



AirIQ Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the Year ended March 31, 2016

The following management's discussion and analysis of the consolidated results of operations and financial condition of AirIQ Inc. ("AirIQ" or the "Company") is made as of July 13, 2016, and should be read in conjunction with the consolidated financial statements as at and for the years ended March 31, 2016 and March 31, 2015 and accompanying notes. The accompanying audited consolidated financial statements of AirIQ have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The accompanying consolidated financial statements and this management's discussion and analysis have been reviewed by the Company's Audit Committee and approved by the Company's Board of Directors.

The accompanying consolidated financial statements include the accounts of AirIQ and its subsidiaries, AirIQ U.S. Holdings, Inc. ("AirIQ Holdings"), AirIQ U.S., Inc. ("AirIQ USA"), and AirIQ, LLC ("AirIQ LLC"). All inter-company balances and transactions have been eliminated on consolidation.

As used in this discussion and unless the context otherwise requires, or unless otherwise indicated, all references to "AirIQ", the "Company", "we", "us", "our", or similar expressions, refer to AirIQ Inc. and its consolidated subsidiaries.

The preparation of financial statements and related disclosures in conformity with IFRS requires management to make estimates that affect the reported amounts of assets, liabilities, revenues, expenses and contingencies. Management bases its estimates on historical experience and on other assumptions that are believed, at the time, to be reasonable under the circumstances. Under different assumptions or conditions, the actual results may differ, potentially materially, from those previously estimated. Many of the conditions impacting these assumptions and estimates are outside of AirIQ's control. AirIQ evaluates such estimates and assumptions on a periodic basis.

Unless otherwise noted herein, all amounts are in thousands of Canadian dollars except share and per share information.

FORWARD-LOOKING STATEMENTS

Management's discussion and analysis contains forward-looking information based on management's best estimates and the current operating environment. These forward-looking statements are related to, but not limited to, AirIQ's operations, anticipated financial performance, business prospects and strategies. Forward-looking information typically contains statements with words such as "goal", "anticipate", "believe", "expect", "plan" or similar words suggesting future outcomes. These statements are based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including AirIQ's perception of historical trends, current conditions and expected future developments as well as other factors management believes are appropriate in the circumstances. Such forward-looking statements are

as of the date which such statement is made and are subject to a number of known and unknown risks, uncertainties and other factors, which could cause actual results or events to differ materially from future results expressed, anticipated or implied by such forward-looking statements. Such factors include, but are not limited to, changes in market and competition, technological and competitive developments and potential downturns in economic conditions generally. Therefore, actual outcomes may differ materially from those expressed in such forward-looking statements. Forward-looking statements are provided for the purpose of providing information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for other purposes. Other than as may be required by law, AirIQ disclaims any intention or obligation to update or revise any such forward-looking statements, whether as a result of such information, future events or otherwise.

COMPANY OVERVIEW

AirIQ was incorporated in 1997, and since that time has played a significant role in the North American telematics industry. It is listed on the TSX Venture Exchange (“TSXV”) under the symbol “IQ”. AirIQ is a supplier of asset management services and its office is located at 1845 Sandstone Manor, Unit 10, Pickering, Ontario, L1W 3X9, Canada.

The Company offers an intuitive web-based platform that provides fleet operators and vehicle owners with a suite of asset management solutions to reduce cost, improve efficiency and monitor, manage and protect their assets. Services are available online or via a mobile app, and include: instant vehicle locating, boundary notification, automated inventory reports, maintenance reminders, security alerts and vehicle disabling and unauthorized movement alerts.

For additional information on AirIQ and its products and services, please visit the Company’s website at www.airiq.com. The information on AirIQ’s website is not considered to be a part of this management’s discussion and analysis.

BUSINESS REVIEW

The Company continues to focus on its key strategy elements to build revenues and manage costs to achieve sustained profitability and positive cash flow and to seek opportunities to form value creating strategic partnerships.

During the year, the sunset of one of the Company’s major 2G wireless network providers concluded (the “2G Sunset”). The 2G Sunset resulted in the termination of a majority of the Company’s legacy 2G units and had a negative impact on the Company’s revenues, gross profits and net income. However, the Company is now positioned to concentrate its efforts on sales of units on the 3G wireless network.

Highlights of the quarter and the year are as follows:

Fourth Quarter Highlights:

- EBITDAS of \$122 for the three months ended March 31, 2016 improved 16% from \$105 compared to the same quarter the previous year
- Revenue of \$855 for the quarter ended March 31, 2016 increased from \$776 compared to the three months ended March 31, 2015, an improvement of 10%

AirIQ Inc. – MDA – March 31, 2016

In thousands of Canadian dollars, except share and per share information

- Expenses of \$310 for the three months ended March 31, 2016 improved 1% from the same quarter the previous year
- Net income in the fourth quarter increased by 40% as compared to the same quarter the previous year

Annual Highlights

- The Company, for a second year in a row, has generated operating profit and positive cash flow results.
- The Company generated double digit revenue growth of 19% over the prior year ended March 31, 2015.
- Recurring revenue increased by 10% over the prior fiscal year and represented approximately 65% of total revenues with a gross profit of 76%.
- The Company's ongoing commitment to reduce expenses resulted in an improvement of \$55 or 4% over the prior fiscal year.
- Net income increased \$197 or 98% over the prior year ended March 31, 2015.
- Future revenue pools increased by 14% to \$873 when compared to the prior fiscal year.
- During the year the Company introduced a new enhanced online platform, AirIQ Fleet™, with enhanced features and functionality.
- The Company released its first mobile App for use by AirIQ Fleet™ customers.
- The Company also launched a newly designed corporate website, providing a more simplified and informative experience for customers, investors and partners.
- Subsequent to the year end, on May 31, 2016, the Company purchased certain software assets of Timeout Studios Inc., a private, arm's length third party, Canadian mobile web application company.

