of third parties to complete and deliver on outsourced product development engagements.

A failure by us, or our suppliers, in any of these areas or a failure of new products or services to obtain commercial acceptance, could mean we receive less revenue than we anticipate and we may be unable to recover our research and development expenses.

We develop products to meet our customers' requirements. OEM customers award design wins for the integration of wide area embedded wireless modules on a platform by platform basis. Current design wins do not guarantee future design wins. If we are unable or choose not to meet our customers' needs, we may not win their future business and our revenue and profitability may decrease.

In addition, wireless communications service providers require that wireless data systems deployed on their networks comply with their own standards, which may differ from the standards of other providers. We may be unable to successfully address these developments on a timely basis or at all. Our failure to respond quickly and cost-effectively to new developments through the development of new products or enhancements to existing products could cause us to be unable to recover significant research and development expenses and reduce our revenues.

***We have been subject to certain class action lawsuits, and may in the future be subject to class action or derivative action lawsuits, which if decided against us, could require us to pay substantial judgments, settlements or other penalties.***

In addition to being subject to litigation in the ordinary course of business, in the future, we may be subject to class actions, derivative actions and other securities litigation and investigations. We expect that this type of litigation will be time consuming, expensive and will distract us from the conduct of our daily business. It is possible that we will be required to pay substantial judgments, settlements or other penalties and incur expenses that could have a material adverse effect on our operating results, liquidity or financial position. Expenses incurred in connection with these lawsuits, which include substantial fees of lawyers and other professional advisors and our obligations to indemnify officers and directors who may be parties to such actions, could materially adversely affect our reputation, operating results, liquidity or financial position. Furthermore, we do not know with certainty if any of this type of litigation and resulting expenses will be fully or even partially covered by our insurance. In addition, these lawsuits may cause our insurance premiums to increase in future periods.

***Failures of our products or services due to design flaws and errors, component quality issues, manufacturing defects or other quality issues that may result in product liability claims and product recalls could lead to unanticipated costs or otherwise harm our business.***

Our products are comprised of hardware and software that is technologically complex and we are reliant on third parties to provide important components for our products. It is possible that our products may contain undetected errors or defects, especially when introduced or when new versions are released. As a result, our products may be rejected by our customers leading to loss of business, loss of revenue, additional development and customer service costs, unanticipated warranty claims, payment of monetary damages under contractual provisions and damage to our reputation.

***We depend on a limited number of third parties to manufacture our products. If they do not manufacture our products properly or cannot meet our needs in a timely manner, we may be unable to fulfill our product delivery obligations and our costs may increase, and our revenue and margins could decrease.***

We outsource the manufacturing of our products to several contract manufacturers and depend on these manufacturers to meet our needs in a timely and satisfactory manner at a reasonable cost. Third party manufacturers, or other third parties to which such third party manufacturers in turn outsource our manufacturing requirements, may not be able to satisfy our manufacturing requirements on a timely basis, including by failing to meet scheduled production and delivery deadlines or to meet our product quality requirements or the product quality requirements of our customers. Insufficient supply or an interruption or stoppage of supply from such third party manufacturers or our inability to obtain additional or substitute manufacturers when and if needed, and on a cost-effective basis, could have a material adverse effect on our business, results of operations and financial condition. Our reliance on third party manufacturers subjects us to a number of risks, including but not limited to the following:

- potential business interruption due to unexpected events such as natural disasters, labor unrest or geopolitical events;
- the absence of guaranteed or adequate manufacturing capacity;
- potential violations of laws and regulations by our manufacturers that may subject us to additional costs for duties, monetary penalties, seizure and loss of our products or loss of our import privileges, and damage to our reputation;
- reduced control over delivery schedules, production levels, manufacturing yields, costs and product quality;
- the inability of our contract manufacturers to secure adequate volumes of components in a timely manner at a reasonable cost; and
- unexpected increases in manufacturing costs.

If we are unable to successfully manage any of these risks or to locate alternative or additional manufacturers or suppliers in a timely and cost-effective manner, we may not be able to deliver products in a timely manner. In addition, our results of operations could be harmed by increased costs, reduced revenues and reduced margins.

Under our manufacturing agreements, in many cases we are required to place binding purchase orders with our manufacturers well in advance of our receipt of binding purchase orders from our customers. In this situation, we consider our customers' good faith, non-binding forecasts of demand for our products. As a result, if the number of actual products ordered by our customers is materially different from the number of products we have instructed our manufacturer to build (and to purchase components in respect of), then, if too many components have been purchased by our manufacturer, we may be required to purchase such excess component inventory, or, if an insufficient number of components have been purchased by our manufacturer, we may not be in a position to meet all of our customers' requirements. If we are unable to successfully manage our inventory levels and respond to our customers' purchase orders based on their forecasted quantities, our business, operating results and financial condition could be adversely affected.

***We depend on single source suppliers for some components used in our products and if these suppliers are unable to meet our demand, the delivery of our products to our customers may be interrupted.***

From time to time, certain components used in our products have been, and may continue to be, in short supply. Such shortages in allocation of components may result in a delay in filling orders from our customers, which may adversely affect our business. In addition, our products are comprised of components some of which are procured from single source suppliers, including where we have licensed certain software embedded in a component. Our single source suppliers may experience damage or interruption in their operations due to unforeseen events, become insolvent or bankrupt, or experience claims of infringement, all of which could delay or stop their shipment of components to us, which may adversely affect our business, operating results and financial condition. If there is a shortage of any such components and we cannot obtain an appropriate substitute from an alternate supplier of components, we may not be able to deliver sufficient quantities of our products to our customers. If such shortages occur, we may lose business or customers and our operating results and financial condition may be materially adversely affected.

