MANAGEMENT'S DISCUSSION & ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the year ended March 31, 2017

Dated May 8, 2017

Baylin Technologies Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three Months Ended March 31, 2017

The following management's discussion and analysis ("MD&A") of Baylin Technologies Inc. ("Baylin", the "Company", "we" or "us") as of May 8, 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.

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 Canadian ("CAD" or "C") dollars. ***Baylin changed its reporting from United States dollar currency ("USD") to Canadian dollar currency effective January 1, 2017, and has restated prior years' financial information in this MD&A into CAD$'s.***

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 (loss)" (net income (loss) 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 39 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 and the first quarter ended March 31, 2017 ("Q1 fiscal 2017") demonstrated growth and progression in these areas, evidenced by improving key performance indicators ("KPI's).

Key highlights for the three months ended March 31, 2017:

- Changed its reporting currency to CAD from United States dollars. This change was considered advisable due to (i) our shareholders are primarily Canadian-based, (ii) being a TSX reporting entity with our share price quoted in CAD, the financial information was not explicitly converted from USD to CAD when reading our financial statements and MD&A.
- Revenue, at $19.8 million (CAD), showed a 5% decline against last year's comparable quarter, due to a later product launch by a major Asia Pacific (formerly referred to as the Mobile product line) customer.
- Gross profit was $5.9 million (CAD), and gross margin (See Non-GAAP Measures on page 2 of this MD&A) was 30%; both at the highest level in the past 13 quarters.
- Positive Adjusted EBITDA was $0.2 million (CAD), making it the fifth consecutive positive quarter. Certain non-recurring and one-time expenses ("non-recurring items") were incurred in Q1 fiscal 2017 amounting to $0.4 million (CAD). (See Non-GAAP Measures on page 2 of this MD&A). The positive Adjusted EBITDA was achieved despite incurring $0.4 million (CAD) in R&D expenses related Base Station Antenna ("BSA") product development.
- Cash on hand at March 31, 2017 was $15.6 million (CAD), a reduction of $2.9 million (CAD) from December 31, 2016. The decline reflected the seasonal working capital build, as well as the aforementioned R&D investment in BSA product development.
- Significantly strengthened the management team with the addition of Mr. Jerry Kirshman as President and Chief Operating Officer of Americas/EMEA, and Dr. Minya Gavrilovic as EVP Innovation and Product Strategy. Their combined industry knowledge and strong leadership abilities will benefit not only our BSA strategy but also overall product development and process efficiencies.

SUMMARIZED FINANCIAL INFORMATION

The table discloses selected information related to income and balance sheet items for the periods noted, *reported in CAD*.

(in CAD$000's except per share amounts)			
	Three Months Ended March 31,		**Twelve Months Ended December 31,**
	2017	**2016**	**2016**
	$	**$**	**$**
Revenue	19,801	20,925	84,137
Gross Profit	5,942	5,623	23,481
Loss before income taxes	(1,629)	(714)	(2,610)
Income tax expense (recovery)	15	65	3
Net income (loss)	(1,644)	(779)	(2,613)
Basic and diluted loss per share	(0.08)	(0.04)	(0.14)
EBITDA	(224)	233	659
Adjusted EBITDA	151	382	1,873
Current assets	39,968	40,820	39,968
Total assets	61,820	71,793	61,820
Current liabilities	20,326	25,224	20,326
Non-current liabilities	1,635	2,033	1,635
Total liabilities	21,961	27,256	21,961

OUTLOOK

Cost management, manufacturing efficiencies and product line rationalization were a key focus in fiscal 2016 and continued into fiscal 2017. As noted in the short form prospectus filed in December, 2016, $3.0 million (CAD) 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 BSA market. In Q1 fiscal 2017, $0.4 million (CAD) of incremental R&D expenses were incurred for BSA product development.

While the board of directors and management are encouraged by the five consecutive quarters of posting positive Adjusted EBITDA, the over-arching focus in fiscal 2017 has not changed; that is continuing the momentum created in fiscal 2016, investing in new product development in order to enter the BSA market, while prudently managing our liquidity. Exploring new opportunities in the Asia Pacific (formally 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) Asia Pacific (formally Mobile), (ii) Networking and (iii) Wireless Infrastructure.