SUBSEQUENT EVENT

Subsequent to the year end, on May 31, 2016, the Company purchased certain software assets of Timeout Studios Inc., a private, arm's length third party, Canadian mobile web application company. Financial terms of the transaction were not material, and no securities of the Company were issued in connection with the transaction.

SELECTED ANNUAL INFORMATION

| For the years ended | 31-Mar-2016 | 31-Mar-2015 | 31-Mar-2014 |
|---|--------------------|--------------------|--------------------|
| Total Revenue | \$3,316 | \$2,795 | \$2,456 |
| Total earnings (loss) ⁽¹⁾ | \$524 | \$359 | (\$247) |
| Net income (loss) | \$399 | \$202 | (\$364) |
| Earnings (loss) per basic and diluted share | \$0.01 | \$0.01 | (\$0.02) |
| Total Assets | \$1,970 | \$1,554 | \$955 |
| Total long-term financial liabilities | nil | nil | nil |
| Cash dividends declared | nil | nil | nil |

(1) Earnings (loss) before interest expense, restructuring charges, impairment of long-lived assets, gain on business acquisition, and amortization.

The accompanying Consolidated Statements of Comprehensive Income are presented for the year ended March 31, 2016 and 2015, comparatively, and include the operating results of AirIQ Inc. and its subsidiaries.

Unless otherwise noted herein, all references to dollar amounts are in Canadian dollars in thousands of dollars except share and per share information.

RESULTS OF OPERATIONS

Revenues

Revenues for the year ended March 31, 2016, increased 19% to \$3,316 from \$2,795 for the year ended March 31, 2015. Approximately 65% of the total revenue for the year represents recurring revenue from the Company's airtime customers.

Revenues received from equipment sold in connection with service contracts are recorded as deferred revenue and recognized over the initial term of the service contract.

Sales of hardware units associated with service contracts recorded to deferred revenues were approximately \$903, during the year ended March 31, 2016, compared to \$881 during the year ended March 31, 2015. Revenues recognized from deferred revenues for the year ended March 31, 2016 were approximately \$795 compared to \$579 during the year ended March 31, 2015. Deferred hardware revenues were approximately \$678 compared to \$511 during the year ended March 31, 2015, and deferred service revenues were approximately \$117 compared to \$68 during the year ended March 31, 2015.

Overall, revenues related to service contracts sold in connection with hardware equipment increased by \$198 or 10% from \$1,941, for the year ended March 31, 2015 to \$2,139 for the year ended March 31, 2016.

Revenue from service contracts increased by approximately \$311 due to the difference in the average US dollar exchange rates which increased to \$1.31 from \$1.13 for the year ended March 31, 2016 and the year ended March 31, 2015, respectively. Service contract revenue also decreased by approximately \$113 which is primarily attributable to the shutdown of the 2G network and transition to the 3G network, resulting in lost customers when compared to the twelve months ended March 31, 2015.

Included in the Company's revenues are sales of units that were sold without a fixed term service contract of approximately \$425 and \$302 respectively, during the twelve months March 31, 2016 and March 31, 2015 respectively.

Included in the Company's reported revenues are miscellaneous parts, repair, warranty and lost unit sales of approximately \$74 during the year ended March 31, 2016, compared to \$11, for the year ended March 31, 2015.

Gross Profit

Overall, gross profit increased by \$184 or 11% to \$1,851 for the year ended March 31, 2016 compared to \$1,667 for the year ended March 31, 2015.

Equipment gross profits decreased by approximately 12% to \$225 during the year ended March 31, 2016 from \$255 for the year ended March 31, 2015.

Service contract gross profits increased by approximately 15% to \$1,626 for the year ended March 31, 2016 from \$1,412 for the year ended March 31, 2015.

Gross profits would have increased by approximately \$267 due to the change in the average US dollar exchange rates which increased to \$1.31 for the year ended March 31, 2016 compared to \$1.13 for the year ended March 31, 2015. However, gross profits decreased by approximately \$83 which is attributable to lower profits on the sale of equipment when compared to the year ended March 31, 2015.

Expenses and Other Items

Expenses include sales and marketing costs, general and administrative expenses and engineering and research expenses.

“Sales and marketing” expenses include all salaries and related costs of marketing, sales, client care, account management and other direct expenses such as advertising, marketing and sales support materials, trade show and other travel costs.

“Engineering and research” expenses consist of costs associated with acquired and internally developed software and device hardware, including fees to independent contractors and salaries and related expenses of personnel engaged in these activities.

“General and administrative” expenses include: salaries and related costs including finance, information technology and administrative personnel. In addition, general and administrative expenses include rent and occupancy costs, professional fees, insurance, investor relations, directors’ fees, regulatory filing fees, share-based payments, travel and costs related to board of directors or committee activities.