***We depend on wireless network carriers to promote and offer acceptable wireless data services.***

Our products and our wireless connectivity services can only be used over wireless data networks operated by third parties. Our business and future growth depends, in part, on the successful deployment by network carriers of next generation wireless data and networks and appropriate pricing of wireless data services. We also depend on successful strategic relationships with our network carrier partners and our operating results and financial condition could be harmed if they increase the price of their services or experience operational issues with their networks.

***Contractual disputes could have a material adverse effect on our business.***

Our business is exposed to the risk of contractual disputes with counterparties and as a result we may be involved in complaints, claims and litigation. We cannot predict the outcome of any complaint, claim or litigation. If a dispute cannot be resolved favorably, it may delay or interrupt our operations and may have a material adverse effect on our operating results, liquidity or financial position.

***Government regulations could result in increased costs and inability to sell our products.***

Our products are subject to certain mandatory regulatory approvals in the United States, Canada, the European Union, the Asia-Pacific region and other regions in which we operate. For example, in the United States the Federal Communications Commission regulates many aspects of communications devices. In Canada, similar regulations are administered by the Ministry of Industry, through Industry Canada. European Union directives provide comparable regulatory guidance in Europe. Although we have obtained all the necessary Federal Communications Commission, Industry Canada and other required approvals for the products we currently sell, we may not receive approvals for future products on a timely basis, or at all. In addition, regulatory requirements may change or we may not be able to receive regulatory approvals from countries in which we may desire to sell products in the future. If we fail to comply with the applicable regulatory requirements, we may be subject to regulatory and civil liability, additional costs (including fines), reputational harm, and in severe cases, prevented from selling our products in certain jurisdictions.

We may also incur additional expenses or experience difficulties selling our products associated with complying with the SEC rules and reporting requirements related to conflict minerals. In August 2012, the SEC adopted new disclosure requirements implementing Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 for manufacturers of products containing certain minerals that may originate from the Democratic Republic of Congo and adjoining countries. As a result, since 2013 we have been required to conduct certain country of origin and due diligence procedures in order to meet the SEC reporting requirements. The impact of the regulations may limit the sourcing and availability, or may increase the costs, of some of the metals used in the manufacture of our products. Also, since our supply chain is complex, we may be unable to sufficiently verify the origins for all metals used in our products through our supplier due diligence procedures.

***The transmission, use and disclosure of user data and personal information could give rise to liabilities or additional costs as a result of laws, governmental regulations and carrier and other customer requirements or differing views of personal privacy rights.***

Our products are used to transmit a large volume of data, including personal information. This information is increasingly subject to legislation and regulations in numerous jurisdictions around the world that is intended to protect the privacy and security of personal information as well as the collection, storage, transmission, use and disclosure of such information.

The interpretation of privacy and data protection laws in a number of jurisdictions is unclear and in a state of flux. There is a risk that these laws may be interpreted and applied in conflicting ways from country to country. Complying with these varying international requirements could cause us to incur additional costs and change our business practices. In addition, because our products are sold and used worldwide, certain foreign jurisdictions may claim that we are required to comply with their laws, even where we have no local entity, employees, or infrastructure.

We could be adversely affected if legislation or regulations are expanded to require changes in our products or business practices, if governmental authorities in the jurisdictions in which we do business interpret or implement their legislation or regulations in ways that negatively affect our business or if end users allege that their personal information was misappropriated as a result of a defect or vulnerability in our products. If we are required to allocate significant resources to modify our products or our existing security procedures for the personal information that our products transmit, our business, results of operations and financial condition may be adversely affected.

***We are subject to risks inherent in foreign operations.***

Sales outside North America represented approximately 69% and 73% of our revenues in 2015 and 2014, respectively, and approximately 70% of our revenue in the first three months of 2016, compared to 78% of our revenue in the first three months of 2015. We maintain offices in a number of foreign jurisdictions. We have limited experience conducting business in some of the jurisdictions outside North America and we may not be aware of all the factors that may affect our business in foreign jurisdictions. We are subject to a number of risks associated with our international business operations that may increase liabilities, costs, lengthen sales cycles and require significant management attention. These risks include:

- compliance with the laws of the United States, Canada and other countries that apply to our international operations, including import and export legislation, lawful access and privacy laws;
- compliance with existing and emerging anti-corruption laws, including the Foreign Corrupt Practices Act of the United States, the *Corruption of Foreign Public Officials Act* of Canada and the UK Bribery Act;
- increased reliance on third parties to establish and maintain foreign operations;
- the complexities and expense of administering a business abroad;
- complications in compliance with, and unexpected changes in, foreign regulatory requirements, including requirements relating to content filtering and requests from law enforcement authorities;
- trading and investment policies;
- consumer protection laws that impose additional obligations on us or restrict our ability to provide limited warranty protection;
- instability in economic or political conditions, including inflation, recession and actual or anticipated military conflicts, social upheaval or political uncertainty;
- foreign currency fluctuations;
- foreign exchange controls and cash repatriation restrictions;
- tariffs and other trade barriers;
- difficulties in collecting accounts receivable;
- potential adverse tax consequences;
- uncertainties of laws and enforcement relating to the protection of intellectual property or secured technology;
- litigation in foreign court systems;
- cultural and language differences;
- difficulty in managing a geographically dispersed workforce in compliance with local laws and customs that vary from country to country; and
- other factors, depending upon the country involved.

There can be no assurance the policies and procedures implemented by us to address or mitigate these risks will be successful, that our personnel will comply with them or that we will not experience these factors in the future or that they will not have a material adverse effect on our business, results of operations and financial condition.