Asia Pacific, the largest in terms of revenue, undertook a major initiative with the commissioning of the Vietnam manufacturing plant in fiscal 2016. Establishing this plant has 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.

Our strategy to diversify the Revenue base and be less reliant on Asia Pacific's major customer, by increasing volumes in Networking and Wireless Infrastructure, will continue throughout 2017. In particular we see growth opportunities in the Wireless Infrastructure space, both organically and through entry into the BSA market in fiscal 2018. 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. Furthermore, as noted earlier, we are intending to increase our R&D spending in the BSA product category in fiscal 2017.

In 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 technological capabilities 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

(in CAD$000's)			
	Three Months Ended March 31,		
	2017	**2016**	**Change**
	$	$	
Revenue	**19,801**	**20,925**	**(5.4%)**
Cost of Revenue	13,859	15,302	(9.4%)
Gross Profit	**5,942**	**5,623**	**5.7%**
Gross Margin %	30.0%	26.9%	3.1%

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 2017 compared to Fiscal 2016*

Revenue was $19.8 million (CAD) in the first quarter of fiscal 2017, a 5.4% decline when compared to Q1 fiscal 2016's level of $20.9 million (CAD). This decline was attributable to Asia Pacific, which saw its Revenue decrease by 10.3%. This decline was due to the launch of our major customer's flagship new mobile handset version in Q2 of fiscal 2017, whereas last year the new mobile handset version was launched in Q1. Wireless Infrastructure products grew by 37.2%, whereas Networking declined by 5.6% quarter-over-quarter due to the timing of customer orders delayed to later in fiscal 2017.

Gross Profit was $5.9 million (CAD) in Q1 of fiscal 2017, with an associated gross margin of 30.0%. Both compared favourably with the first quarter of fiscal 2016, where it was $5.6 million (CAD), or 26.9% of Revenue. We note the continued improvement in both gross profit and gross margin %, with the current quarter being at their highest levels in the past 13 quarters. The improvement in the current quarter versus the comparable quarter a year ago was due primarily to the change in product mix.

R&D Expenses

(in CAD$000's)			
	Three Months Ended March 31,		
	2017	2016	Change
	$	$	
Payrolls	2,009	1,824	10.2%
Other development costs	711	549	29.4%
Depreciation	211	77	174.5%
Total	**2,931**	**2,450**	**19.6%**
As a Percentage of Revenue	14.8%	11.7%	

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 2017 compared to Fiscal 2016*

R&D expense in the first quarter of fiscal 2017 was $2.9 million (CAD), or 14.8% of Revenue; a $0.4 million (CAD) increase from fiscal 2016's same quarter amount of $2.5 million (CAD) (11.7% of Revenue). The increase was attributable to increased headcount hired to develop products to expand our product lines, particularly the incremental investment in BSA development. We anticipate quarter-over-quarter spending to increase through the balance of fiscal 2017 in comparison to 2016.

Sales and Marketing

(in CAD$000's)			
	Three Months Ended March 31,		
	2017	2016	Change
	$	$	
Payrolls	1,134	862	31.6%
Other	114	294	(61.3%)
Total	**1,248**	**1,156**	**8.0%**
As a Percentage of Revenue	6.3%	5.5%	

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 2017 compared to Fiscal 2016*

Sales and marketing expenses in the first quarter of fiscal 2017 were $1.2 million (CAD) (6.3% of Revenue), essentially level with the first quarter of fiscal 2016. We anticipate these expenses to modestly increase over the balance of fiscal 2017 as we build out the sales force associated with the BSA market.

G&A

	Three Months Ended March 31,		
	2017	**2016**	**Change**
	$	**$**	
Payrolls	1,341	1,093	22.6%
Other	1,596	1,664	(4.1%)
Depreciation	52	103	(49.7%)
Total	**2,989**	**2,861**	**4.5%**
As a Percentage of Revenue	15.1%	13.7%	

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 2017 compared to Fiscal 2016*

G&A expenses in the first quarter of fiscal 2017 were $3.0 million (CAD) (15.1% of Revenue), whereas in the first quarter of fiscal 2016 these expenses were $2.9 million (CAD) (13.7% of Revenue). The increase in absolute dollar terms was primarily due to several non-recurring costs related to expanding the executive leadership team in support of (i) developing products for our entry into the BSA market, and (ii) senior leadership team depth.

