BAYLIN TECHNOLOGIES

MANAGEMENT'S DISCUSSION & ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the year ended December 31, 2017

Dated February 28, 2018

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

This management's discussion and analysis ("MD&A") of financial condition and results of operations of Baylin Technologies Inc. ("Baylin", the "Company", "we" or "us") was prepared by management as at February 28, 2018. This MD&A should be read in conjunction with the audited consolidated financial statements of Baylin for the years ended December 31, 2017 ("fiscal 2017") and December 31, 2016 ("fiscal 2016") and the related notes included therein (collectively, the "Financial Statements"). The Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). In preparing this MD&A, management has taken into account information available to it up to February 28, 2018, unless otherwise stated.

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 dollars. **Effective January 1, 2017, Baylin changed its presentation currency from United States dollars ("USD") to Canadian dollars. In accordance with guidance provided in IAS 21 – *The Effects of Changes in Foreign Exchange Rates* and other IFRS, the Company has applied the change retrospectively and has restated financial information in this MD&A for prior years into CAD using the exchange rate in effect at the date of the change.**

FORWARD-LOOKING STATEMENTS

This MD&A 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", which is 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 references certain 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 non-GAAP measures presented in this MD&A are as follows: (i) "EBITDA", which refers to operating income (loss) plus depreciation and amortization, (ii) "Adjusted EBITDA", which refers to EBITDA plus non-recurring items, as hereinafter defined, (iii) "Adjusted net income (loss)", which refers to net income (loss) plus non-recurring items, (iv) "gross margin", which refers to gross profit divided by revenue, (v) "net cash", which refers to cash and cash equivalents minus bank indebtedness and minus current portion of capital leases, (vi) "working capital", which refers to current assets minus current liabilities, and (vii) "non-cash working capital", which refers to working capital minus cash and cash equivalents.

OVERVIEW

Background

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

Key Highlights

Key highlights for the twelve months ended December 31, 2017 include the following:

- Revenue grew to $91.6 million in fiscal 2017, an increase of 8.9% over the prior year.
- Gross profit grew to $28.3 million in fiscal 2017, an increase of 20.6% and a three percentage point improvement in gross margin over fiscal 2016 (see "Non-GAAP Measures" on page 2 of this MD&A).
- Adjusted EBITDA was $5.0 million in fiscal 2017, compared to Adjusted EBITDA of $1.8 million in the prior year. Certain non-recurring and one-time expenses ("non-recurring items") of $2.6 million were incurred in fiscal 2017 (see "Non-GAAP Measures" on page 2 of this MD&A).
- Net loss was $4.2 million in fiscal 2017. Net loss, adjusted for non-recurring items was $1.6 million (see "Non-GAAP Measures" on page 2 of this MD&A).
- Liquidity improved by issuing common shares in the capital of the Company for gross proceeds of $19.8 million. Cash and cash equivalents increased from $18.5 million in fiscal 2016 to $35.1 million in fiscal 2017.
- The Base Station and Small Cell sales antenna products' team expanded through the hire of four additional sales people with antenna industry experience in this market. The reconstructed sales team has already made several positive inroads with new customers, which includes new master purchase agreements and new product approvals. These changes resulted in a 34.8% increase in revenue from Small Cell/DAS/BSA products over the prior year.

Key highlights for the three months ended December 31, 2017 include the following:

- Revenue and gross profit increased in the most recent quarter by 22% and 25%, respectively, as compared to the same period in fiscal 2016.
- Adjusted EBITDA in the fourth quarter of 2017 was $1.3 million, representing the eighth consecutive positive quarter, compared to Adjusted EBITDA of $0.1 million in the fourth quarter of fiscal 2016.

Recent Developments

On January 17, 2018, the Company acquired the radio frequency, terrestrial microwave and antenna equipment divisions of Advantech Wireless Inc. and certain of its affiliates, through newly incorporated, wholly-owned subsidiaries of the Company. The purchase price for the acquisition was $49,000,000, subject to customary adjustments. The purchase price was satisfied through $48,000,000 in cash and the issuance of 308,642 common shares at a deemed price of $3.24 per share.

To fund a portion of the purchase price for the acquisition, the Company entered into a credit agreement with Crown Capital Partners Inc., pursuant to which Crown provided a $33 million term loan. A total of 682,500 common share purchase warrants were issued to Crown in connection with the term loan. Each warrant entitles the holder thereof to purchase one common share at an exercise price of $3.37 per common share until January 17, 2023.