**SIERRA WIRELESS, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE EARNINGS (LOSS)**

*(In thousands of U.S. dollars, except where otherwise stated)*

*(unaudited)*

| | Three months ended March 31, | |
|---|---|---|
| | ***2016*** | *2015* |
| **Revenue** | **$ 142,797** | $ 150,406 |
| Cost of goods sold | **95,982** | 101,570 |
| **Gross margin** | **46,815** | 48,836 |
| | | |
| **Expenses** | | |
| Sales and marketing | **15,629** | 13,145 |
| Research and development | **18,778** | 19,092 |
| Administration | **9,527** | 10,420 |
| Acquisition-related and integration | **374** | 1,103 |
| Amortization | **3,762** | 2,602 |
| | **48,070** | 46,362 |
| | | |
| **Earnings (loss) from operations** | **(1,255)** | 2,474 |
| Foreign exchange gain (loss) | **2,292** | (11,893) |
| Other income | **26** | 105 |
| **Earnings (loss) before income taxes** | **1,063** | (9,314) |
| Income tax expense | **345** | 339 |
| **Net earnings (loss)** | **$ 718** | $ (9,653) |
| | | |
| Other comprehensive income (loss): | | |
| Foreign currency translation adjustments, net of taxes of $nil | **5,132** | (3,518) |
| **Comprehensive earnings (loss)** | **$ 5,850** | $ (13,171) |
| | | |
| Net earnings (loss) per share (in dollars) (note 6) | | |
| Basic | **$ 0.02** | $ (0.30) |
| Diluted | **0.02** | (0.30) |
| | | |
| Weighted average number of shares outstanding (in thousands) (note 6) | | |
| Basic | **32,156** | 31,983 |
| Diluted | **32,500** | 31,983 |

The accompanying notes are an integral part of the consolidated financial statements.

**SIERRA WIRELESS, INC.**

**CONSOLIDATED BALANCE SHEETS**

*(In thousands of U.S. dollars, except where otherwise stated)*

*(unaudited)*

| | *March 31, 2016* | *December 31, 2015* |
|---|---|---|
| **Assets** | | |
| Current assets | | |
| Cash and cash equivalents | **$ 86,120** | $ 93,936 |
| Accounts receivable, net of allowance for doubtful accounts of $2,129 (December 31, 2015 - $2,088) | **118,357** | 116,246 |
| Inventories (note 7) | **26,529** | 32,829 |
| Prepaids and other (note 8) | **12,856** | 14,179 |
| | **243,862** | 257,190 |
| Property and equipment | **29,746** | 28,947 |
| Intangible assets | **84,363** | 84,250 |
| Goodwill | **160,998** | 156,488 |
| Deferred income taxes | **15,118** | 14,865 |
| Other assets | **5,351** | 4,592 |
| | **$ 539,438** | $ 546,332 |
| **Liabilities** | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 9) | **$ 122,732** | $ 128,537 |
| Deferred revenue and credits | **3,127** | 3,479 |
| | **125,859** | 132,016 |
| Long-term obligations (note 10) | **45,440** | 44,353 |
| Deferred income taxes | **12,140** | 11,667 |
| | **183,439** | 188,036 |
| **Equity** | | |
| Shareholders' equity | | |
| Common stock: no par value; unlimited shares authorized; issued and outstanding: 31,906,036 shares (December 31, 2015 - 32,337,201 shares) | **342,444** | 346,453 |
| Preferred stock: no par value; unlimited shares authorized; issued and outstanding: nil shares | **—** | — |
| Treasury stock: at cost: 393,110 shares (December 31, 2015 – 240,613 shares) | **(5,671)** | (4,017) |
| Additional paid-in capital | **21,759** | 23,998 |
| Retained earnings (deficit) | **313** | (160) |
| Accumulated other comprehensive loss (note 11) | **(2,846)** | (7,978) |
| | **355,999** | 358,296 |
| | **$ 539,438** | $ 546,332 |

Commitments and contingencies (note 14)

The accompanying notes are an integral part of the consolidated financial statements.

**SIERRA WIRELESS, INC.**

**CONSOLIDATED STATEMENTS OF EQUITY**

*(in thousands of U.S. dollars)*

*(unaudited)*

| | Common Stock | | Treasury Shares | | | | | |
|---|---|---|---|---|---|---|---|---|
| | # of shares | $ | # of shares | $ | Additional paid-in capital | Retained earnings (deficit) | Accumulated other comprehensive income (loss) | Total |
| Balance as at December 31, 2014 | 31,868,541 | $ 339,640 | 342,645 | $ (6,236) | $ 26,909 | $ 2,514 | $ (5,965) | $ 356,862 |
| Stock option exercises | 357,136 | 5,434 | — | — | (1,597) | — | — | 3,837 |
| Stock-based compensation | — | — | — | — | 8,942 | — | — | 8,942 |
| Purchase of treasury shares for RSU distribution | — | — | 306,476 | (6,584) | — | — | — | (6,584) |
| Distribution of vested RSUs | 111,524 | 1,379 | (408,508) | 8,803 | (12,526) | — | — | (2,344) |
| Excess tax benefits from equity awards | — | — | — | — | 2,270 | — | — | 2,270 |
| Net loss | — | — | — | — | — | (2,674) | — | (2,674) |
| Foreign currency translation adjustments, net of tax | — | — | — | — | — | — | (2,013) | (2,013) |
| Balance as at December 31, 2015 | 32,337,201 | $ 346,453 | 240,613 | $ (4,017) | $ 23,998 | $ (160) | $ (7,978) | $ 358,296 |
| **Common share cancellation (note 12)** | **(549,583)** | **(5,899)** | **—** | **—** | **—** | **(245)** | **—** | **(6,144)** |
| **Stock option exercises (note 5)** | **64,212** | **765** | **—** | **—** | **(237)** | **—** | **—** | **528** |
| **Stock-based compensation (note 5)** | **—** | **—** | **—** | **—** | **2,035** | **—** | **—** | **2,035** |
| **Purchase of treasury shares for RSU distribution** | **—** | **—** | **305,629** | **(4,214)** | **—** | **—** | **—** | **(4,214)** |
| **Distribution of vested RSUs** | **54,206** | **1,125** | **(153,132)** | **2,560** | **(4,037)** | **—** | **—** | **(352)** |
| **Net earnings** | **—** | **—** | **—** | **—** | **—** | **718** | **—** | **718** |
| **Foreign currency translation adjustments, net of tax** | **—** | **—** | **—** | **—** | **—** | **—** | **5,132** | **5,132** |
| **Balance as at March 31, 2016** | **31,906,036** | **$ 342,444** | **393,110** | **$ (5,671)** | **$ 21,759** | **$ 313** | **$ (2,846)** | **$ 355,999** |

