BAYLIN TECHNOLOGIES

MANAGEMENT'S DISCUSSION & ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the six months ended June 30, 2017

Dated August 2, 2017

Baylin Technologies Inc.
Management’s Discussion and Analysis of Financial Condition and Results of Operations for the Six Months Ended June 30, 2017

INTRODUCTION

The following management’s discussion and analysis (“MD&A”) of Baylin Technologies Inc. (“Baylin”, the “Company”, “we” or “us”) as of August 2, 2017 should be read in conjunction with (i) our unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2017 and 2016 and (ii) our audited consolidated financial statements for the year ended December 31, 2016 (“fiscal 2016”) and the related notes included therein. These audited consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

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 extensive 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 Small Cell/DAS/base station needs. Since our establishment in 1978, our business has grown into an international platform with operations in North America and Asia.

OVERALL PERFORMANCE

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 half ended June 30, 2017 ("Q2 fiscal 2017") demonstrated growth and progression in these areas, evidenced by improving key performance indicators ("KPI's).

Key highlights for the three months ended June 30, 2017:

- Changed 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 $20.3 million (CAD), showed a 2% decline against last year's comparable quarter, due to a delayed launch of a small cell antenna product related to a large carrier multi-year rollout.
- Gross profit was $6.8 million (CAD), and gross margin (See Non-GAAP Measures on page 2 of this MD&A) was 33.4%; both at the highest level in the past 14 quarters. Gross margin improved 3.2% over the first quarter of the year as a result of a better product mix and production optimization efforts.
- Positive Adjusted EBITDA was $0.4 million (CAD), making it the sixth consecutive positive quarter. Certain non-recurring and one-time expenses ("non-recurring items") were incurred in Q2 fiscal 2017 amounting to $1.5 million (CAD). (See Non-GAAP Measures on page 2 of this MD&A).
- The company decided to close down R&D efforts in Israel and relocate all design and engineering activities at our new Ottawa, Canada location,
- Furthermore, the restructuring of the Israeli fixed costs through the closure of our operation in Tiberias, Israel during the quarter is an important effort. An amount of $0.9 million (CAD) has been expensed during the period as a result of the closure. The significant ramp up in the Ottawa R&D center provides improved access to our North American customer base, potential access to the Canadian SRE&D program, and access to a significant talent pool to keep up with our growing demands.

SUMMARIZED FINANCIAL INFORMATION

The table discloses selected information related to income and balance sheet items for the periods noted, *reported in CAD*. Effective January 1, 2017 the Company changed its presentation currency to Canadian dollars (CAD) from the United States dollar (USD). This change was considered advisable due to (i) the Company's shareholders are primarily Canadian-based, (ii) the Company is a TSX reporting entity with share price quoted in CAD, the financial information was not explicitly converted from USD to CAD when reading our financial statements.

(in CAD$000's except per share amounts)

	Three Months Ended June 30		Six Months Ended June 30		Twelve Months Ended December 31,
	2017	2016	2017	2016	2016
	$	$	$	$	$
Revenue	20,349	20,758	40,150	41,681	84,133
Gross Profit	6,801	5,865	12,743	11,488	23,504
Loss before income taxes	(2,800)	(103)	(4,429)	(817)	(2,610)
Income tax expense (recovery)	405	309	420	374	3
Net income (loss)	(3,205)	(412)	(4,849)	(1,191)	(2,614)
Basic and diluted loss per share	(0.15)	(0.02)	(0.22)	(0.06)	(0.14)
Distributions and cash cash dividends per share	-	-	-	-	-
EBITDA	(1,101)	705	(1,325)	938	669
Adjusted EBITDA	406	666	557	1,047	1,883
Current assets	41,478	44,351	41,478	44,351	43,031
Total assets	61,944	71,361	61,944	71,361	65,006
Current liabilities	22,854	25,545	22,854	25,545	22,114
Non-current liabilities	1,639	2,031	1,639	2,031	1,462
Total liabilities	24,493	27,576	24,493	27,576	23,576

OUTLOOK

In Q2 we experienced a significant delay, of approximately 120 days, for a large order from our small cell antenna product line that will have an impact on timing of revenue for this year of approximately $6.5 million (CAD).We have definitely secured that business and have begun shipping the product. The revenue for this product line will have a larger impact in 2018.