Pursuant to the terms of the acquisition, Advantech Wireless Inc. may be entitled to additional compensation of between $0.75 million and $3 million per year in each of 2018 and 2019 conditional on the business meeting certain EBITDA targets in those years.

In connection with the acquisition, Advantech Wireless Inc. entered into a consulting agreement with the Company, pursuant to which Advantech will provide the services of its principals David and Stella Gelerman for two years. In consideration for these services, Advantech will receive a fee of $2,500,000, payable, as to one-half, in cash in quarterly instalments and, as to one-half, through 385,802 common shares issued at closing of the acquisition with a deemed price of $3.24 per share. The trading of such shares is subject to certain time release restrictions for a period of up to 24 months following the closing of the acquisition.

New Products

Advantech designs and manufactures customizable radio frequency and microwave products for highly specialized wireless communications markets. For over 25 years, the company has developed significant innovations including pioneering the use of Gallium Nitride ("GaN") technology to create smaller, lighter, and more powerful products. Advantech's products include high performance block up converters, high power solid-state power amplifiers and transceivers. Advantech's radio frequency products span all power levels (5 watt to 6,000 watt) and all bands (C-Band to Ka-Band). Their microwave products span frequency bands from 6 GHz to 38 GHz.

SELECTED FINANCIAL INFORMATION

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

(in CAD$000's except per share amounts)	Twelve Months Ended December 31,		
	2017	2016	2015
	$	$	$
Revenue	91,642	84,133	55,311
Gross Profit	28,345	23,505	11,734
Income (loss) before income taxes	(3,773)	(2,678)	(17,904)
Income tax expense (recovery)	436	2	780
Net income (loss)	(4,209)	(2,680)	(18,684)
Basic and diluted income (loss) per share	(0.17)	(0.15)	(0.99)
EBITDA	2,306	602	(11,066)
Adjusted EBITDA	4,955	1,816	(8,805)
Current assets	64,666	43,031	39,230
Total assets	84,882	65,006	68,609
Current liabilities	26,873	22,114	25,511
Non-current liabilities	2,183	1,462	1,360
Total liabilities	29,056	23,576	26,871

The Company's financial performance has significantly improved over the prior three years. Revenue and gross profit in fiscal 2017 have increased compared to fiscal 2015 by 66% and 142%, respectively. Adjusted EBITDA (see "Non-GAAP Measures" on page 2 of this MD&A) increased by $13.8 million from fiscal 2015 to fiscal 2017.

OUTLOOK

Management considers the long-term outlook of Baylin's market expansion opportunities combined with the impact of cost reductions over the last two and a half years to be encouraging. The fundamental core elements of the business continue to trend in a positive direction.

As previously reported, in 2017 we ceased operations at our facility in Tiberias, Israel. We remain, however, committed to investing in research and development ("R&D") and anticipate quarter-over-quarter spending to increase in 2018 as we continue to add new products into our product road map which are being developed in Ottawa, Canada.

We produced and delivered our first base station antenna to market in the fourth quarter of 2017. We have developed two additional base stations antennas that will start shipping in the first quarter of 2018. During 2017, additional sales personnel joined the Small Cell/DAS/BSA group in an effort to align more closely with our end customer and add knowledge and skills to our DAS, Base Station and Small Cell sales team. We anticipate that our Small Cell product offering will expand in 2018 and we expect to add several new significant customers as a result.

Revenue from the Embedded Solutions' product line increased in 2017 compared to the prior year and we expect this trend to continue in 2018 as new platforms begin ramping up and efforts continue to expand the customer base.

Asia Pacific's outlook remains stable with consistent revenues from existing customers combined with continued efforts to identify new opportunities to further reduce our reliance on a major customer. It is expected that revenue in the first quarter of 2018 will benefit from several product launches of a major Asia Pacific customer.

A continued focus on controlling spending, optimizing manufacturing efficiencies and managing liquidity will continue in 2018 in an effort to hold the margin gains we have achieved over the last three years.

On January 17, 2018, Baylin acquired the radio frequency, terrestrial microwave and antenna equipment divisions of Advantech Wireless Inc., We expect that this strategic acquisition will accelerate growth by broadening our product offering and providing access to new verticals and geographies. Management will continue to explore opportunities to increase the scale of our business through strategic, accretive acquisitions in 2018.