Operating loss, EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA are non-IFRS measures that we use to assess our operating performance (See Non-GAAP Measures on page 2 of this MD&A). EBITDA and Adjusted EBITDA are reconciled as follows:

Reconciliation to Operating Loss

(in CAD$000's)			
	Three Months Ended March 31,		
	2017	**2016**	**Change**
	$	**$**	
Operating loss	**(1,226)**	**(844)**	**45.2%**
Amortization and depreciation	1,002	1,078	(7.0%)
EBITDA	**(224)**	**233**	**(196.1%)**
Termination costs and other one-time costs	375	148	152.6%
Adjusted EBITDA	**151**	**382**	**(60.4%)**

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. Additionally in 2017, as noted above, we incurred $0.4 million (CAD) of incremental R&D related to our entry into the BSA market.

b) *Fiscal 2017 compared to Fiscal 2016*

Operating loss for the three month ended March 31, 2017 was $1.2 million (CAD), compared with an operating loss in the same quarter in fiscal 2016 of $0.8 million (CAD).

Adjusted EBITDA in the first quarter of fiscal 2017 was $0.2 million (CAD) versus $0.4 million (CAD) in the same quarter a year ago. The non-recurring items in the first quarter of fiscal 2017 amounted to $0.4 million (CAD), and were comprised primarily of recruiting costs related to the expansion of the leadership team in support of our entry into the BSA market, severance, and sundry other non-recurring activities.

Net Loss for the period

(in CAD$000's, except per share amounts)			
	Three Months Ended March 31,		
	2017	**2016**	**Change**
	$	**$**	
Loss before taxes	(1,629)	(714)	128.0%
Income tax expense (recovery)	15	65	(76.9%)
Net Loss for the period	(1,644)	(779)	110.9%
Basic and diluted Loss per share	($0.08)	($0.04)	

a) *Factors Affecting Net Income or Loss*

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

b) *Fiscal 2017 compared to Fiscal 2016*

Net loss in the first quarter of fiscal 2017 was $1.6 million (CAD) compared with a net loss in the first quarter of fiscal 2016 of $0.8 million (CAD). On a loss per share basis, fiscal 2017 had a loss of $0.08 per share (CAD), whereas in fiscal 2016 this loss amount was $0.04 per share (CAD).

SUMMARY OF QUARTERLY RESULTS

(in CAD$000's, except per share amounts)				
	Three Months Ended			
	June 30, 2016	**September 30, 2016**	**December 31, 2016**	**March 31, 2017**
	$	**$**	**$**	**$**
Revenue	20,757	22,459	19,996	19,801
Gross Profit	5,841	6,257	5,760	5,942
EBITDA	695	449	(718)	(224)
Adjusted EBITDA	655	740	97	151
Net Income (Loss)	(412)	230	(1,651)	(1,644)
Basic and diluted income (loss) per share	($0.03)	$0.01	($0.09)	($0.08)
Total current assets	44,351	46,847	43,031	39,968
Total assets	71,361	73,151	65,006	61,820
Total liabilities	27,576	29,675	23,576	21,961

(in CAD$000's, except per share amounts)				
	Three Months Ended			
	June 30, 2015	September 30, 2015	December 31, 2015	March 31, 2016
	$	$	$	$
Revenue	12,289	15,819	17,330	20,927
Gross Profit	2,725	3,563	4,168	5,648
EBITDA	(2,090)	(1,973)	(2,638)	245
Adjusted EBITDA	(1,596)	(1,641)	(1,971)	394
Net Loss	(3,282)	(3,848)	(4,418)	(779)
Basic and diluted loss per share	($0.17)	($0.21)	($0.24)	($0.04)
Total current assets	47,570	43,921	42,519	40,820
Total assets	84,024	78,291	74,358	71,793
Total liabilities	28,307	27,690	29,124	27,256

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 March 31, 2017, December 31, 2016 and March 31, 2016, of $15.6 million (CAD), $18.5 million (CAD), and $10.1 million (CAD), respectively.

We used cash of $3.7 million (CAD) from operating activities during the first quarter of fiscal 2017, which included cash to fund and increase non-cash working capital of $3.6 million (CAD). In addition, we used cash of $0.7 million (CAD) for net capital expenditures. Partially offsetting these uses of cash was generating cash from financing activities of $1.4 million (CAD) by entering into a loan facility, collateralized by LDS equipment in Vietnam.

