MANAGEMENT'S DISCUSSION & ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2016

Dated March 9, 2017

Baylin Technologies Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations for the Year Ended December 31, 2016

The following management's discussion and analysis ("MD&A") of Baylin Technologies Inc. ("Baylin", the "Company", "we" or "us") as of March 9, 2017 should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2016 ("fiscal 2016"), December 31, 2015 ("fiscal 2015") and the related notes included therein. All amounts are expressed in United States dollars unless otherwise indicated.

Additional information relating to the Company, including our most recent Annual Information Form, may be found at www.sedar.com. Unless otherwise stated, all amounts shown in this MD&A are in United States dollars

FORWARD-LOOKING STATEMENTS

This MD&A of the financial conditions and results of operations contains forward-looking statements concerning anticipated developments in our operations in future periods, the adequacy of our financial resources and other events or conditions that may occur in the future. Forward-looking statements are frequently, but not always, identified by words such as "expects," "anticipates," "believes," "intends," "estimates,", "predicts," "potential," "targeted," "plans," "possible" and similar expressions, or statements that events, conditions or results "will," "may," "could" or "should" occur or be achieved. These forward-looking statements include, without limitation, statements about our market opportunities, strategies, competition, expected activities and expenditures as we pursue our business plan, the adequacy of our available cash resources and other statements about future events or results. Forward-looking statements are statements about the future and are inherently uncertain and actual achievements of the Company 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, such as business and economic risks and uncertainties. Forward-looking statements are based on certain assumptions and analyses made by the Company in light of the experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate, and are subject to risks and uncertainties. Although we believe that the assumptions underlying these statements are reasonable, they may prove to be incorrect, and we cannot assure that actual results will be consistent with these forward-looking statements. Consequently, all forward- looking statements made in this MD&A on the financial conditions and results of operations or the documents incorporated by reference are qualified by this cautionary statement and there can be no assurance that actual results or developments we anticipate will be realized. Some of these risks, uncertainties and other factors are described in our most recent Annual Information Form under the heading "Risk Factors" available at www.sedar.com. For the reasons set forth above, investors should not place undue reliance on forward-looking statements. Unless otherwise stated, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and we assume no obligation to update any forward –looking statements, whether as a result of new information or future events or otherwise, except to the extent required by applicable law.

NON-GAAP MEASURES

This MD&A includes a number of measures that are not prescribed by Canadian generally accepted accounting principles ("GAAP") and as such may not be comparable to similar measures presented by other companies. We believe these measures are commonly employed to measure performance in our industry and are used by analysts, investors, lenders and interested parties to evaluate financial performance and our ability to incur and service debt to support our business activities. The measures we use are specifically defined where they are first used in this report.

While we believe that non-GAAP measures are helpful supplemental information, they should not be considered in isolation as an alternative to net income, cash flows generated by operating, investing or financing activities, or other financial statement data presented in accordance with GAAP.

The measures (and their definition) presented in this MD&A, are (i) "EBITDA" (operating income (loss) plus depreciation and amortization), (ii) "Adjusted EBITDA" (EBITDA plus non-recurring items, as later defined), (iii) "Adjusted net income" (net income plus non-recurring items), (iv) "gross margin" (gross profit divided by revenue), (v) "net cash" (cash and cash equivalents minus [a] bank indebtedness minus [b] current portion of capital leases, (vi) "working capital" (current assets minus current liabilities), and (vii) "non-cash working capital" (working capital minus cash and cash equivalents).

OVERVIEW

We are a global provider of innovative wireless antenna solutions with over 38 years of experience in designing, manufacturing and supplying antennas. We strive to meet our customers' needs by being their trusted partner from initial design to production. Our antenna solutions are custom engineered to meet the specifications for our customers' mobile, networking and DAS/small cell needs. Since our establishment in 1978, our business has grown into an international platform with operations in North America and Asia.

As noted previously, in fiscal 2015 the Board of Directors appointed a new senior leadership team with the mandate to undertake the actions necessary to effect a financial turnaround of the Company following significant losses and declining liquidity in fiscal 2014 and the first half of fiscal 2015. The key aspects of this turnaround plan were (i) diversify our revenue base from a high concentration with a single customer, (ii) reduce the fixed cost base, (iii) improve liquidity through more effective working capital management, and (iv) transition head office functions to Toronto, Canada. In comparison to fiscal 2015, fiscal 2016's full year results demonstrated growth and progression in these areas, evidenced by improving key performance indicators ("KPI's).

Key highlights for the twelve months ended December 31, 2016:

- Revenue grew to $63.5 million, up 48% from last year.
- Gross profit grew to $17.7 million, a 95% increase from fiscal 2015, and a 6.8 percentage point improvement in the gross margin. (See Non-GAAP Measures on page 2 of this MD&A)
- Positive Adjusted EBITDA, was $1.4 million, reversing an Adjusted EBITDA loss of $6.9 million a year ago. Certain non-recurring and one-time expenses ("non-recurring items") were incurred in fiscal 2016 of $0.9 million. (See Non-GAAP Measures on page 2 of this MD&A).
- Though fiscal 2016 showed a net loss of $2.0 million, it was significantly improved from fiscal 2015 where the net loss was $14.7 million. Net loss, adjusted for the non-recurring items, was $1.1 million in fiscal 2016, whereas the net loss in fiscal 2015, adjusted for the non-recurring items, was $12.9 million. (See Non-GAAP Measures on page 2 of this MD&A)
- Liquidity improved by issuing common shares for gross proceeds of CAD$5.75 million, and selling land and building in Israel for $1.8 million. Cash and cash equivalents increased by $2.3 million, to $13.8 million, from the end of fiscal 2015. Net cash increased by $6.1 million over the same period.
- Commenced construction of a new product introduction line, intended to streamline the development-to-manufacturing process, hired additional engineering staff and external R&D resources to refresh product lines, and completed the transition of the head office to Toronto, Canada.