Baylin management continues to evolve the operating platform of the company to dovetail with the changes and growth of the business. We believe we are addressing the legacy issues. At the same time, the operating platform and long-term outlook of our cost reductions, gross margin improvement strategies, and market expansion opportunities are bearing fruit. The fundamental core elements of the business are trending in the right direction.

An evaluation of overall group engineering capabilities resulted in a decision to cease operations at our facility in Tiberias, Israel. Design work being performed at that location has been re-allocated to our US and Canadian locations with an overall fixed cost savings. Activities are currently underway to transfer existing Galtronics Israel assets to other locations within the group. Management remains committed to investing in R&D spending and has spent another $0.4m on Base Station Antenna (BSA) development during the quarter. We expect a stronger second half for Small Cell/DAS as a delayed Small Cell antenna has moved to production and development of new products is ongoing. We remain cautiously optimistic of delivering our first BSA antennas to market in 2018. During the quarter, new sales personnel joined the group in an effort to align more closely with our end customer and add base station antenna knowledge and skills to our DAS, Small Cell and BSA sales team.

The networking product line had some softness in Q1 that recovered to some degree in Q2 but is expecting a stronger second half as new platforms begin ramping up and efforts continue to extend the customer base.

Asia Pacific's (formerly Mobile) outlook remains stable with consistent revenues from our existing customers combined with continued efforts to identify new opportunities to further reduce our reliance on a major customer.

Cost reduction and rationalization efforts will continue for the remainder of 2017 in an effort to hold the margin gains we have achieved during the first half. Operational cost control will remain tight and we remain committed to the initiatives started in 2015 of investing in new product development while at the same time controlling spending, optimizing manufacturing efficiencies and managing liquidity closely.

RESULTS OF OPERATIONS

Descriptions of Operations

Our business is comprised of three inter-related antenna product lines being (i) Asia Pacific (formerly Mobile), (ii) Networking and (iii) Small Cell/DAS/BSA (formerly Wireless Infrastructure).

Asia Pacific continued to deliver solid sales performance at similar levels to the prior quarter. Additional investment has been made in Vietnam to further balance overall asset utilization within the product line. The majority of our Asia Pacific volumes are now produced at our plant in Vietnam thereby taking advantage of the lower cost base.

Our strategy to diversify the Revenue base and be less reliant on Asia Pacific's major customer, by increasing volumes in Networking and Small Cell/DAS/BSA, will continue throughout 2017. Small Cell/DAS/BSA had good sequential quarter on quarter growth in margins which were in line with expectations. Revenue was impacted by the delay in the launch of a small cell antenna by approximately three months; sales will commence in Q3, 2017. Engineering operations have now commenced in Canada for traditional Small Cell/DAS antennas as well as BSA applications.

Networking sales were in line with the prior quarter with a more favourable product mix as certain products reached end of life volumes while others programs were extended at higher quarterly volumes.

Revenue and Gross Profit

Revenue, Cost of Revenue and Gross Margin

(in CAD$000's)	**Three Months Ended June 30**			**Six Months Ended June 30**			**Fiscal**
	2017	**2016**	**Change**	**2017**	**2016**	**Change**	**2016**
	$	**$**		**$**	**$**		**$**
Revenue	**20,349**	**20,758**	**(2.0%)**	**40,150**	**41,681**	**(3.7%)**	**84,133**
Cost of Revenue	13,548	14,892	(9.0%)	27,407	30,193	(9.2%)	60,629
Gross Profit	**6,801**	**5,865**	**16.0%**	**12,743**	**11,488**	**10.9%**	**23,504**
Gross Margin %	33.4%	28.3%	5.2%	31.7%	27.6%	4.2%	27.9%

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 $20.3 million (CAD) in the second quarter of fiscal 2017, a 2.0% decline when compared to Q2 fiscal 2016's level of $20.8 million (CAD). This decline was largely attributable to the delay of a large Small Cell antenna product roll out. We did have some slight softness in Asia Pacific due to a large customer's flagship model not selling as well as the previous generation.

For the six months ended June 30, 2017 revenue was $40.1 million (CAD) compared to $41.7 million (CAD) for last year's comparable period; this represents a decline of 3.7%.