The accompanying notes are an integral part of the consolidated financial statements.

**SIERRA WIRELESS, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

*(In thousands of U.S. dollars)*

*(unaudited)*

| | *Three months ended March 31,* | |
|---|---|---|
| | ***2016*** | *2015* |
| **Cash flows provided by (used in):** | | |
| **Operating activities** | | |
| Net earnings (loss) | **$ 718** | $ (9,653) |
| Items not requiring (providing) cash | | |
| Amortization | **5,568** | 5,131 |
| Stock-based compensation (note 5) | **2,035** | 2,297 |
| Other | **4** | 6,190 |
| Changes in non-cash working capital | | |
| Accounts receivable | **(434)** | (22,277) |
| Inventories | **7,080** | (2,594) |
| Prepaid expenses and other | **771** | 1,641 |
| Accounts payable and accrued liabilities | **(7,868)** | (3,143) |
| Deferred revenue and credits | **(274)** | 458 |
| Cash flows provided by (used in) operating activities | **7,600** | (21,950) |
| **Investing activities** | | |
| Additions to property and equipment | **(2,843)** | (1,911) |
| Proceeds from sale of property and equipment | **3** | — |
| Increase in intangible assets | **(295)** | (233) |
| Acquisition of Wireless Maingate AB, net of cash acquired | **—** | (88,449) |
| Cash flows used in investing activities | **(3,135)** | (90,593) |
| **Financing activities** | | |
| Issuance of common shares | **528** | 2,145 |
| Repurchase of common shares for cancellation (note 12) | **(6,144)** | — |
| Purchase of treasury shares for RSU distribution | **(4,214)** | (797) |
| Taxes paid related to net settlement of equity awards | **(352)** | (1,742) |
| Excess tax benefits from equity awards | **—** | 1,670 |
| Decrease in other long-term obligations | **(63)** | (74) |
| Cash flows provided by (used in) financing activities | **(10,245)** | 1,202 |
| Effect of foreign exchange rate changes on cash and cash equivalents | **(2,036)** | 3,834 |
| Cash and cash equivalents, decrease in the period | **(7,816)** | (107,507) |
| Cash and cash equivalents, beginning of period | **93,936** | 207,062 |
| **Cash and cash equivalents, end of period** | **$ 86,120** | $ 99,555 |

The accompanying notes are an integral part of the consolidated financial statements.

## 1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP"), on a basis consistent with those followed in the December 31, 2015 audited annual consolidated financial statements except as indicated in note 2. These unaudited interim consolidated financial statements do not include all information and note disclosures required by U.S. GAAP for annual financial statements, and therefore should be read in conjunction with the December 31, 2015 audited consolidated financial statements and the notes thereto. The accompanying interim financial information reflects all adjustments, consisting of normal recurring adjustments, which, in the opinion of management, are necessary for a fair presentation of results for the interim period.

Our consolidated financial statements include the accounts of the company and its subsidiaries, all of which are wholly-owned, from their respective dates of acquisition of control. All intercompany transactions and balances have been eliminated on consolidation.

In these interim consolidated financial statements, unless otherwise indicated, all dollar amounts are expressed in United States dollars (U.S. dollars). The term dollars and the symbol "$" refer to U.S. dollars.

## 2. SIGNIFICANT ACCOUNTING POLICIES

***Recently implemented accounting standards***

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*. The update simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax assets and liabilities into current and non-current amounts in the consolidated balance sheets. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented. Early adoption is permitted. We have early adopted this standard in the first quarter of 2016 on a retrospective basis. As a result of the adoption, we reclassified $4.7 million current deferred income tax assets to non-current deferred income tax assets on the balance sheet at December 31, 2015. Our adoption of the standard had no impact on our statements of operations and comprehensive earnings (loss) or statements of cash flows.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*. The update provides that an entity should measure inventory within the scope of the standard at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The standard is effective for interim and annual periods ending after December 15, 2016 and applied prospectively. Early application is permitted. We early adopted this standard in the first quarter of 2016 and there was no material impact to our financial statements and business.

In April 2015, the FASB issued ASU 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. The update provides accounting guidance for customers with cloud computing arrangements. The standard is effective for interim and annual periods ending after December 15, 2015. We adopted this standard as of January 1, 2016 on a prospective basis and there was no material impact to our financial statements and business.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. The update provides guidance about management's responsibility in evaluating whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. We early adopted this standard in the first quarter of 2016 and there was no impact to our disclosures.