DISCUSSION OF OPERATIONS

Description of Operations

Baylin's business is comprised of three inter-related antenna product lines being: (i) Asia Pacific; (ii) Embedded Solutions; and, (iii) Small Cell/DAS/BSA.

The majority of Asia Pacific volumes are now produced at our plant in Vietnam taking advantage of a lower cost structure.

We plan to continue our strategy to diversify the revenue base and be less reliant on Asia Pacific's major customer, by increasing volumes in Embedded Solutions and Small Cell/DAS/BSA throughout 2018. Small Cell/DAS/BSA revenue and gross profit in 2017 were the highest achieved in the Company's history. Engineering operations continue to accelerate in Canada for traditional Small Cell/DAS antennas as well as BSA applications.

Embedded Solutions' sales were higher in 2017 compared with the prior year with a more favourable product mix as certain products reached end of life volumes while other programs were extended at higher quarterly volumes.

Revenue and Gross Profit

(in CAD$000's)					
	Twelve Months Ended December 31,				
	2017	**2016**	**2015**	**Change 2016 to 2017**	**Change 2015 to 2016**
	$	**$**	**$**		
Revenue	**91,642**	**84,133**	**55,311**	**8.9%**	**52.1%**
Cost of Revenue	63,297	60,628	43,577	4.4%	39.1%
Gross Profit	**28,345**	**23,505**	**11,734**	**20.6%**	**100.3%**
Gross Margin %	30.9%	27.9%	21.2%		

a) *Factors Affecting Revenue and Gross Profit*

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 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 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 $91.6 million in fiscal 2017, an increase of 8.9% compared to $84.1 million in fiscal 2016. This growth was led by Small Cell/DAS/BSA products which grew by 34.8% due mainly to the successful launch of a small cell antenna. Revenue from Asia Pacific and Embedded Solutions' products increased by 6.8% and 7.1%, respectively.

Gross profit was $28.3 million in fiscal 2017 (30.9% of revenue). This compares favourably with fiscal 2016, in which gross profit was $23.5 million (27.9% of revenue). Management believes that the year-over-year improvement was due to: (i) higher production volumes associated with higher fiscal 2017 revenue, and (ii) increased volumes in the Vietnam plant which has a lower cost structure.

Research and Development Expenses

(in CAD$000's)					
	Twelve Months Ended December 31,				
	2017	**2016**	**2015**	**Change 2016 to 2017**	**Change 2015 to 2016**
	$	**$**	**$**		
Payrolls	7,823	7,537	5,602	3.8%	34.5%
Other development costs	2,653	2,463	2,153	7.7%	14.4%
Depreciation	772	233	522	231.3%	(55.4%)
Total	**11,248**	**10,233**	**8,277**	**9.9%**	**23.6%**
As a Percentage of Revenue	12.3%	12.2%	15.0%		

a) *Factors Affecting R&D Expenses*

The Company's R&D expenses consist primarily of salaries, patent fees, product development costs and other related engineering expenses. The Company's technological design centres 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 expense in fiscal 2017 was $11.2 million, (12.3% of revenue), which represents an increase compared to fiscal 2016 of $1.0 million (12.2% of revenue). The increase was attributable to increased spending to develop products to expand our product lines.

Sales and Marketing Expenses

(in CAD$000's)					
	Twelve Months Ended December 31,				
	2017	2016	2015	Change 2016 to 2017	Change 2015 to 2016
	$	$	$		
Payrolls	3,879	3,440	4,229	12.8%	(18.7%)
Other	1,611	694	1,887	132.1%	(63.2%)
Total	**5,490**	**4,134**	**6,116**	**32.8%**	**(32.4%)**
As a Percentage of Revenue	6.0%	4.9%	11.1%		

a) *Factors Affecting Sales and Marketing Expenses*

The Company's 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*

Baylin's sales and marketing expenses in fiscal 2017 were $5.5 million (6.0% of revenue), compared to fiscal 2016 in which these expenses were $4.1 million (4.9% of revenue). The increase was mainly due to new sales personnel in the Small Cell/DAS/BSA group as the product line expands and new customers are pursued.