Key highlights for the three months ended December 31, 2016:

- Revenue and gross profit grew in the most recent quarter by 16% and 39%, respectively, from the same period in fiscal 2015. This was the fifth consecutive quarter of year-over-year growth.
- Adjusted EBITDA in Q4 2016 was positive $0.1 million despite $0.4 million in provisions related to a customer's quality issue; an improvement upon last year which posted an Adjusted EBITDA loss of $1.5 million.

SUMMARIZED FINANCIAL INFORMATION

The table discloses selected information related to income and balance sheet items over the past three fiscal years.

(000's except per share amounts)			
	Twelve Months Ended December 31,		
	2016	2015	2014
	$	$	$
Revenue	63,482	43,025	44,870
Gross Profit	17,735	9,092	9,002
Loss before income taxes	(1,969)	(14,076)	(14,033)
Income tax expense (recovery)	2	595	(35)
Net Income (Loss)	(1,971)	(14,670)	(14,068)
Basic and diluted income (loss) per share	(0.11)	(0.78)	(0.75)
EBITDA	506	(8,702)	(8,848)
Adjusted EBITDA	1,422	(6,928)	(8,646)
Current assets	32,048	28,346	39,579
Total assets	48,415	49,572	66,531
Current liabilities	16,470	18,433	18,910
Non-current liabilities	1,089	983	2,096
Total liabilities	17,559	19,416	21,006

OUTLOOK

Cost management, manufacturing efficiencies and product line rationalization were a key focus in fiscal 2016 and will continue into fiscal 2017, though management intends to make prudent R&D investments to facilitate continued growth. As noted in the short form prospectus filed in December, 2016, CAD$3.0 million of the proceeds from the equity offering will be used to finance incremental R&D in fiscal 2017 in order to accelerate entry into the Base Station Antenna (“BSA”) market.

While the board of directors and management are encouraged by the full year positive EBITDA result, the over-arching focus in fiscal 2017 has not changed; that is continuing the momentum created in fiscal 2016 while prudently managing our liquidity. Exploring new opportunities in the Mobile market, continuing to diversify and expand the Networking customer portfolio and further expanding the Wireless Infrastructure product portfolio, especially into the BSA market, will be our primary focus. Also, management will explore opportunities to increase the scale of our business through a strategic, accretive acquisition or acquisitions.

RESULTS OF OPERATIONS

Descriptions of Operations

Our business is comprised of three inter-related antenna product lines; being (i) Mobile, (ii) Networking and (iii) Wireless Infrastructure.

Mobile, the largest in terms of revenue, undertook a major initiative with the commissioning of the Vietnam manufacturing plant in fiscal 2016. Establishing this plant helped regain market share with our major customer, as evidenced by the product line more than doubling its revenue in fiscal 2016. Consequently, LDS production capacity was increased in fiscal 2016 in order to meet this customer’s demand. The Company expects its Mobile customer portfolio to diversify in the short-term following new design wins, albeit at a lower growth rate than in fiscal 2016.

Our strategy to diversify the Revenue base and be less reliant on the Mobile product line, by increasing volumes in Networking and Wireless Infrastructure, will continue into 2017. In particular we see growth opportunities in the Wireless Infrastructure space. Overall capital spending in this market was soft in 2014 and the first part of 2015, however we noted increased spending in the latter part of 2015 and into fiscal 2016, where revenue grew by 24% in fiscal 2016 versus fiscal 2015. We anticipate spending by our customers (cellular carriers in particular) to continue to ramp up in 2017. A key focus is the expansion of our product portfolio and gaining additional key customers in 2017. Additionally, as noted earlier, we are intending to increase our R&D spending in the BSA product category in fiscal 2017.

As for Networking, we are a leading choice in the United States for Tier 1 carrier grade gateways. We have continued to build a robust product pipeline, and will continue to leverage our expertise and technology to grow the product portfolio. Over the past two years the Networking product line has also been able to diversify its customer portfolio by securing some significant new customers.

Revenue and Gross Profit

(000's)					
			Fiscal		
	2016	**2015**	**2014**	**Change 2015 to 2016**	**Change 2014 to 2015**
	$	**$**	**$**		
Revenue	**63,482**	**43,025**	**44,870**	**47.5%**	**(4.1%)**
Cost of Revenue	45,747	33,934	35,868	34.8%	(5.4%)
Gross Profit	**17,735**	**9,092**	**9,002**	**95.1%**	**1.0%**
Gross Margin %	27.9%	21.1%	20.1%		

a) *Factors Affecting Revenue and Gross Profit*

Revenue

Revenue is derived from the sale of our antenna products. Financial results are reported as one reportable segment. The Company manufactures and sells a variety of antenna products such as antennas for mobile handsets and smartphones, networking and telemetry devices, land mobile radios, telematics and wireless infrastructure antennas. Revenue is impacted by the timing of our customer's product launches, their project deployment plans, and network expansion investment levels by carriers and independent providers.