Gross profit was $6.8 million (CAD) in Q2 of fiscal 2017, with an associated gross margin of 33.4%. Both compared favourably with the second quarter of fiscal 2016, where it was $5.9 million (CAD), or 28.3% 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 14 quarters. We are excited by the upward trend on margins and our ability to right-size the business and get the operating platform to a more flexible model. The improvement in the current quarter versus the comparable quarter a year ago was as a result of product mix and improved utilization of fixed cost.

Gross profit increased to $12.7 million (CAD) (31.7% of Revenue) for the six months ended June30, 2017 from $11.5 million (CAD) (27.6% of Revenue) for the comparable period last year. These improvements are attributable to the same reasons cited in the preceding paragraph.

R&D Expenses

Research and Development

(in CAD$000's)	**Three Months Ended June 30**			**Six Months Ended June 30**			**Fiscal**
	2017	**2016**	**Change**	**2017**	**2016**	**Change**	**2016**
	$	**$**		**$**	**$**		**$**
Payrolls	2,009	1,899	5.8%	4,018	3,723	7.9%	5,687
Other development costs	1,023	530	93.2%	1,734	1,079	60.8%	1,858
Depreciation	215	25	753.8%	426	102	316.9%	176
Total	**3,247**	**2,454**	**32.3%**	**6,178**	**4,904**	**26.0%**	**7,721**
As a Percentage of Revenue	16.0%	11.8%		15.4%	11.8%		9.2%

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 South Korea, United States and Canada. 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 expenses for the second quarter of fiscal 2017 were $3.2 million (CAD) up 32.0% compared to the same quarter of fiscal 2016. The increase was attributable to increased headcount hired to develop products to expand our product lines, particularly the incremental investment in BSA development as well as outside development costs incurred as our internal engineering team is built up to full strength. We anticipate quarter-over-quarter spending to continue to increase through the balance of fiscal 2017 in comparison to 2016.

R&D for the six months ended June 30, 2017 was $6.2 million (CAD) compared to $4.9 million (CAD) for the six months ended June 30, 2016. The increase in development costs is to augment our product pipeline for the balance of 2017 and beyond.

Sales and Marketing

Sales and Marketing Expenses

(in CAD$000's)	Three Months Ended June 30			Six Months Ended June 30			Fiscal
	2017	2016	Change	2017	2016	Change	2016
	$	$		$	$		$
Payrolls	1,031	757	36.2%	1,904	1,619	17.6%	2,596
Other	324	118	174.7%	699	412	69.7%	523
Total	**1,355**	**875**	**54.9%**	**2,603**	**2,031**	**28.2%**	**3,119**
As a Percentage of Revenue	6.7%	4.2%		6.5%	4.9%		3.7%

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 Small Cell/DAS/BSA 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 second quarter of fiscal 2017 were $1.4 million (CAD) (6.7% of Revenue) compared to $0.9 million (CAD) for the second quarter of fiscal 2016. The increase is attributable to a strengthened sales force to facilitate better market penetration in the Small Cell/DAS markets as well as the BSA market.

Sales and marketing expenses for the first half of 2017 increased from $2.0 million (CAD) to $2.6 million (CAD) representing a 28.2% increase. The majority of this increase occurred during Q2 of fiscal 2017 and is explained in the preceding paragraph.

G&A

General and Administrative

(in CAD$000's)	Three Months Ended June 30			Six Months Ended June 30			Fiscal
	2017	2016	Change	2017	2016	Change	2016
	$	$		$	$		$
Payrolls	2,390	1,230	94.3%	3,731	2,324	60.6%	3,518
Other	1,923	1,527	25.9%	3,519	3,191	10.3%	5,669
Depreciation	59	119	(50.5%)	111	222	(50.1%)	304
Total	**4,372**	**2,876**	**52.0%**	**7,361**	**5,737**	**28.3%**	**9,491**
As a Percentage of Revenue	21.5%	13.9%		18.3%	13.8%		11.3%

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 for fiscal Q2 2017 were $4.4 million (CAD) representing an increase of $1.5 million (CAD) from the Q2 2016 quarter. Similarly, G&A expenses for the six months ended June 30, 2017 were $1.7 million (CAD) higher than the $5.8 million (CAD) incurred in the six months ended June 30, 2016. The increase in G&A is made up primarily of certain one-time events including a restructure provision and impairment loss recorded for the closure of the Galtronics Israel location amounting to $0.9 million (CAD).