General and Administrative Expenses

(in CAD$000's)					
	Twelve Months Ended December 31,				
	2017	2016	2015	Change 2016 to 2017	Change 2015 to 2016
	$	$	$		
Payrolls	6,123	4,662	4,923	31.3%	(5.3%)
Other	7,005	7,582	7,269	(7.6%)	4.3%
Depreciation	256	403	612	(36.5%)	(34.2%)
Total	**13,384**	**12,647**	**12,804**	**5.8%**	**(1.2%)**
As a Percentage of Revenue	14.6%	15.0%	23.1%		

a) *Factors Affecting General & Administrative Expenses*

The Company's general and administrative ("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*

The Company's G&A expenses in fiscal 2017 were $13.4 million (14.6% of revenue), whereas in fiscal 2016 these expenses were $12.6 million (15% of revenue). The decrease as a percentage of revenue was due to ongoing expense control.

Base Station Antenna Development

Operating expenses above include expenses incurred for the development of Base Station Antennas ("BSA"). A summary of expenses incurred in fiscal 2017 compared to the forecasted amount as per the Short Form Prospectus issued December 15, 2016 is set out in the table below:

(in CAD$000's)		
	Twelve Months Ended December 31,	Twelve Months Ended December 31,
	2017	2017 [1]
	$	$
Base Station Antenna	**1,903**	**2,685**

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

Expenses incurred for the development of BSA for the year ended December 31, 2017 were lower than the projected amount in the Short Form Prospectus dated December 15, 2016 due primarily to the decision to close research and development efforts in Israel and relocate all design and engineering activities to Canada. We expect the variance to plan to decrease in 2018 as we continue to add new products into our product road map which are being developed in Ottawa, Canada.

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA are non-IFRS measures that management uses to assess the Company's operating performance. See "Non-GAAP Measures" on page 2 of this MD&A for a description of these measures. EBITDA and Adjusted EBITDA are reconciled as follows:

Reconciliation to Operating Loss

(in CAD$000's)	Twelve Months Ended December 31		
	2017	2016	2015
	$	$	
Operating income (loss)	**(1,777)**	**(3,509)**	**(15,464)**
Amortization and depreciation	4,083	4,111	4,398
EBITDA	**2,306**	**602**	**(11,066)**
Termination costs and other one-time costs	2,649	1,214	2,261
Adjusted EBITDA	**4,955**	**1,816**	**(8,805)**

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

Operating income (loss), EBITDA and Adjusted EBITDA are highly impacted by revenue volumes, the mix of product sales, operating expense overheads and our investment in R&D related to new Small Cell and BSA products.

b) *Fiscal 2017 compared to Fiscal 2016*

The Company's operating loss in fiscal 2017 was $1.8 million, a significant improvement over fiscal 2016's operating loss of $3.5 million. Adjusted EBITDA in fiscal 2017 was $5.0 million (or 5.4% of revenue), whereas in fiscal 2016, Adjusted EBITDA was $1.8 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 2017 amounted to $2.6 million 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, the Israeli operation restructure provision and impairment loss and sundry other non-recurring activities.

Net Income (Loss) for the period

(in CAD$000's)					
	Twelve Months Ended December 31,				
	2017	**2016**	**2015**	**Change 2016 to 2017**	**Change 2015 to 2016**
	$	**$**	**$**		
Loss before taxes	(3,773)	(2,678)	(17,904)	40.9%	(85.0%)
Income tax expense (recovery)	436	2	780	21700.0%	(99.7%)
Net Loss for the period	**(4,209)**	**(2,680)**	**(18,684)**	**57.1%**	**(85.7%)**
Basic and diluted Loss per share	**$ (0.17)**	**$ (0.15)**	**$ (0.99)**	**13.3%**	**(84.8%)**

a) *Factors Affecting Net Income or Loss*

Net income (loss) is influenced by the above noted factors for operating income (loss) and EBITDA.

b) *Fiscal 2017 compared to Fiscal 2016*

The Company's net loss in fiscal 2017 was $4.2 million compared to $2.7 million in fiscal 2016. Management considers that the higher net loss in fiscal 2017 was primarily due to higher non-recurring expenses and foreign exchange losses. On a loss per share basis, fiscal 2017 experienced a loss of $0.17 per share, whereas in fiscal 2016 this amount was $0.15 per share.