Gross profit

Our gross profit is impacted by selling prices and sales volumes, product mix and the variable costs of goods sold (being direct materials and direct labour). The Company also commenced lean manufacturing processes in order to optimize and reduce its fixed manufacturing costs going forward.

b) *Fiscal 2016 compared to Fiscal 2015*

Revenue was $63.5 million in fiscal 2016, an increase of 47.5% when compared to fiscal 2015's level of $43.0 million. This growth was led by the mobile product line, which more than doubled the level posted in fiscal 2105, followed by Wireless Infrastructure products which grew by 23.5%, The growth in the Mobile product line was as a result of the volumes to our major customer rebounding in fiscal 2016. Networking declined by 4.1% year-over-year due to the timing of customer orders delayed to 2017.

Gross Profit was $17.7 million in fiscal 2016, or 27.9% of Revenue; comparing favourably with fiscal 2015, where it was $9.1 million (21.1% of Revenue). The improvement was due to (i) higher production volumes associated with higher fiscal 2016 revenue, and (ii) the new Vietnam plant ramping up.

R&D Expenses

(000's)					
			Fiscal		
	2016	2015	2014	Change 2015 to 2016	Change 2014 to 2015
	$	$	$		
Payrolls	5,687	4,382	5,210	29.8%	(15.9%)
Other development costs	1,858	1,684	2,162	10.3%	(22.1%)
Depreciation	176	408	421	(56.9%)	(3.1%)
Total	**7,721**	**6,474**	**7,793**	**19.3%**	**(16.9%)**
As a Percentage of Revenue	12.2%	15.0%	17.4%		

a) *Factors Affecting R&D Expenses*

R&D expenses consist primarily of salaries, patent fees, product development costs and other related engineering expenses. Our technological design centers are located in Israel, South Korea and the United States. As such, we often incur significant expenditures in the development of a new product without any assurance that our customers' system designers will ultimately select our product for use in their applications. We are often required to anticipate which product designs will generate demand in advance of our customers expressly indicating a need for that particular design. Even if our customers' system designers ultimately select our products, a substantial period of time will elapse before we generate revenue relative to the possibly significant expenses we have initially incurred.

b) *Fiscal 2016 compared to Fiscal 2015*

R&D expense in fiscal 2016 was $7.7 million, or 12.2% of Revenue; a dollar increase from fiscal 2015's amount of $6.5 million (15.0% of Revenue). The increase was attributable to increased headcount hired to develop products to expand our product lines.

Sales and Marketing

(000's)					
			Fiscal		
	2016	2015	2014	Change 2015 to 2016	Change 2014 to 2015
	$	$	$		
Payrolls	2,596	3,308	1,874	(21.5%)	76.5%
Other	523	1,476	2,103	(64.6%)	(29.8%)
Total	**3,119**	**4,784**	**3,977**	**(34.8%)**	**20.3%**
As a Percentage of Revenue	4.9%	11.1%	8.9%		

a) *Factors Affecting Sales and Marketing Expenses*

Sales and marketing expenses consist primarily of salaries, advertising, trade shows, travel costs and other promotional activities. These costs can be material when entering new markets such as the infrastructure market and acquiring new customers, requiring meaningful investments to win new business.

b) *Fiscal 2016 compared to Fiscal 2015*

Sales and marketing expenses in fiscal 2016 were $3.1 million (4.9% of Revenue), whereas in fiscal 2015 these expenses were $4.8 million (11.1% of Revenue). The decrease in the absolute dollar amount of these expenses was mainly in cost control in other expenses (such as trade shows and travel), and to a lesser extent in payroll costs due to streamlining our senior sales management.

G&A

(000's)					
	Fiscal				
	2016	2015	2014	Change 2015 to 2016	Change 2014 to 2015
	$	$	$		
Payrolls	3,518	3,851	4,007	(8.6%)	(3.9%)
Other	5,669	5,656	4,774	0.2%	18.5%
Depreciation	304	479	423	(36.5%)	13.2%
Total	**9,491**	**9,986**	**9,204**	**(5.0%)**	**8.5%**
As a Percentage of Revenue	15.0%	23.2%	20.5%		

a) *Factors Affecting G&A Expenses*

G&A expenses consist of costs relating to human resources, legal and finance functions, professional fees, insurance and other corporate expenses.

b) *Fiscal 2016 compared to Fiscal 2015*

G&A expenses in fiscal 2016 were $9.5 million (15.0% of Revenue), whereas in fiscal 2015 these expenses were $10.0 million (23.2% of Revenue). The decrease in absolute dollar terms was due to ongoing expense control and the move of the head office.