***Changes in future accounting standards***

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (ASC 606). The update is intended to clarify the principles of recognizing revenue, and to develop a common revenue standard for U.S. GAAP and IFRS that would remove inconsistencies in revenue requirements, leading to improved comparability of revenue recognition practices across entities and industries. ASC 606 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual and interim financial statements for fiscal years beginning after December 15, 2017. Early application is permitted in fiscal years beginning after December 15, 2016. We are in the process of evaluating the impact of this update and cannot reasonably estimate the effect on our financial statements and business at this time.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This update is to improve transparency and comparability among organizations by requiring lessees to recognize right-of-use assets and lease liabilities on the balance sheet and requiring additional disclosure about leasing arrangements. The standard is effective for fiscal years beginning after December 15, 2018. Early application is permitted. We are in the process of evaluating the impact of this update and cannot reasonably estimate the effect on our financial statements and business at this time.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. This update affects several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The standard is effective for interim and annual periods beginning after December 15, 2016. Early application is permitted. We are in the process of evaluating the impact of this update and cannot reasonably estimate the effect on our financial statements and business at this time.

*(In thousands of U.S. dollars, except where otherwise stated)*

## 3. ACQUISITIONS

### *MobiquiThings SAS*

On September 2, 2015, we acquired all of the shares of MobiquiThings SAS ("MobiquiThings") for cash consideration of €13.5 million ($15.2 million), plus a maximum contingent consideration of €12 million under a performance-based earnout formula. MobiquiThings is a France-based mobile virtual network operator dedicated exclusively to the machine-to-machine and telematics marketplace.

At acquisition date, we recognized the contingent consideration at fair value based on a weighted probability estimate of achievement of the earnout within the specified periods of the contingent consideration. In accordance with ASC 805, *Business Combinations*, $0.5 million was recognized as purchase price consideration and the remaining balance will be expensed to acquisition-related costs over the earnout period. The change in fair value at each reporting period will be recognized in earnings.

Total consideration for the acquisition is as follows:

| | € | $ |
|---|---|---|
| Cash | **13,506** | **15,216** |
| Contingent consideration | **470** | **529** |
| | **13,976** | **15,745** |

We accounted for the transaction using the acquisition method and accordingly, we have recorded the tangible and intangible assets acquired and liabilities assumed on the basis of our estimates of their respective fair values as at September 2, 2015. The excess of the purchase price over the preliminary value assigned to the net assets acquired is recorded as goodwill.

The following table summarizes the preliminary values assigned to the assets acquired and liabilities assumed at the acquisition date:

| | € | $ |
|---|---|---|
| **Assets acquired** | | |
| Cash | **214** | **241** |
| Accounts receivable | **1,026** | **1,156** |
| Prepaids and other assets | **107** | **120** |
| Property and equipment | **1,041** | **1,173** |
| Identifiable intangible assets | **5,071** | **5,713** |
| Goodwill | **9,922** | **11,179** |
| | **17,381** | **19,582** |
| **Liabilities assumed** | | |
| Accounts payable and accrued liabilities | **1,715** | **1,932** |
| Deferred income tax | **1,690** | **1,905** |
| **Fair value of net assets acquired** | **13,976** | **15,745** |

The goodwill of $11.2 million resulting from the acquisition consists largely of the expectation that the acquisition will further solidify our device-to-cloud strategy. Goodwill has been assigned to the Cloud and Connectivity Services segment and is not deductible for tax purposes.

*(In thousands of U.S. dollars, except where otherwise stated)*

The following table provides the preliminary components of the identifiable intangible assets acquired that are subject to amortization:

| | Estimated useful life | € | $ |
|---|---|---|---|
| Customer relationships | **11 years** | **3,379** | **3,807** |
| Existing technology | **4.5 years** | **1,692** | **1,906** |
| | | **5,071** | **5,713** |

## 4. SEGMENTED INFORMATION

| | OEM Solutions | Enterprise Solutions | Cloud and Connectivity Services | Total |
|---|---|---|---|---|
| **Three months ended March 31, 2016** | | | | |
| Revenue | **$ 120,874** | **$ 14,995** | **$ 6,928** | **$ 142,797** |
| Cost of goods sold | **86,584** | **5,243** | **4,155** | **95,982** |
| Gross margin | **$ 34,290** | **$ 9,752** | **$ 2,773** | **$ 46,815** |
| Gross margin % | **28.4%** | **65.0%** | **40.0%** | **32.8%** |
| Expenses | | | | **48,070** |
| Loss from operations | | | | **$ (1,255)** |
| **Three months ended March 31, 2015** | | | | |
| Revenue | $ 133,040 | $ 13,758 | $ 3,608 | $ 150,406 |
| Cost of goods sold | 93,079 | 6,296 | 2,195 | $ 101,570 |
| Gross margin | $ 39,961 | $ 7,462 | $ 1,413 | $ 48,836 |
| Gross margin % | 30.0% | 54.2% | 39.2% | 32.5% |
| Expenses | | | | 46,362 |
| Earnings from operations | | | | $ 2,474 |

We sell certain products through resellers, original equipment manufacturers, and wireless service providers who sell these products to end-users. We did not have any customers during the three months ended March 31, 2016 or 2015 that accounted for more than 10% of our revenue.

*(In thousands of U.S. dollars, except where otherwise stated)*

## 5. STOCK-BASED PAYMENTS

**Stock-based compensation expense:**

| | Three months ended March 31, | |
|---|---|---|
| | **2016** | 2015 |
| Cost of goods sold | **$ 106** | $ 231 |
| Sales and marketing | **403** | 490 |
| Research and development | **358** | 358 |
| Administration | **1,168** | 1,218 |
| | **$ 2,035** | $ 2,297 |
| Stock option plan | **$ 526** | $ 527 |
| Restricted stock plan | **1,509** | 1,770 |
| | **$ 2,035** | $ 2,297 |

As at March 31, 2016, the unrecognized compensation expense related to non-vested stock options and RSUs was $5,113 and $8,463 (2015 – $4,812 and $11,561), respectively, which is expected to be recognized over weighted average periods of 2.9 and 2.0 years (2015 – 2.9 and 1.6 years), respectively.