Sales and marketing, research and development and general and administrative expenses totalled \$1,296 for the year ended March 31, 2016 compared to \$1,351 for the year ended March 31, 2015.

Overall these expenses were decreased by \$55 for the year ended March 31, 2016 when compared to the year ended March 31, 2015.

Expense reductions for the year ended March 31, 2016 when compared to the year ended March 31, 2015 were achieved in the following areas; (a) wage and related expense of approximately \$26, (b) facility costs were reduced by \$50, (c) legal costs were reduced by \$15, and (d) other cost reductions of approximately \$15 related primarily to insurance costs, and computer operating costs. These savings were offset by an increase in (a) consulting fees were increased by \$36, (b) other costs were increased by \$9, related primarily to communication costs, and general expenses (c) stock based compensation costs were increased by \$6.

Foreign Exchange

For the year ended March 31, 2016, the Company recorded foreign exchange loss of \$31 compared to a gain of \$43 for the year ended March 31, 2015.

Interest and Other Financing Charges

Net expense for the year ended March 31, 2016, was \$nil compared to \$46 for the year ended March 31, 2015.

Interest charges include cash payments of \$nil related to the Promissory Note during the year ended March 31, 2016 (year ended March 31, 2015 - \$14). Included in interest expense for the year ended March 31, 2016 is non-cash accreted interest of \$nil related to the Black-Scholes fair value attributed to the warrants issued and work fees as part of the Loan (see *Liquidity and Capital Resources – Financing Activities* below) (March 31, 2015 - \$32).

Depreciation and Amortization

Amortization for the year ended March 31, 2016, was \$112, compared with \$111 for the year ended March 31, 2015.

Impairment of Long-Lived Assets

The charge for impairment of long-lived assets for the year ended March 31, 2016 was \$13, compared with \$nil for the year ended March 31, 2015. The impairment charge related to the write-off of assets due to the 2G Sunset

Net income

The Company's generated net income for the year ended March 31, 2016 of \$399 or \$0.01 per share as compared to net income of \$202 or \$0.01 per share for the year ended March 31, 2015, an improvement of \$197.

The increase in net income for the year ended March 31, 2016 when compared to the year ended March 31, 2015 can be attributed to improvement in the following areas; a) expense reductions of approximately \$55 (see *Expenses and Other Items* above), b) a decrease in interest of approximately \$46 (see *Interest and Other Financing Charges* above), and c) increased gross profits of \$184 (see *Gross Profit* above). These improvements were offset by a) an increase in amortization of approximately \$1 (see *Depreciation and Amortization* above), b) an increase in foreign exchange of approximately \$74 (see *Foreign Exchange* above) and c) an increase in impairment of long-lived assets of approximately \$13 (see *Impairment of Long-Lived Assets* above).

Summary of Quarterly Results

The information in the table below has been derived from the Company's consolidated financial statements.

| For the three months ended | 31-Mar-16 | 31-Dec-15 | 30-Sep-15 | 30-Jun-15 |
|--|------------------|------------------|------------------|------------------|
| Total revenue | \$855 | \$882 | \$757 | \$822 |
| Gross profit | \$432 | \$484 | \$490 | \$445 |
| Gross profit % | 51% | 55% | 65% | 54% |
| Expenses ⁽²⁾ | \$310 | \$312 | \$331 | \$338 |
| EBITDAS ⁽³⁾ | \$122 | \$172 | \$159 | \$107 |
| Other expenses ⁽⁴⁾ | \$49 | \$47 | \$32 | \$33 |
| Total net income (loss) | \$73 | \$125 | \$127 | \$74 |
| Income (loss) per share, basic and diluted | \$0.00 | \$0.01 | \$0.00 | \$0.00 |

| For the three months ended | 31-Mar-15 | 31-Dec-14 | 30-Sep-14 | 30-Jun-14 |
|--|------------------|------------------|------------------|------------------|
| Total revenue | \$776 | \$670 | \$672 | \$677 |
| Gross profit | \$419 | \$390 | \$417 | \$441 |
| Gross profit % ⁽¹⁾ | 54% | 58.2% | 62.1% | 65.1% |
| Expenses ⁽²⁾ | \$314 | \$311 | \$328 | \$335 |
| EBITDAS ⁽³⁾ | \$105 | \$79 | \$89 | \$106 |
| Other expenses ⁽⁴⁾ | \$53 | \$35 | \$37 | \$52 |
| Total net income (loss) | \$52 | \$44 | \$52 | \$54 |
| Income (loss) per share, basic and diluted | \$0.01 | \$0.00 | \$0.00 | \$0.00 |

(1) Gross profits declined in the period due to the costs of transitioning customers due to the 2G Sunset.

(2) Excludes share-based compensation.

(3) EBITDAS represents earnings before interest, tax, depreciation, amortization, shared-based compensation expense and gain on business acquisition. See "Non-GAAP/IFRS Measures" below.

(4) Includes non-cash notional charges such as interest, depreciation and amortization, impairment of long lived assets, share-based compensation expense.