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA are non-IFRS measures that we use to assess our operating performance. EBITDA and Adjusted EBITDA are reconciled as follows:

Reconciliation to Operating Loss

(000's)			
	Twelve Months Ended December 31,		
	2016	2015	2014
	$	$	$
Operating loss	**(2,596)**	**(12,152)**	**(11,972)**
Amortization and depreciation	3,102	3,450	3,124
EBITDA	**506**	**(8,702)**	**(8,848)**
Termination costs and other one-time costs	916	1,774	202
Adjusted EBITDA	**1,422**	**(6,928)**	**(8,646)**

a) *Factors Affecting Operating loss, EBITDA and Adjusted EBITDA*

Operating loss, EBITDA and Adjusted EBITDA are highly impacted by revenue volumes, the mix of product sales and operating expense overheads.

b) *Fiscal 2016 compared to Fiscal 2015*

Operating loss in fiscal 2016 was $2.6 million, a significant improvement over fiscal 2015's operating loss of $12.2 million. Adjusted EBITDA in fiscal 2016 was $1.4 million (2.2% of Revenue), whereas in fiscal 2015 Adjusted EBITDA was a loss of $6.9 million. The improvements in operating loss, EBITDA and Adjusted EBITDA were due primarily to the higher revenue volumes and operating cost control. The non-recurring items in fiscal 2016 amounted to $0.9 million, and were comprised primarily of severance, and an inventory write down related to our major customer's quality issue.

Net Loss for the period

(000's, except per share amounts)					
	Fiscal				
	2016	2015	2014	Change 2015 to 2016	Change 2014 to 2015
	$	$	$		
Loss before taxes	(1,969)	(14,076)	(14,033)	(86.0%)	0.3%
Income tax expense (recovery)	2	595	35	(99.6%)	1598.7%
Net Loss for the period	(1,971)	(14,670)	(14,068)	(86.6%)	4.3%
Basic and diluted Loss per share	($0.11)	($0.78)	($0.75)		

a) *Factors Affecting Net Income or Loss*

Net loss is influenced by the above noted factors for Operating loss and EBITDA.

b) *Fiscal 2016 compared to Fiscal 2015*

Net loss in fiscal 2016 was $2.0 million; a substantial improvement over fiscal 2015 the net loss was $14.7 million (23.2% of Revenue). On a loss per share basis, fiscal 2016 had a loss of $0.11 per share, whereas in fiscal 2015 this amount was $0.78 per share.

SUMMARY OF QUARTERLY RESULTS

(000's, except per share amounts)				
	Three Months Ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
	$	$	$	$
Revenue	15,789	15,661	16,945	15,087
Gross Profit	4,262	4,407	4,721	4,346
EBITDA	184	524	339	(542)
Adjusted EBITDA	296	494	558	73
Net Income (Loss)	(587)	(311)	174	(1,246)
Basic and diluted income (loss) per share	($0.03)	($0.02)	$0.01	($0.07)
Total current assets	27,213	29,567	31,231	32,048
Total assets	47,862	47,574	48,767	48,415
Total liabilities	18,171	18,384	19,783	17,559

(000's, except per share amounts)				
	Three Months Ended			
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
	$	$	$	$
Revenue	7,955	9,992	12,098	12,981
Gross Profit	1,029	2,215	2,725	3,122
EBITDA	(3,518)	(1,699)	(1,509)	(1,976)
Adjusted EBITDA	(2,898)	(1,298)	(1,253)	(1,477)
Net Loss	(5,750)	(2,668)	(2,944)	(3,309)
Basic and diluted loss per share	($0.30)	($0.14)	($0.16)	($0.18)
Total current assets	32,405	31,713	29,281	28,346
Total assets	58,633	56,016	52,194	49,572
Total liabilities	18,978	18,871	18,460	19,416

(000's, except per share amounts)				
	Three Months Ended			
	March 31, 2014	June 30, 2014	September 30, 2014	December 31, 2014
	$	$	$	$
Revenue	11251	10748	13,431	9,440
Gross Profit	2525	2023	3,193	1,261
EBITDA	(1,767)	(2,556)	(1,366)	(2,957)
Adjusted EBITDA	(1,767)	(2,556)	(1,366)	(2,957)
Net Loss	(3,850)	(2,408)	(2,864)	(4,946)
Basic and diluted loss per share	($0.21)	($0.13)	($0.15)	($0.26)
Total current assets	51,272	49,026	48,949	39,579
Total assets	74,636	72,978	74,560	66,531
Total liabilities	19,039	19,685	24,043	21,006

CAPITAL RESOURCES AND LIQUIDITY

Our capital resources are in part used to fund working capital associated with product launches, invest in design proposals for our current customers, and the capital investments required to sustain and expand our business and manufacturing capabilities in order to meet customer demands.

Liquidity

Our approach is to ensure, to the extent possible, that we have sufficient liquidity to meet our liabilities as they become due. We do so by continuously monitoring cash flows, and actual revenue and expenses all compared to our budgeted amounts. We monitor our cash flow weekly, and other metrics monthly such as the cash conversion cycle or CCC (where a low CCC implies a more efficient use of working capital employed).

We had cash and cash equivalents at December 31, 2016 and December 31, 2015, $13.8 million, and $11.4 million, respectively. At December 31, 2016 we had net cash of $11.2 million; an increase from December 31, 2015 of $6.1 million.

We generated cash of $1.4 million from operating activities during fiscal 2016, which included cash generated from a non-cash working capital reduction of $0.5 million. We generated additional cash flow from (i) the equity issuance for net proceeds of $3.9 million, and (ii) the sale of our Israel-based facility for proceeds of $1.8 million. We utilized cash to (i) repay bank debt and operating leases of $3.2 million, and (ii) purchase capital assets of a net $1.1 million.