**Stock option plan**

The following table presents stock option activity for the period:

| | Three months ended March 31, | |
|---|---|---|
| ***Number of Options*** | **2016** | 2015 |
| Outstanding, beginning of period | **965,911** | 1,144,057 |
| Granted | **598,895** | 200,975 |
| Exercised | **(64,212)** | (186,285) |
| Forfeited / expired | **(9,424)** | (13,839) |
| Outstanding, end of period | **1,491,170** | 1,144,908 |
| Exercisable, beginning of period | **418,522** | 337,469 |
| Exercisable, end of period | **471,459** | 315,140 |

Under the terms of our Stock Option Plan (the “Plan”), our Board of Directors may grant options to employees, officers and directors. The maximum number of shares available for issue under the Plan is the lesser of 10% of the number of issued and outstanding common shares from time to time or 7,000,000 common shares. Based on the number of shares outstanding as at March 31, 2016, stock options exercisable into 1,699,434 common shares are available for future allocation under the Plan.

The Plan provides that the exercise price of an option will be determined on the date of grant and will not be less than the closing market price of our stock at that date. Options generally vest over four years, with the first 25% vesting at the first anniversary date of the grant and the balance vesting in equal amounts at the end of each month thereafter. We determine the expiry date of each option at the time it is granted, which cannot be more than five years after the date of the grant.

*(In thousands of U.S. dollars, except where otherwise stated)*

The intrinsic value of outstanding and exercisable stock options is calculated as the quoted market price of the stock at the balance sheet date, or date of exercise, less the exercise price of the option. The aggregate intrinsic value of stock options exercised in the three months ended March 31, 2016 was $263 (three months ended March 31, 2015 - $4,637).

The fair value of share options was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

| | ***Three months ended March 31,*** | |
|---|---|---|
| | ***2016*** | *2015* |
| Risk-free interest rate | **0.72%** | 0.94% |
| Annual dividends per share | **Nil** | Nil |
| Expected stock price volatility | **51%** | 44% |
| Expected option life (in years) | **4.0** | 4.0 |
| Average fair value of options granted (in dollars) | **$4.24** | $11.34 |

There is no dividend yield because we do not pay, and do not plan to pay, cash dividends on our common shares. The expected stock price volatility is based on the historical volatility of our average monthly stock closing prices over a period equal to the expected life of each option grant. The risk-free interest rate is based on yields from risk-free instruments with a term equal to the expected term of the options being valued. The expected life of options represents the period of time that the options are expected to be outstanding based on historical data of option holder exercise and termination behavior. We estimate forfeitures at the time of grant and, if necessary, revise that estimate if actual forfeitures differ and adjust stock-based compensation expense accordingly.

**Restricted share plans**

The following table summarizes the RSU activity for the period:

| | ***Three months ended March 31,*** | |
|---|---|---|
| ***Number of RSUs*** | ***2016*** | *2015* |
| Outstanding, beginning of period | **778,233** | 1,161,765 |
| Granted | **297,989** | 213,781 |
| Vested / settled | **(241,329)** | (483,788) |
| Forfeited | **(792)** | (5,267) |
| Outstanding, end of period | **834,101** | 886,491 |
| | | |
| Outstanding – vested and not settled | **189,428** | 103,605 |
| Outstanding – unvested | **644,673** | 782,886 |
| Outstanding, end of period | **834,101** | 886,491 |

*(In thousands of U.S. dollars, except where otherwise stated)*

We have two market based restricted share unit plans: one for U.S. employees and one for all non-U.S. employees, and a treasury based restricted share unit plan (collectively, the "RSPs"). The RSPs support our growth and profitability objectives by providing long-term incentives to certain executives and other key employees and also encourage our objective of employee share ownership through the granting of restricted share units ("RSUs"). There is no exercise price or monetary payment required from the employees upon the grant of an RSU or upon the subsequent delivery of our common shares (or, in certain jurisdictions, cash in lieu at the option of the Company) to settle vested RSUs. The form and timing of settlement is subject to local laws. With respect to the treasury based RSP, the maximum number of share units outstanding under the Plan shall not exceed 3.5% of the number of issued and outstanding shares. Based on the number of shares outstanding as at March 31, 2016, 674,577 share units are available for future allocation under the Plan. With respect to the two market based RSPs, independent trustees purchase Sierra Wireless common shares over the facilities of the TSX and NASDAQ, which are used to settle vested RSUs. The existing trust funds are variable interest entities and are included in these consolidated financial statements as treasury shares held for RSU distribution.

Generally, RSUs vest over three years, in equal one-third amounts on each anniversary date of the grant. RSU grants to employees who are resident in France for French tax purposes will not vest before the second anniversary from the date of grant, and any shares issued are subject to an additional two year tax hold period.

The aggregate intrinsic value of RSUs that vested and settled in the three months ended March 31, 2016 was $2,481 (three months ended March 31, 2015 – $16,714).

## 6. EARNINGS (LOSS) PER SHARE

The following table provides the reconciliation between basic and diluted earnings (loss) per share:

| | ***Three months ended March 31,*** | |
|---|---|---|
| | ***2016*** | *2015* |
| Net earnings (loss) | **$ 718** | $ (9,653) |
| Weighted average shares used in computation of: | | |
| Basic | **32,156** | 31,983 |
| Assumed conversion | **344** | — |
| Diluted | **32,500** | 31,983 |
| Basic and dilutive net earnings (loss) per share (in dollars): | **$ 0.02** | $ (0.30) |

In loss periods, potential common shares are not included in the computation of diluted earnings per share, because to do so would be anti-dilutive. In the three months ended March 31, 2016, 930,091 weighted average share-based awards were excluded from the denominator for diluted earnings per share as the effect of including these weighted average share-based awards in the computation would be anti-dilutive.