Base Station Antenna Development

Operating expenses above include expenses incurred for the development of Base Station Antennas (BSA) as per the Short Form Prospectus issued December 15, 2016. A summary of expenses incurred is as follows:

(in CAD$000's)

	Three Months Ended June 30	Six Months Ended June 30	Nine Months Ended Septermber 30
	2017	2017	2017 [1]
	$	$	$
Base Station Antenna development	534	894	2,685

[1] = As per the Short Form Propectus dated 15 December 2016 under "Use of Proceeds" converted to CAD at 1.3427

Currently the company remains aligned with the plan as outlined in the Short Form Prospectus dated December 15, 2016 for the development of BSA products.

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 June 30			Six Months Ended Jun 30	
	2017	2016	Change	2017	2016
	$	$		$	$
Operating loss	**(2,173)**	**(339)**	**541.0%**	**(3,399)**	**(1,183)**
Amortization and depreciation	1,072	1,044	2.6%	2,074	2,122
EBITDA	**(1,101)**	**705**	**(256.1%)**	**(1,325)**	**938**
Termination costs and other one-time costs	1,507	(40)	(3890.3%)	1,882	109
Adjusted EBITDA	**406**	**666**	**(39.0%)**	**557**	**1,047**

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 we incurred $0.8 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 months ended June 30, 2017 was $2.2 million (CAD), compared with an operating loss in the same quarter in fiscal 2016 of $0.3 million (CAD).

Adjusted EBITDA in the second quarter of fiscal 2017 was $0.4 million (CAD) versus $0.7 million (CAD) in the same quarter a year ago. The non-recurring items in the second quarter of fiscal 2017 amounted to $1.5 million (CAD), and were comprised primarily of a restructure provision and an impairment loss recorded during the period related to the closure of the Israeli operations as mentioned above.

Adjusted EBITDA for the first six months ended June 30, 2017 was $0.6 million (CAD) compared to $1.0 million (CAD) for the same period ended June 30, 2016. Non-recurring items comprised mainly of recruiting costs related to the expansion of the leadership team in support of our entry into the BSA market, severance, the Israeli operation restructure provision and impairment loss and sundry other non-recurring activities.

Net Loss for the period

(in CAD$000's, except per share amounts)

	Three Months Ended June 30			Six Months Ended June 30		
	2017	2016	Change	2017	2016	Change
	$	$		$	$	
Loss before taxes	(2,800)	(103)	2615.3%	(4,429)	(818)	441.8%
Income tax expense (recovery)	405	309	30.9%	420	374	12.2%
Net Loss for the period	(3,205)	(413)	676.8%	(4,849)	(1,192)	306.8%
Basic and diluted Loss per share	($0.15)	($0.02)		($0.22)	($0.06)	

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 for the second quarter of fiscal 2017 was $3.2 million (CAD) compared to a net loss of $0.4 million (CAD) for the same quarter in fiscal 2016. Tax expense in Q2 2017 related to withholding taxes. For the six months ended June 30, 2017 the net loss was $4.8 million (CAD), an increase of $3.6 million (CAD) for the six months ended June 30, 2016.

SUMMARY OF QUARTERLY RESULTS

(in CAD$000's, except per share amounts)

	Three Months Ended			
	September 30, 2016	December 31, 2016	March 31, 2017	June 30, 2017
	$	$	$	$
Revenue	22,457	19,995	19,801	20,349
Gross Profit	6,257	5,760	5,942	6,801
EBITDA	449	(718)	(224)	(1,101)
Adjusted EBITDA	740	97	151	406
Net Income (Loss)	230	(1,653)	(1,644)	(3,205)
Basic and diluted income (loss) per share	$0.01	($0.09)	($0.08)	($0.15)
Total current assets	46,847	43,031	39,968	41,478
Total assets	73,151	65,006	61,820	61,944
Total liabilities	29,675	23,576	21,961	24,493