LIQUIDITY AND CAPITAL RESOURCES

Operating activities

The Company generated approximately \$469 from operating activities during the year ended March 31, 2016; \$937 generated from operations and by a decrease in working capital of approximately \$468. This compares with cash generated of approximately \$375 from operating activities during the year ended March 31, 2015; \$634 generated from operations and by a decrease in working capital of approximately \$259.

Proceeds from equipment sold in connection with service contracts are recorded as deferred revenue and recognized over the expected life of the equipment on a straight-line basis.

Deferred revenue totaled \$873 as at March 31, 2016 and \$765 as at March 31, 2015.

Service costs related to equipment sold in connection with service contracts are recorded as costs of deferred revenues and expensed as direct cost of sales over the initial term of the service contract. Costs of deferred revenues totaled \$424 as at March 31, 2016, compared to \$310 as at March 31, 2015.

Investing activities

Investing activities related to additions to software, rental units and property, plant and equipment for the year ended March 31, 2016 totaled approximately \$547 of cash used compared with approximately \$270 for the year ended March 31, 2015. The Company spent approximately \$279 on software development related to the integration of new hardware onto its existing platform, upgrade of customer interfaces and development of new solution features.

Financing activities

Credit Facility

On December 15, 2014 the Company announced a change in bankers and the establishment of a revolving demand facility with Royal Bank of Canada (“RBC”). The credit facility is a standard operating line with the normal covenants, including a first priority general security over the Company’s assets. In connection with the facility, the Company’s lender, Mosaic Capital Partners, L.P. (“Mosaic”), agreed to subordinate its security interest to the Bank. As at March 31, 2016, the Company has not made a draw on the credit facility, and no interest or carrying charges have been incurred. As at March 31, 2016 and 2015, \$nil has been drawn from this demand credit facility.

Loan

On December 17, 2013, the Company entered into a credit agreement with Mosaic Capital Partners LP (“Mosaic”) for a loan of \$100 (the “Loan”). Pursuant to the terms of the credit agreement, the Company executed a promissory note in favour of Mosaic for \$100. The Loan had a maturity date of June 17, 2015 and bore interest at a rate of 15% per annum, calculated daily and payable monthly in arrears. The Company paid a fee of \$5 to Mosaic in connection with the advance of the Loan. Interest only was payable on the Loan on a monthly basis, and the Loan was secured by a charge over all of AirIQ’s property and assets. The Loan was not convertible into shares of the Company.

In consideration of the Loan, the Company issued 700,000 warrants to Mosaic to purchase up to 700,000 common shares of the Company (the “Warrant”) at an exercise price of \$0.05 per share. The Warrant will expire on December 17, 2018. The Warrant was valued at \$35 (see note 10(c) in the accompanying consolidated financial statements – Share Capital and Reserves – Other paid-in capital) and recorded against the carrying value of the Loan to be accreted over the term of the Loan. Concurrent with the Loan and the issuance of the Warrant, Mosaic agreed to cancel warrants to purchase up to 133,333 common shares of the Company which were granted to Mosaic on November 30, 2009 as part of a financing.

On February 26, 2015, the Company repaid the Loan in full, and the Company is no longer indebted to Mosaic.

Mosaic is a shareholder of the Company and Vernon Lobo, a director and Chairman of AirIQ, is a managing director of Mosaic. During the Company’s approval of the Loan, Mr. Lobo declared his conflict on the matter and abstained from voting.

The Company paid Mosaic a total of approximately \$nil, related to interest on the Loan during the year ended March 31, 2016 (2015 - \$14) which is included in interest expenses in the accompanying consolidated statement of income and comprehensive income.

AirIQ now has a total of 28,928,947 common shares issued and outstanding.

Contractual Obligations

| | Payments due by period | | | | | |
|--|------------------------|------------|----------|------|------|------|
| | Total | 2017 | 2018 | 2019 | 2020 | 2021 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Accounts payable and accrued liabilities | 442 | 442 | — | — | — | — |
| Operating leases | 43 | 34 | 9 | — | — | — |
| | 485 | 476 | 9 | — | — | — |

COMMITMENTS AND CONTINGENCIES

Commitments

Total future minimum payments under leases for premises are approximately \$43.

The Company is party to certain employee and management contracts. The Company has minimum contractual commitments with these contracts of \$60, all due within one year.

Contingencies

The Company, in the course of its normal operations, is subject to claims, lawsuits, patent infringement claims and contingencies. Accruals are made in instances where it is probable that liabilities may be incurred and where such liabilities can be reasonably estimated. Although it is possible that liabilities may be incurred in instances for which no accruals have been made, the Company has no reason to believe that the ultimate outcome of these matters would have a significant impact on its consolidated financial position.

During the year ended March 31, 2015, the Company had an outstanding irrevocable standby letter of credit of \$15 as security for a certain supply agreement. On April 14, 2015, the irrevocable standby letter of credit was released.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not have any off balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

The Company has identified MR Accounting & Bookkeeping Inc. as a related party as this corporation has an officer in common with the Company and is controlled by such officer. The Company owed MR Accounting & Bookkeeping Inc. \$11 as at March 31, 2016 (2015 - \$nil).

The Company has also identified Mosaic as a related party as this corporation has a director in common with the Company. During the year ended March 31, 2016, Mosaic was paid approximately \$nil related to work fees and interest as per the Loan (See *Liquidity and Capital Resources – Financings - Loan*) (2015 - \$14).