*(In thousands of U.S. dollars, except where otherwise stated)*

## 7. INVENTORIES

The components of inventories were as follows:

| | | ***March 31, 2016*** | | *December 31, 2015* |
|---|---|---|---|---|
| Electronic components | **$** | **13,807** | $ | 19,203 |
| Finished goods | | **12,722** | | 13,626 |
| | **$** | **26,529** | $ | 32,829 |

## 8. PREPAIDS AND OTHER

The components of prepaids and other were as follows:

| | | ***March 31, 2016*** | | *December 31, 2015* |
|---|---|---|---|---|
| Inventory advances | **$** | **1,474** | $ | 1,159 |
| Insurance and licenses | | **5,933** | | 7,601 |
| Other | | **5,449** | | 5,419 |
| | **$** | **12,856** | $ | 14,179 |

## 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The components of accounts payable and accrued liabilities were as follows:

| | | ***March 31, 2016*** | | *December 31, 2015* |
|---|---|---|---|---|
| Trade payables | **$** | **75,637** | $ | 81,879 |
| Inventory commitment reserve | | **3,131** | | 1,866 |
| Accrued royalties | | **8,371** | | 9,750 |
| Accrued payroll and related liabilities | | **12,373** | | 10,879 |
| Taxes payable (including sales taxes) | | **3,249** | | 2,501 |
| Product warranties (note 14 (a)(ii)) | | **7,909** | | 7,362 |
| Other | | **12,062** | | 14,300 |
| | **$** | **122,732** | $ | 128,537 |

*(In thousands of U.S. dollars, except where otherwise stated)*

## 10. LONG-TERM OBLIGATIONS

The components of long-term obligations were as follows:

| | | ***March 31, 2016*** | | *December 31, 2015* |
|---|---|---|---|---|
| Accrued royalties | **$** | **36,917** | $ | 35,451 |
| Other | | **8,523** | | 8,902 |
| | **$** | **45,440** | $ | 44,353 |

## 11. ACCUMULATED OTHER COMPREHENSIVE LOSS

The components of accumulated other comprehensive loss, net of taxes, were as follows:

| | | ***March 31, 2016*** | | *December 31, 2015* |
|---|---|---|---|---|
| Release of foreign currency translation relating to acquisition of non-controlling interest | **$** | **178** | $ | 178 |
| Translation adjustment related to change in functional currency | | **(728)** | | (728) |
| Foreign currency translation adjustments | | **(2,296)** | | (7,428) |
| | **$** | **(2,846)** | $ | (7,978) |

## 12. SHARE CAPITAL

On February 4, 2016, we received approval from the TSX of our Notice of Intention to make a Normal Course Issuer Bid (the "NCIB"). Pursuant to the NCIB, we may purchase for cancellation up to 3,149,199 of our common shares, representing 10% of the public float as of the date of the announcement. The NCIB commenced on February 9, 2016 and will terminate on the earlier of: (i) February 8, 2017, (ii) the date the Company completes its purchases pursuant to the notice of intention filed with the TSX, or (iii) the date of notice by the Company of termination of the NCIB.

On February 29, 2016, we established an automatic share purchase plan in connection with the previously announced NCIB with a designated broker to allow for the purchase of Common Shares under the NCIB at times when the Company would ordinarily not be permitted to purchase shares due to regulatory restrictions.

As of March 31, 2016, we had purchased and canceled 549,583 common shares at an average price of $11.18 per share. The excess purchase price over and above the average carrying value in the amount of $245 was charged to retained earnings.

## 13. FINANCIAL INSTRUMENTS

### *(a) Fair value presentation*

An established fair value hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement. There are three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than quoted prices in active markets for identical assets and liabilities, such as quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Inputs that are generally unobservable and are supported by little or no market activity and that are significant to the fair value determination of the assets or liabilities.

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the immediate or short-term maturity of these financial instruments. Based on borrowing rates currently available to us for loans with similar terms, the carrying values of our obligations under capital leases, long-term obligations and other long-term liabilities approximate their fair values.

We have contingent consideration related to the acquisition of MobiquiThings in 2015 that was measured using unobservable inputs which represents a Level 3 measurement within the fair value hierarchy. The contingent consideration is measured at each reporting period and any changes in the fair value are recorded in earnings.

### *(b) Credit Facilities*

We have a $10 million revolving term credit facility ("Revolving Facility") with Toronto Dominion Bank and the Canadian Imperial Bank of Commerce expiring on January 31, 2017. The Revolving Facility is for working capital requirements, is secured by a pledge against all of our assets and is subject to borrowing base limitations. As at March 31, 2016, there were no borrowings under the Revolving Facility.

### *(c) Letters of credit*

We have access to a revolving standby letter of credit facility of $10 million from Toronto Dominion Bank. The credit facility is used for the issuance of letters of credit for project related performance guarantees and is guaranteed by Export Development Canada. As at March 31, 2016, there were no letters of credit issued against the revolving standby letter of credit facility.

*(In thousands of U.S. dollars, except where otherwise stated)*

## 14. COMMITMENTS AND CONTINGENCIES

### (a) Contingent liability on sale of products

(i) Under license agreements, we are committed to make royalty payments based on the sales of products using certain technologies. We recognize royalty obligations as determinable in accordance with agreement terms. Where agreements are not finalized, we have recognized our current best estimate of the obligation. When the agreements are finalized or the potential obligation becomes statute barred, the estimate will be revised accordingly.