(in CAD$000's, except per share amounts)	Three Months Ended			
	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016
	$	$	$	$
Revenue	15,819	17,330	20,923	20,758
Gross Profit	3,563	4,168	5,622	5,865
EBITDA	(1,973)	(2,638)	233	705
Adjusted EBITDA	(1,641)	(1,971)	382	666
Net Loss	(3,848)	(4,418)	(779)	(412)
Basic and diluted loss per share	($0.21)	($0.24)	($0.04)	($0.03)
Total current assets	43,921	42,519	40,820	44,351
Total assets	78,291	74,358	71,793	71,361
Total liabilities	27,690	29,124	27,256	27,576

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 30, 2016, March 31, 2017 and June 30, 2017 of 18.5 million (CAD), 15.6 million (CAD) and 15.0 million (CAD) respectively.

We used cash of $2.6 million (CAD) from operating activities during the first half of fiscal 2017, which included cash to fund and increase non-cash working capital of $1.2 million (CAD). In addition, we used cash of $0.9 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 31 days at the end of Q2 of fiscal 2017, down from the 38 days at the end of Q1 2017.

Non-cash working capital increased by $1.3 million (CAD) in the first half of fiscal 2017. This increase was primarily due to the factors noted below.

Trade receivables, net, were $15.5 million (CAD) as at June 30, 2017; an increase of $1.3m compared to the level at December 31, 2016.

Inventory at June 30, 2017 was $8.1 million (CAD) which was lower than the $8.7 million (CAD) inventory as at December 31, 2016. This decrease is reflective of continued working capital management efforts. Trade payables and other liabilities at June 30, 2017 were $18.0 million compared to $18.6 million at December 31, 2016.

Commitments for capital expenditures

There were no material commitments for capital expenditures at June 30, 2017.

Credit Facilities

At June 30, 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 June 30, 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 June 30, 2017, amounts restricted from distribution, which constitute 10% of Galtronics China's retained earnings, amounted to approximately $1.2 million. Known contractual obligations as at June 30, 2017 were as follows:

(in CAD$000's)

	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	4,855	-	-	-	-	-	4,855
Trade and other payables	17,872	-	-	-	-	-	17,872
Operating lease commitments	868	1,113	984	713	479	1,521	5,678
Total	**23,595**	**1,113**	**984**	**713**	**479**	**1,521**	**28,405**

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, with agreements expiring in 2017 and 2019, 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 exited a service agreement with a related party for, among other things, office space in Toronto, Canada for head office staff. Baylin replaced this agreement with an agreement with an external party for the provision of office space for a term of 12 months. Galtronics Canada entered into a rental agreement for the premises in Ottawa for a ten year period ending in 2027. It is anticipated that these commitments will be funded through operating activities

Legal Proceedings

In 2009 Galtronics Israel received notice for possible indemnification by a major customer (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 five years after the grant date (except as noted below).

As of June 30, 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 June 30, 2017 nil options were vested, with the balance vesting (i) 1/3 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 Q2 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 Q2 fiscal 2017 as G&A expense.

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

	Number of DSUs	Weighted average price in CAN $	
DSUs outstanding at January 1, 2017	**224,827**	**$**	**2.00**
DSUs granted during the period	**36,406**	**$**	**2.13**
DSUs outstanding at June 30, 2017	**261,233**	**$**	**2.02**

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. We have a number of operating leases with various parties and conditions. They are not considered sufficiently material individually.

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. During Q2 the company terminated the service agreement with no penalty and has secured alternative office space with a non-related party.

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 June 30, 2017 was higher than at June 30, 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. As at June 30, 2017 an asset impairment test was carried out on assets held by Galtronics Israel initiated by the decision to cease operations at that facility. As a result of this assessment an impairment provision of $0.2 million (CAD) was recorded during the quarter.

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 June 30, 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. 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 are 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 52% and 52% of revenue from our major customer and its subcontractors for the quarter ended June 30, 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 June 30, 2017, the Company had 21,945,135 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 June 30, 2017.

No significant changes in the Company's internal control over financial reporting occurred during the three months ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Having said that, CFO James Newell has officially retired from the Company and a new full time CFO has been hired and commences duty on July 31, 2017.

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 June 30, 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