Working capital requirements

Working capital requirements are mainly for materials, production, sales and marketing, R&D, operations and G&A expenses. Working capital requirements can increase because of increased revenue, as we saw in fiscal 2016, customers paying us more slowly, increased inventory levels to meet additional demand and/or paying our suppliers more quickly. These changes increase the CCC, which in turn reduces the overall liquidity in the business. The CCC was 22.5 days at the end of fiscal 2016, a notable improvement from a year ago where the CCC was 46.8 days.

Non-cash working capital decreased from $4.9 million as at December 31, 2015 to $4.4 million as at December 31, 2016. This decrease was primarily due to (i) an increase in trade payables due to the higher production volumes, partially offset by (ii) increased levels of Accounts Receivables and Inventory associated with the increased level of revenue.

Trade receivables, net, were $10.6 million as at December 31, 2016, compared to $9.9 million as at December 31, 2015. This increase was attributable to the higher revenue in fiscal 2016, though the increase was partially mitigated by a more consistent, ongoing focus on reducing overdue balances and tightening customer credit terms.

Inventory at December 31, 2016 was $6.5 million, compared to $5.9 million at the same time last year. The increase was attributable to the higher manufacturing volumes in fiscal 2016.

Trade payables and other liabilities at December 31, 2016 were $13.8 million compared to $12.1 million at December 31, 2015. The increase was attributable in part to the higher production volumes associated with the inventory build as noted above.

Commitments for capital expenditures

There were several commitments for capital expenditures at December 31, 2016, amounting to $0.5 million, to be expended in first and second quarter of fiscal 2017.

Credit Facilities

At December 31, 2016 the Company had credit facilities with banks domiciled in Canada, China and Korea (collectively the "Credit Facilities"). These Credit Facilities are revolving and renewable by the banks for a period up to twelve months. As for the bank credit in China there is a staggered renewal schedule, with each tranche renewable in January or February, March and August of every year. These Credit Facilities bear interest at an annual rate of 3.6%-5.9% and are collateralized by trade receivables, an irrevocable letter of credit issued by Baylin to the lender in Korea, and property, plant and equipment. At December 31, 2016 we had access to approximately $6.9 million credit of which $2.6 million was utilized. We are in compliance with all of the

financial covenants. The Israel bank credit was fully repaid in 2016, and terminated upon the sale of the Israel-based real estate.

CONTRACTUAL COMMITMENTS AND OBLIGATIONS

At December 31, 2016 the equipment capital leases were fully repaid. There are no other risks for contractual defaults. We are not aware of any other commitments or obligations other than those presented under this section that could materially affect or future business.

In accordance with applicable Chinese laws, Galtronics China is permitted to distribute up to 90% of its after-tax earnings. As of December 31, 2016, amounts restricted from distribution, which constitute 10% of Galtronics China's retained earnings, amounted to approximately $1.0 million. Known contractual obligations as at December 31, 2016 were as follow:

($'000s)	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Loans and credit from banks	2,594	-	-	-	-	-	2,594
Trade payables	11,223	-	-	-	-	-	11,223
Other account payables	2,498	-	-	-	-	-	2,498
Operating lease commitments	952	939	616	316	243	237	3,303
Total	**$17,267**	**$939**	**$616**	**$316**	**$243**	**$237**	**$19,618**

Known contractual obligations as at December 31, 2015 were as follow:

($'000s)	Less than one year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years	Total
Loans and credit from banks	5,712	-	-	-	-	-	5,712
Trade payables	8,343	-	-	-	-	-	8,313
Other account payables	3,441	-	-	-	-	-	3,183
Operating lease commitments	740	357	316	93	-	-	1,506
Finance lease obligations and equipment loan	660	-	-	-	-	-	660
Total	**$18,896**	**$357**	**$316**	**$93**	**$-**	**$-**	**$19,662**

CONTINGENCIES

Commitments

Galtronics China entered into a rental agreement for the premises in China for a five-year period ending in 2019. Galtronics Korea had entered into rental agreements for three premises in South Korea and one in Taiwan ending in 2021. Galtronics Israel entered into three rental agreements; (i) two in Arizona, United States for offices and warehouse space, which agreements will end in 2019 and 2017, respectively, and (ii) in Israel for the R&D facility, for a term to expire in the third quarter of 2019. Galtronics Vietnam entered into a rental agreement for premises in Vietnam for a period of five years. The rental period may be extended for up to five years at the Company's option (the company recently amended the lease to return to the lessor a certain area of its leased premises). Baylin entered into a service agreement with a related party for, among other things, office space in Toronto, Canada for head office staff. The agreement automatically renewed until December 31, 2017 (See –"Transaction with Related Parties").

The future minimum lease fees payable as of December 31, 2016 are as follows:

('000s)	$
First year	952
Second through sixth years	2,351
Total expenses	**$3,303**

Legal Proceedings

In 2009 Galtronics Israel received notice for possible indemnification by a major customers (the "customer"), for a claim filed against the customer related to several U.S. patent infringements. A judgment against the customer for approximately $38 million was subsequently dismissed in 2014, and since the notice we have not received any demand for payment from the customer. It is not clear whether a demand will be received, and if so, for what amount. Management and its legal counsel are unable to assess the outcome of the claim against the customer and the effect, if any, on the Company. Accordingly, no provision has been recorded in respect of this demand.