The Company has also identified DRGibbs and Associates as a related party as this corporation has a director in common with the Company and is controlled by such director. The Company owed DRGibbs and Associates \$36 at March 31, 2016 (2015 - \$36) which is included in accounts payable and accrued liabilities. The Company is also owed \$36 from Mr. Gibbs at March 31, 2016 which is included in trade and other receivables.

OUTSTANDING SECURITIES DATA

| | Authorized | Issued and Outstanding as at 31-Mar-2016 | Issued and Outstanding as at 13-Jul-2016 |
|---------------|-------------------|---|---|
| Common shares | unlimited | 28,928,947 | 28,928,947 |
| Warrants | n/a | 700,000 | 700,000 |
| Stock options | n/a | 2,892,580 | 2,884,078 |

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The most significant estimates and assumptions made by management in the preparation of the Company's accompanying consolidated financial statements are outlined below.

Income, value added, withholding and other taxes

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility, forfeiture rate and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in the accompanying consolidated financial statements.

Warranty

The Company uses historical warranty claim information, as well as recent trends that might suggest that post-cost information may differ from future claims. Factors that could impact the estimated claim information include the success of the Company's productivity and quality initiatives, as well as parts and labour costs. Actual claims costs may differ from management's estimates depending upon whether the actual claims costs were significantly different than the estimates.

Impairment

An impairment loss is recognized for the amount by which an asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the recoverable amount, management estimates expected future cash flows from each asset or cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. In the process of measuring expected future cash flows management makes assumptions about future operating results. These assumptions relate to future events and circumstances. The actual results may vary, and may cause significant adjustments to the Company's assets within the next financial year.

In most cases, determining the applicable discount rate involves estimating the appropriate adjustment to market risk and the appropriate adjustment to asset-specific risk factors.

Useful Lives of Depreciable Assets

Management reviews the useful lives of depreciable assets including software, rental units and property, plant and equipment and customer contracts at each reporting date based on the expected utility of the assets to the Company. Actual results, however, may vary due to technical obsolescence. Details of the software, rental units and property, plant and equipment are provided in the accompanying consolidated financial statements.

Inventories

Inventory is measured at the lower of cost and net realizable value. In estimating net realizable values, management takes into account the most reliable evidence available at the times the estimates are made. The Company's business is subject to technology changes which may cause selling prices to change rapidly. Moreover, future realization of the carrying amounts of inventory assets is affected by price changes in different market segments. Details of the inventory balances are provided in the accompanying consolidated financial statements.

Determination of fair values of assets acquired in business combinations

The assets acquired in business combinations are all initially recorded at fair market value. Determination of fair value included assessments of discounted cash flows for the assets acquired and expected to be derived from the use of these assets.

Revenue recognition

The recognition of revenue from multiple component arrangements requires management to assess if the arrangements have separately identifiable components. The sale of equipment in connection with service contracts and the service contracts themselves are considered linked and are not separable; therefore these elements are combined and recognized as a whole transaction.

Legal claims

In accordance with IFRS, the Company recognizes a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognized or disclosed in the financial statements could have a material effect on the Company's financial position. Application of these accounting principles to legal cases requires the Company's management to make determinations about various factual and legal matters beyond its control. The Company reviews outstanding legal cases, following developments in the legal proceedings, and at each reporting date in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the nature of the litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the Company's management as to how it will respond to the litigation, claim or assessment.

RECENT ACCOUNTING DEVELOPMENTS

Standards, Amendments and Interpretations Not Yet Effective

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after April 1, 2016 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 9 – Financial Instruments (“IFRS 9”) was issued by the IASB in November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing

the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted.

IFRS 15 - Revenue from Contracts with Customers (“IFRS 15”) proposes to replace IAS 18 - Revenue, IAS 11 - Construction contracts, and some revenue-related interpretations. The standard 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. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. Earlier adoption is permitted.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in December 2014 in order to clarify, among other things, that information should not be obscured by aggregating or by providing immaterial information, that materiality consideration apply to all parts of the financial statements and that even when a standard requires a specific disclosure, materiality considerations do apply. The amendments are effective for annual periods beginning on or after January 1, 2016. Earlier adoption permitted.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

NON-GAAP MEASURES

Certain non-GAAP measures are presented in this management’s discussion and analysis of the consolidated results of operations and financial condition of AirIQ Inc. These measures do not have any standardized meaning prescribed by IFRS and differ from measures determined in accordance with IFRS. The amounts presented may not be comparable with amounts presented by other companies. These non-GAAP measures are intended to provide additional information regarding the Company’s financial performance and should not be construed as an alternative to net income or to cash flows from operating activities (as determined in accordance with IFRS) or as a measure of liquidity.

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company’s financial instruments consist of cash, trade and other receivables, accounts payable and accrued liabilities, promissory notes and obligations under finance lease. The Company does not utilize derivative financial instruments to manage various types of risks related to the accompanying consolidated financial instruments.

The Company faces currency risk related to the variations in exchange rates between U.S. and Canadian currencies which may affect the Company’s operating and financial results. The Company’s consolidated activities that result in exposure to fluctuations in foreign currency exchange rates consist of the sale of products to customers in foreign currencies and the purchases of services and raw materials from suppliers invoiced in foreign currencies.