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 38 days at the end of Q 1 of fiscal 2017, consistent with the CCC a year ago where it was 37.8 days.

Non-cash working capital increased by $3.6 million (CAD) in the first quarter of fiscal 2017. This increase was primarily due to the factors noted below.

Trade receivables, net, were $10.6 million (CAD) as at March 31, 2017; level with that at December 31, 2016.

Inventory at March 31, 2017 was $7.8 million (CAD), compared to $8.7 million (CAD) at the same time last year. The decrease was attributable to normal seasonal production patterns in the first quarter of the fiscal year.

Trade payables and other liabilities at December 31, 2016 were $13.8 million compared to $12.1 million at December 31, 2016. 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 no material commitments for capital expenditures at March 31, 2017.

Credit Facilities

At March 31, 2017 the Company had credit facilities with banks domiciled in Canada, China, Vietnam and Korea (collectively the "Credit Facilities"). These Credit Facilities (but for the Vietnamese facility) 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 of its three tranches renewable in January or February, March and August of every year (the first two tranches were renewed in Q1 fiscal 2017). 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 March 31, 2017 we had access to approximately $10.8 million (CAD) credit of which $4.9 million (CAD) was utilized. We are in compliance with all of the financial covenants.

CONTRACTUAL COMMITMENTS AND OBLIGATIONS

We are not aware of any other commitments or obligations other than those presented under this section that could materially affect our future business.

In accordance with applicable Chinese laws, Galtronics China is permitted to distribute up to 90% of its after-tax earnings. As of March 31, 2017, amounts restricted from distribution, which constitute 10% of Galtronics China's retained earnings, amounted to approximately $1.0 million. Known contractual obligations as at March 31, 2017 were as follow:

CONTINGENCIES

Commitments

Galtronics China entered into a rental agreement for the premises in China for a five-year period ending in 2019. Galtronics Korea 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, ending in 2019. 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").

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, 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).

As of March 31, 2017, there have been three grants under The Stock Option Plan.

- President and Chief Executive Officer was granted of 925,000 share options at grant price was $1.51 (CAD). At March 31, 2017 all of the options were vested. The options expire on August 24, 2020.
- In the first quarter of fiscal 2017 (i) the President and Chief Operating Officer, America/EMEA was granted of 435,000 share options at grant price was $1.98 (CAD) and (ii) the EVP Innovation and Product Strategy was granted 250,000 share options at grant price was $1.98 (CAD). At March 31, 2017 nil options were vested, with the balance vesting (i) 1/3 vesting on each of March 30, 2018, March 30, 2019 and March 30, 2020, and (ii) immediately upon a change of control of the Company. The options expire on March 30, 2022.
- The company intends to grant the President and Chief Operating Officer, America/EMEA a further 65,000 share options on March 30, 2018, on similar terms at a price to be determined at the time of grant.

The Company's share option expense in Q1 fiscal 2017 was immaterial.

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 $0.1 million (CAD) in Q1 fiscal 2017 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, 2017	224,827	2.00
DSU granted during 2017	19,250	1.98
DSU outstanding as of March 31, 2017	244,077	1.99

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 CAD 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.

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 March 31, 2017 was higher than at March 31, 2016, 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 and at March 31, 2017.

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

Please refer to Note 5 of the Unaudited Interim Condensed Financial Statements as of March 31, 2017.

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. In particular, we received 49% and 58% of revenue from our major customer and its subcontractors for the quarter ended March 31, 2017 and 2016, respectively. 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 gross proceeds of $5.75 million CAD, which further strengthened our liquidity position.

OUTSTANDING SHARE DATA

As of March 31, 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. Based on a review of the Company's internal control procedures, management believes its internal controls and procedures are appropriately designed as at March 31, 2017.

No significant changes in the Company's internal control over financial reporting occurred during the three months ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Disclosure Controls and Procedures

Management is also responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's President and Chief Executive Officer and Chief Financial Officer have each evaluated the design of the Company's disclosure controls and procedures as at March 31, 2017 and have concluded that these controls and procedures were appropriately designed.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the most recently filed Annual Information Form and Management Information Circular, 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