Stock Option Grants

a) Galtronics Share Option Plan, while still in existence, it was replaced with the Baylin Stock Option Plan, described below. There are no options outstanding and none will be issued.

b) Baylin Stock Option Plan:

The Company's stock option plan (the "Stock Option Plan") was adopted so the board of directors can grant stock options to directors, officers, employees and consultants of the Company (or its affiliates) as performance incentives. There are limitations on the number of common shares issuable under the Stock Option Plan (and all other security based compensation arrangements), as well as limitations on the number common shares issuable to insiders (or their affiliates). At the time of granting a stock option, the board of directors must approve, (i) the exercise price, being not less than then market value of the common shares, (ii) the vesting provisions, generally

being one third vest on each anniversary of the grant date (except as noted below), and (iii) the expiry date, generally being no more than seven years after the grant date (except as noted below).

The only Stock Option Plan grant was 925,000 share options granted to the Company's President and Chief Executive Officer. The weighted average grant price was CAD$1.51, and vest (i) 130,000 on each of August 24, 2016 and 2017, (ii) 240,000 and 425,000 at the discretion of the board of directors based on an assessment of the Company's performance in fiscal years 2015 and 2016, respectively, and (iii) immediately upon a change of control of the Company. The options expire on August 24, 2020. As of December 31, 2016, 370,000 options were vested.

The remaining weighted average contractual life of the share options is 3.75 years. The fair value of the share options is estimated at the grant date using a Black & Scholes option pricing model, taking into account the terms and conditions upon which the share options were granted.

Expected volatility of the share prices (%)	44.42-45.25
Risk-free interest rate (%)	0.9
Expected life of share options (years)	2.67-3.17
Share price (CAD $)	1.50
Option fair value at the grant date (CAD $)	0.44-0.48

The Company recognized a share option expense in fiscal 2016 of $213 thousand as G&A expenses, with $16 thousand remaining to be expenses in future years.

c) Director's Deferred Share Unit Plan:

The Company's deferred share unit plan (the "DSU Plan") forms part of its long-term incentive compensation for directors. Unless otherwise approved by the board of directors, each Director may elect to receive between 50% and 100% of their annual retainers in deferred share units ("DSUs") (if no election is made a deemed election of 50% applies). The number of DSU's issued is determined on each month while the Director is serving as a board member. DSU's granted will be settled by issuing of Common Shares on the date the Director ceases to be a director of the Company and its subsidiaries. The number DSU's issuable is limited to 500,000 units.

The Company recognized a DSU expense of $156 in fiscal year 2016 as G&A expense.

The following table lists the number of DSU during the current year:

	Number of DSU	**Weighted average price in CAD $**
DSU outstanding as of January 1, 2015	56,690	3.50
DSU granted during 2015	82733	2.05
DSU outstanding as of December 31, 2015	139,423	3.50
DSU granted during 2016	85,404	2.02
DSU outstanding as of December 31, 2016	224,827	2.00

OFF-BALANCE SHEET ARRANGEMENTS

Our off-balance sheet arrangements consist of the letter of credit disclosed in the Credit Facilities section of this MD&A, and operating lease obligations in the Contractual Commitments and Obligations section.

TRANSACTIONS WITH RELATED PARTIES

The Company entered into a service agreement with a company controlled by its principal shareholder, for office space, services of certain employees, administrative support and supplies, computers and communication equipment. The agreement automatically renewed until December 31, 2017, with a fee of $0.2 million per annum, which may change from month to month depending on the services the Company required.

There are no other material related party transactions other than as described herein.

FOURTH QUARTER DISCUSSION

Revenue and Gross Profit

(000's)			
	Three Months Ended December 31,		
	2016	2015	Change
	$	$	
Revenue	**15,087**	**12,981**	**16.2%**
Cost of Revenue	10,741	9,859	9.0%
Gross Profit	**4,346**	**3,122**	**39.2%**
Gross Margin %	28.8%	24.1%	4.8%

Revenue

Revenue in Q4 fiscal 2016 was $15.1 million, a 16.2% increase over the same quarter in fiscal 2015. This was the fifth consecutive quarter of year-over-year growth. Each of the three product lines demonstrated quarter-over-quarter growth, led by Wireless Infrastructure which grew 25% and Mobile which grew a robust 18.3%.

Though lower than Q3 2016, by 11%, the Revenue decline was a manifestation of the seasonal nature of the business. There was growth of 1% in the Infrastructure product line, whereas Mobile and Networking products were lower by 5% and 42% respectively.

Gross Profit

Gross profit in the fourth quarter of 2016 was $4.3 million (28.8% of Revenue), which compared favourably with the $3.1 million (24.1% of Revenue) posted in the same period in fiscal 2015. The improvement was attributable to similar factors cited in the full year results, despite making a $0.2 million provision in the fourth quarter of fiscal 2016 for obsolete inventory arising from a customer's product quality issues in the quarter.

Research and Development ("R&D")

(000's)			
	Three Months Ended December 31,		
	2016	2015	Change
	$	$	
Payrolls	1,309	1,240	5.6%
Other development costs	597	378	57.9%
Depreciation	36	90	(60.0%)
Total	**1,942**	**1,708**	**13.7%**
As a Percentage of Revenue	12.9%	13.2%	

Expenses were $1.9 million in Q4 fiscal 2016, an increase of 13.7% from last year, attributable to ramping up the R&D resources in early fiscal 2016. We anticipate further increase costs as we enter the BSA marketplace.