The Company is also exposed to credit risk from customers. The Company performs ongoing credit evaluations of new and existing customers' financial condition and reviews the collectability of its trade accounts receivable in order to mitigate any possible credit losses.

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company currently settles its financial obligations out of cash. The ability to do this relies on the Company collecting its accounts receivable in a timely manner and by maintaining sufficient cash and cash equivalents and marketable securities in excess of anticipated needs.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Management feels that the Company is not currently subject to significant interest rate risk as the Company currently does not have any interest-bearing debt.

Further details related to the Company's financial instruments and risk management approach are set out in Note 3, Summary of Significant Accounting Policies - Financial Instruments, to the accompanying consolidated financial statements.

RISK FACTORS

There are certain risks inherent in an investment in the securities of AirIQ and in the activities of the Company, including the following, which investors should carefully consider before investing in securities of AirIQ. This description of risks does not include all possible risks, and there may be other risks of which the Company is not currently aware.

Financing Requirements

AirIQ may require additional financing in order to support expansion, develop new or enhanced services, respond to competitive pressures, acquire complementary businesses or technologies or take advantage of unanticipated opportunities. The ability of AirIQ to arrange such financing will depend in part upon the success of AirIQ's existing and new service offerings and competing technological and market developments. There can be no assurance that AirIQ will be successful in its efforts to arrange additional financing on terms satisfactory to AirIQ. Any additional equity financing may be dilutive to shareholders, and debt financing, if available, may involve restrictive covenants. If additional funds are raised through the issuance of equity securities, the percentage ownership of the shareholders of AirIQ will be reduced, shareholders may experience additional dilution in net book value per share, or such equity securities may have rights, preferences or privileges senior to those of the holders of AirIQ's common shares. If adequate funds are not available on acceptable terms, AirIQ may be unable to develop or enhance its services and products, take advantage of future opportunities or respond to competitive pressures, any of which could have a material adverse effect on AirIQ's business, financial condition and operating results.

Dependence on Wireless Carriers

AirIQ depends on wireless networks owned and controlled by others. If AirIQ's customers do not have continued access to sufficient capacity on reliable networks, AirIQ may be unable to deliver services and AirIQ's revenue may decrease. AirIQ's financial condition could be harmed if its wireless carriers were to increase the prices of their services. The 2G Sunset (see *Business Review* above) had a negative impact on the Company's revenues, gross profits and net income.

Operating Results

AirIQ has incurred significant losses to date. Consequently, there is no assurance that AirIQ will achieve profitability in the future or that AirIQ will be able to generate sufficient cash from operations, or to raise sufficient financing to fund its operations. Operating results of AirIQ could be materially adversely affected by general economic and other conditions affecting the timing of customer demand and specifically the development of the GPS, wireless communication and Internet information markets.

Client Concentration; Dependence on Large Projects

AirIQ has derived, and believes that it will continue to derive, a significant portion of its revenues from a limited number of large client contracts. The loss of any large client could have a material adverse effect on AirIQ's business, financial condition and results of operation. In addition, revenues from a large client may constitute a significant portion of AirIQ's total revenues in a particular quarter. The cancellation or a significant reduction in orders from these clients could have a material adverse effect on AirIQ's business, financial condition and results of operations.

Fluctuations in Quarterly Operating Results

AirIQ's quarterly revenues and operating results may fluctuate significantly from quarter to quarter due to a number of factors, many of which are outside its control, including the following:

- delays in market acceptance or implementation by customers of AirIQ's products or services;
- delays or restrictions in supply of materials
- changes in demand by a customer's customers for existing and additional services;
- changes in or cancellations of AirIQ's agreements with wireless carriers;
- introduction of new products or services by AirIQ or its competitors;
- changes in AirIQ's pricing policies or those of its competitors or suppliers;
- changes in AirIQ's mix of sources of revenues; and
- changes in accounting standards, including standards relating to revenue recognition, business combinations and share-based payments.

AirIQ's expense levels are based, in part, on its expectation of future revenues. As a result, any shortfall in revenues relative to AirIQ's expectations could cause significant changes in AirIQ's operating results from quarter to quarter.

Lapses in Coverage

Wireless networks and GPS occasionally suffer lapses in coverage due to obstructions blocking the transmission of data to and from vehicles. Such lapses could make AirIQ's services less reliable and useful, and customer satisfaction could suffer, which may result in loss of customers as well as litigation. AirIQ's financial condition could be seriously harmed if it were to suffer operational or technical failures. If wireless carriers do not expand coverage, AirIQ may be unable to offer its services to additional areas. There are a limited number of wireless carriers offering services compatible with AirIQ's service. AirIQ's existing agreements with wireless carriers may be terminated at the end of their respective contract periods. Termination of a wireless carrier's contract with AirIQ could require AirIQ to incur additional costs relating to obtaining alternative coverage from another wireless carrier outside its primary coverage area or AirIQ may be unable to replace the coverage at all, causing a complete loss

of service to AirIQ's customers in such coverage areas. The 2G Sunset (see *Business Review* above) had a negative impact on the Company's revenues, gross profits and net income.