Reconciliation of the Use of Proceeds from the 2016 Financing

On December 22, 2016, the Company completed a public offering of Common Shares which raised net proceeds of $5,048,088 (the **"December 2016 Offering"**). The following table sets forth a comparison of the disclosure regarding the Company's intended use of proceeds set out in the Company's short form prospectus dated December 15, 2016 (the **"December 2016 Prospectus"**) in connection with the December 2016 Offering and the estimated use of proceeds as of December 31, 2017:

	Initial Intended Use of Proceeds	**Current Estimated Use of Proceeds**
Research and development in respect of Baylin's macro antennas	$3,000,000	$3,300,000 (1)
Capital expenditures	$600,000	$900,000 (2)
Working capital and general corporate purposes	$1,448,088	$848,088 (3)
Totals	**$5,048,088**	**$5,048,088**

<u>Notes:</u>

(1) As at December 31, 2017, the Company has spent approximately $1,903,000 of the December 2016 Offering net proceeds on this item.
(2) As at December 31, 2017, the Company has spent approximately $653,000 of the December 2016 Offering net proceeds on this item.
(3) As at December 31, 2017, the Company has not spent any of the December 2016 Offering net proceeds on this item.

Reconciliation of the Use of Proceeds from the 2017 Financing

On November 28, 2017, the Company completed a public offering of Common Shares which raised net proceeds of approximately $18,072,000 (the **"November 2017 Offering"**). The following table sets forth a comparison of the disclosure regarding the Company's intended use of proceeds set out in the Company's prospectus supplement dated November 20, 2017 (the **"November 2017 Prospectus"**) in connection with the November 2017 Offering and the estimated use of proceeds as of December 31, 2017:

	Initial Intended Use of Proceeds	**Current Estimated Use of Proceeds**
Capital expenditures	$4,000,000	$4,000,000 (1)
Working capital	$7,000,000	$7,000,000 (1)
General corporate purposes	$7,072,000	$7,072,000 (1)
Totals	**$18,072,000**	**$18,072,000**

Notes:

(1) As at December 31, 2017, the Company has not spent any of the November 2017 Offering net proceeds on this item.

SUMMARY OF QUARTERLY RESULTS

(in CAD$000's, except per share amounts)	**Three Months Ended**			
	March 31, 2017	**June 30, 2017**	**September 30, 2017**	**December 31, 2017**
	$	**$**	**$**	**$**
Revenue	19,801	20,350	27,140	24,351
Gross Profit	5,942	6,801	8,424	7,178
EBITDA	(224)	(1,101)	2,652	979
Adjusted EBITDA	151	406	3,076	1,322
Net Income (Loss)	(1,644)	(3,204)	896	(257)
Basic and diluted income (loss) per share	($0.07)	($0.14)	$0.04	$0.00
Total current assets	39,968	41,478	44,926	64,666
Total assets	61,820	61,944	64,244	84,882
Total liabilities	21,961	24,493	27,207	29,056

(in CAD$000's, except per share amounts)	**Three Months Ended**			
	March 31, 2016	**June 30, 2016**	**September 30, 2016**	**December 31, 2016**
	$	**$**	**$**	**$**
Revenue	20,925	20,756	22,457	19,995
Gross Profit	5,623	5,865	6,257	5,760
EBITDA	233	638	449	(718)
Adjusted EBITDA	382	597	740	97
Net Income (Loss)	(779)	(478)	230	(1,653)
Basic and diluted income (loss) per share	($0.04)	($0.02)	$0.01	($0.09)
Total current assets	40,820	44,351	46,847	43,031
Total assets	71,793	71,361	73,151	65,006
Total liabilities	27,256	27,576	29,675	23,576

CAPITAL RESOURCES AND LIQUIDITY

Our capital resources are in part used to fund working capital associated with product launches, to invest in design proposals for our current customers, and for 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, actual revenue and expenses, compared to budgeted amounts. Cash flow is monitored on a weekly basis, while other metrics such as the cash conversion cycle ("CCC"), are monitored monthly. Management looks to these key indicators to ensure the Company is generating sufficient cash to maintain capacity and meet planned growth. For example, low CCC implies a more efficient use of working capital employed.

The Company had cash and cash equivalents at December 31, 2017 and December 31, 2016 of $35.2 million and $18.5 million, respectively.

During fiscal 2017, the Company generated $1.3 million in cash from operating activities, net of a use of cash to fund and increase non-cash working capital of $3.4 million. In addition, the Company used $3.2 million in cash for net capital expenditures. To offset these uses of cash, the Company generated $19.3 million through its November 2017 common share public offering and entered into a loan facility, collateralized by LDS equipment in Vietnam, in January 2017.

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, customer payment delays, 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. As at the end of fiscal 2017, the Company's CCC was 15 days, down from 23 days at the end of fiscal 2016. The relatively short CCC is reflective of continued working capital management efforts.