Sales and Marketing

(000's)			
	Three Months Ended December 31,		
	2016	2015	Change
	$	$	
Payrolls	687	1,101	(37.6%)
Other	111	335	(66.9%)
Total	**798**	**1,436**	**(44.4%)**
As a Percentage of Revenue	5.3%	11.1%	

These expenses were $0.8 million in Q4 fiscal 2016, compared to $1.4 million in Q4 fiscal 2015. The quarter-over-quarter decline was due to similar factors cited under the discussion regarding the full year results.

General and Administrative (“G&A”)

(000's)			
	Three Months Ended December 31,		
	2016	2015	Change
	$	$	
Payrolls	731	899	(18.7%)
Other	2,057	1,733	18.7%
Depreciation	71	111	(36.0%)
Total	**2,859**	**2,743**	**4.2%**
As a Percentage of Revenue	19.0%	21.1%	

G&A expenses were $2.9 million in the current quarter, a slight increase from the same quarter in fiscal 2015. The allowance for doubtful accounts was higher in fiscal 2016 due to (i) a major customer’s product quality issues in the quarter necessitating our forgoing collection, and (ii) determination in the quarter that a customer account balance isn’t fully collectable.

Operating loss, EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA are reconciled as follows:

Reconciliation to Operating Loss

(000's)			
	Three Months Ended December 31,		
	2016	2015	Change
	$	$	
Operating loss	**(1,253)**	**(2,765)**	**(54.7%)**
Amortization and depreciation	711	789	(9.9%)
EBITDA	**(542)**	**(1,976)**	**(72.6%)**
Termination costs and other one-time costs	615	499	23.2%
Adjusted EBITDA	**73**	**(1,477)**	**(104.9%)**

Operating loss in Q4 of fiscal 2016 was $1.3 million; a significant improvement over the same period last year where the operating loss was $2.8 million. Adjusted EBITDA was $0.1 million in the fourth quarter of fiscal 2016, reversing the loss of $1.5 million a year ago. The turn-around in operating loss and Adjusted EBITDA was attributable to the Revenue and gross margin improvements, as noted earlier, and the operating expense control. The major one-time items were severance, and the aforementioned obsolete inventory provision and accounts receivable write-off, both due to a major customer's quality issues in the recent quarter.

Net Loss for the period

(000's, except per share amounts)			
	Three Months Ended December 31,		
	2016	2015	Change
	$	$	
Loss before taxes	(1,259)	(2,845)	(55.7%)
Income tax expense (recovery)	(13)	464	(102.8%)
Net Loss for the period	(1,246)	(3,309)	(62.3%)
Basic and diluted Loss per share	($0.07)	($0.18)	

Net loss for the current quarter was $1.2 million, materially improved from the $3.3 million net loss a year ago.

CRITICAL ESTIMATES

The preparation of our consolidated financial statements requires management to make estimates and judgements that affect the reported numbers. On an ongoing basis, we evaluate our estimates, including those related to bad debts, inventory net realizable value and obsolescence, useful lives of fixed assets, asset impairment, fair values, income taxes, post-employment benefits liabilities, guarantees, contingencies, and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. If actual performance should differ from historical experience or if the underlying assumptions were to change, our financial condition and results of operations may be materially impacted.

Our most significant assets, accounts receivable, inventory and property, plant and equipment, are subject to critical estimates or judgments.

Accounts Receivable

An allowance for doubtful accounts is maintained for estimated losses resulting from the inability of our customers to make required payments. Assessments are based on aging of receivables, legal issues (bankruptcy status), past

collection experience, current financials, credit agency reports and the experience of our finance personnel. Accounts receivable which we determine to be uncollectible are reserved in the period in which the determination is made. If the financial condition of our customers was to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. Our reserve for bad debts at December 31, 2016 was higher than at December 31, 2015, due to the determination that a customer balance will not be collected in full.

Inventory Valuation

We evaluate inventory balances on an ongoing basis and record a provision for slow-moving or obsolete inventory. In performing this review, we consider factors such as forecasted sales, product lifecycles and product development plans, quality issues and inventory levels. If future demand or market conditions for our products are less favorable than forecasted or if unforeseen technological changes occur, we may be required to record write-downs.

Fixed Assets

We conduct our annual impairment assessment of property, plant and equipment in the fourth quarter of each year (which corresponds to our annual planning cycle). Whenever events or changes in circumstances indicate that the carrying amount of an asset or Cash Generating Unit ("CGU") may not be recoverable, we recognize an impairment loss when the carrying amount of an asset or CGU exceeds its recoverable amount (measured as the greater of its value-in-use and its fair value less costs to sell). The Company operates as one CGU. Where required, the Company uses professional assessors to determine the value of its property, plant and equipment at each of its locations. There was no indication of an impairment of fixed assets at December 31, 2016.

Other areas involving significant estimates and judgements include:

Post-employment Benefits Liabilities

We operate defined benefit plans in respect of severance, retirement and other local labor laws relevant to post-employment benefit liabilities in Israel and South Korea. A portion of post-retirement benefit plans are financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans. The present value of post-employment benefits liabilities depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost or income for severance pay and plan assets include a discount rate. Any changes in these assumptions will impact the carrying amount of severance pay and plan assets. Other key assumptions inherent to the valuation include employee turnover, inflation and future payroll increases. These assumptions are based on independent actuarial advice and are updated on an annual basis. Actual circumstances may vary from these assumptions, giving rise to a different severance pay liability. Post-employment benefits influence current and non-current liabilities and payrolls for all cost categories.