Rapid Technological Change; Delays in Introduction of New Services and Products

GPS, wireless communication and Internet information industries are characterized by rapid technological change, changes in client requirements, frequent new service and product introductions and enhancements, and emerging industry standards. The introduction of services and products embodying new technologies and the emergence of new industry standards and practices can render existing services and products obsolete and unmarketable. Also, products and services that address the GPS, wireless communication and Internet information markets are likely to contain undetected errors or defects, especially when first introduced or when new versions are introduced. AirIQ's services may not be free from errors or defects, which could result in the cancellation or disruption of AirIQ's services. This would damage AirIQ's reputation and result in lost revenues, diverted development resources and increased service and warranty costs. AirIQ's future success will depend, in part, on its ability to develop leading technologies, enhance its existing services, enter new markets, develop new services that address the increasingly sophisticated and varied needs of its prospective customers, and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. The development of new services or enhanced versions of existing services entails significant technical risks. There can be no assurance that AirIQ will be successful in effectively using new technologies, adapting its services to emerging industry standards, developing, introducing and marketing service enhancements, or new services, or that it will not experience difficulties that could delay or prevent the successful development, introduction or marketing of these services, or that its new service enhancements will adequately meet the requirements of the marketplace and achieve market acceptance. If AirIQ is unable to develop and introduce new services or enhancements of existing services in a timely manner in response to changing market conditions or customer requirements, or if new services do not achieve market acceptance, AirIQ's business, financial condition and operating results will be materially adversely affected. The Company's product supplier has announced the end-of-life of one type of device used by the Company. The Company does have other product offerings and is also investigating other alternatives to replace this device type.

Risk of Infringement

AirIQ may in the future receive notices of claims of infringement of other parties' proprietary rights. There can be no assurance that claims for infringement or invalidity (or claims for indemnification resulting from infringement claims) will not be asserted or prosecuted against AirIQ. Any such claims, with or without merit, could be time consuming to defend, result in costly litigation, divert management's attention and resources or require AirIQ to enter into royalty or licensing agreements. There can be no assurance that such licenses would be available on reasonable terms, if at all, and the assertion or prosecution of any such claims could have a material adverse effect on AirIQ's business, financial condition and operating results.

Product Liability Claims

AirIQ may be subject to claims for damages related to errors and malfunctions of AirIQ's hardware components or their installation. A product liability claim could seriously harm AirIQ's business because of the costs of defending against this type of lawsuit, diversion of employees' time and attention, and potential damage to AirIQ's reputation. Some of AirIQ's agreements with its customers contain provisions designed to limit exposure to potential product liability claims. Limitation of liability provisions contained in AirIQ's agreements may not be enforceable under the laws of some jurisdictions.

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As a result, AirIQ could be required to pay substantial amounts of damages in settlement or upon the determination of any such type of claims.

Supply Arrangements

AirIQ has established a number of relationships with major suppliers and service providers for critical components of AirIQ's products and services. AirIQ will continue to seek out similar arrangements in the future. There can be no assurance that any such partnerships or arrangements will be maintained, and that if such relationships are maintained, they will be successful or profitable, or that AirIQ will develop any new such relationships. Reliance on such relationships exposes AirIQ to risks arising from such third parties' integrity, reputation, solvency or operations, as well as product and/or service quality, quantity, delivery, security, privacy, availability or suitability, over which AirIQ has no control, and which may have a material adverse effect on AirIQ's business, financial condition and results of operations.

The Company relies on certain key suppliers for the manufacturing of new in-vehicle devices and the delivery of wireless network services. No assurances can be given that the Company will not experience delays or other difficulties in sourcing sufficient devices or wireless network services to meet the Company's needs.

The 2G Sunset (see *Business Review* above) had a negative impact on the Company's revenues, gross profits and net income.

Dependence on Key Personnel

AirIQ's success will depend in large part upon the continued services of a number of key employees. The loss of the services of one or more of AirIQ's key personnel could have a material adverse effect on AirIQ and its business, financial condition and operating results. In addition, if one or more of AirIQ's key employees resigns from AirIQ to join a competitor or to form a competing company, the loss of such personnel and any resulting loss of existing or potential clients to any such competitor could have a material adverse effect on AirIQ's business, financial condition and operating results. In the event of the loss of any such personnel, there can be no assurances that AirIQ would be able to prevent the unauthorized disclosure or use of its technical knowledge, practices or procedures by such personnel.

Government Regulations and Standards

In addition to regulations applicable to businesses in general, AirIQ may also be subject to direct regulation by governmental agencies, including the Canadian Radio-Television and Telecommunications Commission (the "CRTC") in Canada and the FCC and Department of Defense in the United States. These regulations may impose licensing requirements or safety standards with respect to human exposure to electromagnetic radiation and signal leakage. A number of legislative and regulatory proposals under consideration by federal, state, provincial, local and foreign governmental organizations may lead to laws or regulations concerning various aspects of the Internet, wireless communications and GPS technology, including on-line content, user privacy, taxation, access charges and liability for third-party activities. Additionally, it is uncertain how existing laws governing issues such as the use of AirIQ's systems or services by its customers or taxation on the use of wireless networks, intellectual property, libel, user privacy and property ownership, will be applied to AirIQ's services. The adoption of new laws or the application of existing laws may expose AirIQ to significant liabilities, additional operational requirements, or restrictions on the use of AirIQ's system or services, which could decrease the demand for AirIQ's services and increase AirIQ's costs of doing business.