(ii) We accrue product warranty costs, when we sell the related products, to provide for the repair or replacement of defective products. Our accrual is based on an assessment of historical experience and on management's estimates. An analysis of changes in the liability for product warranties were as follows:

| | | ***Three months ended March 31, 2016*** |
|---|---|---|
| Balance, beginning of period | **$** | **7,362** |
| Provisions | | **1,199** |
| Expenditures | | **(652)** |
| Balance, end of period | **$** | **7,909** |

### (b) Other commitments

We have entered into purchase commitments totaling approximately $118,825, net of related electronic components inventory of $12,764 (December 31, 2015 – $87,631, net of electronic components inventory of $18,390), with certain contract manufacturers and suppliers under which we have committed to buy a minimum amount of designated products between April 2016 and June 2016. In certain of these agreements, we may be required to acquire and pay for such products up to the prescribed minimum or forecasted purchases.

### (c) Legal proceedings

We are from time to time involved in litigation, certain other claims and arbitration matters arising in the ordinary course of our business. We accrue for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in both the determination of probability and the determination as to whether a loss is reasonably estimable. These accruals are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel and technical experts and other information and events pertaining to a particular matter. To the extent there is a reasonable possibility (within the meaning of ASC 450, *Contingencies*) that the losses could exceed the amounts already accrued for those cases for which an estimate can be made, management believes that the amount of any such additional loss would not be material to our results of operations or financial condition.

In some instances, we are unable to reasonably estimate any potential loss or range of loss. The nature and progression of litigation can make it difficult to predict the impact a particular lawsuit will have on the company. There are many reasons why we cannot make these assessments, including, among others, one or more of the following: in the early stage of a proceeding, the claimant is not required to specifically identify the patent that has allegedly been infringed; damages sought that are unspecified, unsupportable, unexplained or uncertain; discovery not having been started or being incomplete; the complexity of the facts that are in dispute (e.g., once a patent is identified, the analysis of the patent and a comparison to the activities of the company is a labor-intensive and highly technical process); the difficulty of assessing novel claims; the parties not having engaged in any meaningful settlement discussions; the possibility that other parties may share in any ultimate liability; and the often slow pace of patent litigation.

We are required to apply judgment with respect to any potential loss or range of loss in connection with litigation. While we believe we have meritorious defenses to the claims asserted against us in our currently outstanding litigations, and intend to defend ourselves vigorously in all cases, in light of the inherent uncertainties in litigation there can be no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by us for those cases for which an estimate can be made. Losses in connection with any litigation for which we are not presently able to reasonable estimate any potential loss or range of loss could be material to our results of operations and financial condition.

In January 2012, a patent holding company, M2M Solutions LLC ("M2M"), filed a patent infringement lawsuit in the United States District Court for the District of Delaware asserting patent infringement by us and our competitors. The lawsuit makes certain allegations concerning the AirPrime embedded wireless module products, related AirLink products and related services sold by us for use in M2M communication applications. The claim construction order has determined one of the two patents-in-suit to be indefinite and therefore invalid. The lawsuit was dismissed with prejudice in April 2016. In August 2014, M2M filed a second patent infringement lawsuit against us in the same court with respect to a recently issued patent held by M2M, which patent is a continuation of one of the patents-in-suit in the original lawsuit filed against us by M2M. The lawsuit has been administratively closed pending the result of several Inter Partes Review proceedings filed by us and the other defendants with the United States Patent and Trial Appeal Board (PTAB) in August and October of 2015. The PTAB has instituted proceedings in respect of two of these filings, including ours, and has yet to make a determination on a second filing made by us in April 2016.

Although there can be no assurance that an unfavorable outcome would not have a material adverse effect on our operating results, liquidity or financial position, we believe the claims made in the foregoing legal proceedings are without merit and intend to defend ourselves and our products vigorously in all cases.

### *IP Indemnification Claims*

We have been notified by one or more of our customers in each of the following matters that we may have an obligation to indemnify them in respect of the products we supply to them:

In June 2015, Adaptix filed amended complaints in the Eastern District of Texas against two carriers asserting patent infringement against them in relation to certain cellular communication devices sold by the carriers for use on their 4G LTE wireless networks, which products include certain products which may utilize modules sold to the original equipment manufacturer by us and certain AirCard products sold to the carriers by us prior to the transfer of the AirCard business to Netgear. The two cases have been consolidated and the claim construction hearing is scheduled for July 2016, with the first trial for the consolidated cases to occur in May 2017.

In February 2012, a patent holding company, Intellectual Ventures (comprised of Intellectual Ventures I LLC and Intellectual Ventures II LLC), filed a patent infringement lawsuit in the United States District Court for the District of Delaware against two of our customers asserting patent infringement in relation to several of our customer's products and services, including the mobile hotspots sold to them by us prior to the transfer of the AirCard business to Netgear. The lawsuit was split into several separate lawsuits and amended complaints were filed in October 2013. We are currently intervening in two of the cases in defense of our products with respect to one patent-in-suit alleged to relate to Wi-Fi standards. The lawsuits are in the discovery stage. A claim construction order was issued in March 2015.

Although there can be no assurance that an unfavorable outcome would not have a material adverse effect on our operating results, liquidity or financial position, we believe the claims made in the foregoing legal proceedings are without merit and intend to defend ourselves and our products vigorously in all cases.

We are engaged in certain other claims, legal actions and arbitration matters, all in the ordinary course of business, and believe that the ultimate outcome of these claims, legal actions and arbitration matters will not have a material adverse effect on our operating results, liquidity or financial position.

## 15. COMPARATIVE FIGURES

Certain comparative figures presented in the interim consolidated financial statements have been reclassified to conform to the current period presentation.

**Head Office**
Sierra Wireless, Inc.
13811 Wireless Way
Richmond
British Columbia
Canada V6V 3A4

**Telephone:** 604 231 1100

**Facsimile:** 604 231 1109

**www.sierrawireless.com**