Income Taxes

We believe that we have adequately provided for income taxes based on all of the information that is currently available. The calculation of income taxes in many cases requires significant judgement in interpreting tax rules and regulations, which are constantly changing. Our tax filings are also subject to audits, which could materially change the amount of current and future income tax assets and liabilities. Any change would be recorded as a charge or reduction in income tax expense.

Legal Liabilities

Except as noted earlier, the company has no other material legal claims pending.

ADOPTION OF NEW ACCOUNTING STANDARDS AND DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

New Standards and Amendments Adopted

Certain new standards and amendments became effective during the current fiscal year; however the adoption of these new standards and amendments did not significantly impact the Company’s net earnings or financial position.

New Standards and Interpretations Not Yet Adopted

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company. All pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company’s financial statements is provided below. Certain other new standards, amendments and interpretations may have been issued but are not expected to have a material impact on the Company's financial statements.

IAS 7 Statement of Cash Flows

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2017, the IASB amended this standard to help investors evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes. The Company does not anticipate a significant impact to the financial statements related to this amendment.

IFRS 9 Financial Instruments

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2018, the final version of IFRS 9 was issued in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of the entity’s own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit or loss. Management is currently assessing the impact that this new standard will have on the financial statements of the Company.

IFRS 15 Revenue from Contracts with Customers

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2018, the IASB issued this new standard to replace IAS 18 Revenue and IAS 11 Construction Contracts. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. Management is currently assessing the impact that this new standard will have on the financial statements of the Company.

IFRS 16 Leases

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2019, the IASB issued this new standard to replace IAS 17 Leases. The new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and lease of low value assets). Management is currently assessing the impact that this new standard will have on the financial statements of the Company.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Our activities expose us to various financial risks such as foreign exchange risk, interest rate risk and credit risk and liquidity risk. Our risk management focuses on activities that reduce to a minimum any possible adverse effects on our consolidated financial performance.

Foreign exchange risk:

The major portion of revenue is earned in USD, as such, the financial statements of the Company are reported in USD. The other portions are earned in other currencies such as Chinese Yuan, Vietnamese Dong and South Korean Won. However, these portions are USD driven since customers total product costing is USD based. A portion of the operating costs are realized in currencies other than the functional currencies of relevant entities. As a result, we are exposed to currency risk on these operations. Also, additional earnings volatility arises from the translation of monetary assets and liabilities denominated in foreign currencies at the rate of exchange at the end of each reporting period, the impact of which is reported as a foreign exchange gain or loss in finance expenses. Our objective in managing currency risk is to minimize exposure to currencies other than functional currency. Our policy is to match foreign denominated assets with foreign denominated liabilities.

Interest rate risk:

In fiscal 2016 we reduced our exposure to this risk by reducing our debt. Accordingly we believe the interest rate risk is low. Based on our experience in Israel and Korea in the past few years, interest rates was relatively stable.

Customer concentration risk and credit risk:

A significant portion of our products are sold to a limited number of major customers located primarily in North America and Asia. We recognized an aggregate of 60% and 52% of our revenue from our top three customers for the Fiscal year 2016 and 2015, respectively. In particular, we received 58% and 43% of revenue from Samsung and its subcontractors for the year ended December 31, 2016 and 2015, respectively. The top three customers in any given year may not be the same top three customers in a previous or subsequent year. The loss of, or a significant reduction in, orders from one or more of our major customers would adversely affect our business, results of operations and financial condition. Our strategy in managing this risk is to diversify our customer base by expanding our product portfolio and enlarging our sales and marketing efforts.

We extend 30-90 day credit terms to our customers and regularly monitor the credit extended to such customers and their general financial condition but do not require collateral as security for these receivables. We provide an allowance for doubtful accounts based on the factors that affect the credit risk of certain customers, past experience and other information.

Liquidity risk:

We monitor our liquidity risk through the use of quarterly budgets, weekly cash flow projections, and close monitoring our accounts receivable balances, inventory build and payment of suppliers. The objective is to maintain sufficient liquidity in our operating entities through a combination of cash on hand, borrowings under our Credit Facilities, and generating operating cash flow. We also regularly monitor the amounts owing to Galtronics China by our other subsidiaries to ensure compliance with China's SAFE requirements.

On December 22, 2016 we completed the issuance of 3,108,142 common shares, for net proceeds of $3.9 million, which further strengthened our liquidity position.

OUTSTANDING SHARE DATA

As of March 9, 2017, the Company had 21,916,813 Common Shares issued and outstanding, which includes the additional 3,108,450 Commons Shares on December 22, 2016.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for the design and operating effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with IFRS. The Company tested the effectiveness of its internal controls. Based on those tests, the President and CEO and CFO have concluded that the internal controls and procedures were appropriately

designed and operated effectively as at December 31, 2016. These evaluations were conducted in accordance with the standards established in *"Internal Control – Integrated Framework 2013"*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. There have been no changes to the Corporation's internal controls over financial reporting during the year ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the most recently filed Annual Information Form, is available on SEDAR at www.sedar.com.

RISK FACTORS

For a detailed description of risk factors associated with the Company, refer to the "Risk Factors" section of the Company's Annual Information Form filed on SEDAR on March 9, 2017