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Wireless carriers who supply AirIQ with airtime are subject to regulation by CRTC in Canada and by the FCC in the United States and regulations that affect them could also increase AirIQ's costs or limit the provision of AirIQ's services.

Litigation

In the course of its business, AirIQ is involved in various claims and lawsuits seeking damages and other forms of relief. AirIQ cannot predict with any certainty the outcome of such claims and lawsuits and as such, there can be no assurance that results will not negatively impact the business, financial condition and operations of the Company.

Management of Growth

AirIQ's financial condition has placed significant demands on its management and other resources. AirIQ's ability to manage this effectively will require it to continue to develop and improve its operational, financial and other internal systems, and to train, motivate and manage its employees. If AirIQ is unable to manage its financial condition effectively, such inability could have a material adverse effect on the quality of AirIQ's services, its ability to retain key personnel and its operating results.

Global Positioning System Technology

AirIQ's services rely on signals from GPS satellites built and maintained by the U.S. Department of Defense. GPS satellites and their ground support systems are subject to electronic and mechanical failures and sabotage. If one or more satellites malfunction, there could be a substantial delay before they are repaired or replaced, if at all, and AirIQ's services may cease and customer satisfaction would suffer. In addition, the U.S. government could decide not to continue to operate and maintain GPS satellites over a long period of time or to charge for the use of GPS. Furthermore, because of ever-increasing commercial applications of GPS, other agencies may become involved in the regulation of the use of GPS in the future. If any of the foregoing factors affect GPS, such as by affecting the availability and pricing of GPS technology, AirIQ's business could suffer.

System Failure

Any disruption in AirIQ's services, information systems or communications networks could result in the inability of AirIQ's customers to receive AirIQ's services for an indeterminate period of time. Any disruption to AirIQ's services could cause AirIQ to lose customers or revenue, or face litigation, or could cause customer service or repair work that would involve substantial costs and distract management from AirIQ's business.

Segregation of Duties

Certain duties within the Company's accounting and finance departments are not properly segregated due to the small number of individuals employed in these areas. These deficiencies may be considered to be a significant deficiency in internal control, or a material weakness resulting in a more than remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected.

Foreign Currency Risk

The Company is exposed to foreign currency risk as a result of exporting most of its products and services to the United States and selling them in U.S. dollars. The Company's exposure to foreign currency fluctuations is partially hedged by purchasing certain hardware devices, wireless services and supplies in U.S. dollars. The Company monitors its foreign exchange exposure and will consider forward exchange contracts for any significant exposure. To date, the Company has not entered into forward exchange contracts.

DISCLOSURE PROCEDURES AND CONTROLS

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, so that appropriate decisions can be made regarding public disclosure. As at the end of the period covered by this management's discussion and analysis of the consolidated results of operations and financial condition, management evaluated the effectiveness of the Company's disclosure controls and procedures as required by Canadian securities law.

Based on that evaluation, management has concluded that, as of the end of the period covered by this management's discussion and analysis, the disclosure controls and procedures were designed to provide reasonable assurance that information required to be disclosed in the Company's annual filings and interim filings (as such terms are defined under Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) and other reports filed or submitted under Canadian securities laws is recorded, processed, summarized and reported within the time periods specified by those laws, and that material information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. However, as a result of control weaknesses noted below, management has concluded that the disclosure controls are not effective. Any material weaknesses identified have not resulted, either individually or collectively in any adjustments to the Company's interim or annual financial statements.

Internal Controls over Financial Reporting

Management of the Company is responsible for designing internal controls over financial reporting, or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS.

Management and the board of directors work to mitigate the risk of a material misstatement in financial reporting; however, there can be no assurance that this risk can be reduced to less than a remote likelihood of a material misstatement.

The Company has identified control deficiencies within its accounting and financial function and its financial information systems over segregation of duties.

Specifically, certain duties are not properly segregated due to the small number of individuals employed in this area. However, management has concluded that considering the employees involved and the control procedures in place, including management and Audit Committee oversight, risks associated

with such lack of segregation are not significant enough to justify the expense associated with adding a number of employees to clearly segregate duties.

During the documentation and assessment of the design of its internal controls, management identified certain areas where internal controls should be enhanced including inventory management and revenue recognition. Management has been enhancing its internal controls, some of which include program change and access controls over certain financial reporting related IT software and applications, and the sufficiency of the Company's financial reporting processes. Management is also aware that in-house expertise to deal with complex taxation, accounting and reporting issues may not be sufficient. The Company utilizes, and will continue to utilize, outside assistance and advice on new accounting pronouncements and complex accounting and reporting issues, which is common with companies of a similar size.

Management is of the opinion that none of these control deficiencies has resulted in a misstatement to the financial statements. However, these deficiencies may be considered a material weakness resulting in a more than remote likelihood that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected. At the present time, the Chief Executive Officer and Chief Financial Officer oversee all material transactions and related accounting records. In addition, the Audit Committee reviews the financial statements and key risks of the Company and queries management about significant transactions on a quarterly basis.

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Additional information relating to the Company can be found on the Canadian Securities Administrators System for Electronic Document Analysis and Retrieval (SEDAR), located at www.sedar.com.