During fiscal 2017, non-cash working capital increased by $3.4 million. Management considers that this increase was primarily due to the factors noted below.

Net trade receivables were $16.1 million as at December 31, 2017 compared to $14.2 million as at December 31, 2016. The increase was due to increased sales from the successful product launch of a major Asia Pacific customer combined with the launch of a small cell antenna product roll out.

Inventory as at December 31, 2017 was $9.2 million, which was higher than the $8.7 million inventory balance as at December 31, 2016. The increase was attributable to the higher manufacturing volumes, mainly for Asia Pacific and Small Cell and BSA products, to meet sales expectations in 2018.

Trade payables and accrued liabilities as at December 31, 2017 were $22.5 million compared to $18.6 million as at December 31, 2016. The increase was primarily related to the inventory build and increased R&D expenditures in Ottawa, Canada.

Commitments for Capital Expenditures

As at December 31, 2017, the Company had no capital expenditure commitments.

Credit Facilities

As at December 31, 2017, the Company had credit facilities with banks domiciled in Canada, China, Vietnam and Korea (collectively the "Credit Facilities"). These Credit Facilities are revolving and renewable by the respective 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 approximately 3.6%-5.9% and are collateralized by an irrevocable letter of credit ("Letter of Credit") issued by Baylin to the lender in Korea, and property, plant and equipment. As at December 31, 2017, the Company had access to approximately $10.3 million of credit of which $4.5 million was utilized.

The Company's ability to utilize the Credit Facilities is dependent on being able to provide collateral in accordance with the requirements of the respective banks providing credit facilities to our subsidiaries. The Credit Facilities are for working capital and are secured by the Company's building in China and certain manufacturing equipment in Vietnam.

The Credit Facilities contain certain covenants that the Company must comply with, failing which amounts outstanding under the Credit Facilities may become payable on demand. As of the date of this MD&A, the Company is in compliance with all applicable financial covenants under the Credit Facilities.

CONTRACTUAL COMMITMENTS AND OBLIGATIONS

As of the date of this MD&A, management is not aware of any commitment or obligation other than those presented under this section that could materially affect the Company's future business.

In accordance with applicable Chinese laws, Baylin's subsidiary Galtronics Electronics (Wuxi) Co., Ltd. ("Galtronics China") is permitted to distribute up to 90% of its after-tax earnings. As at December 31, 2017, amounts restricted from distribution, which constitute 10% of Galtronics China's retained earnings, amounted to approximately $1.1 million.

Known contractual obligations as at December 31, 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	4,159	347	-	-	-	-	4,506
Trade and other payables	22,552	-	-	-	-	-	22,552
Operating lease commitments	1,060	745	454	437	449	1,447	4,592
Total	**27,771**	**1,092**	**454**	**437**	**449**	**1,447**	**31,650**

Known contractual obligations as at December 31, 2016 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	3,483	0	0	0	0	0	3,483
Trade and other payables	18,580	0	0	0	0	0	18,580
Operating lease commitments	1,278	1,261	827	424	326	318	4,435
Total	**23,341**	**1,261**	**827**	**424**	**326**	**318**	**26,498**

COMMITTMENTS

Baylin and certain of its subsidiaries, including Galtronics China, Galtronics Korea Ltd. ("Galtronics Korea"), Galtronics Corporation Ltd. ("Galtronics Israel"), Galtronics Vietnam Co., Ltd. ("Galtronics Vietnam") have entered into rental agreements for premises.

The future minimum lease fees payable by Baylin and its subsidiaries as at December 31, 2017 were as follows:

(in CAD$000's)			
Year 1:	2018	$	1,060
Years 2 to 5:	2019 to 2022		2,085
Years 6 onward:	2023 to 2027		1,447
		$	4,592

Stock Option Grants

The Company's stock option plan (the "Stock Option Plan") was adopted to provide the board of directors with the ability to 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 the market value of the common shares; (ii) the vesting provisions, generally being one third vests on each anniversary of the grant date, and (iii) the expiry date, generally being no more than seven years after the grant date.

The table below summarizes the Company's stock option grants as at December 31, 2017.

		Stock option grant date		
		August 24, 2015	**March 30, 2017**	**August 8, 2017**
Stock options granted		925,000	685,000	500,000
Exercise price	$	1.51	1.98	2.00
Option expiry date		August 24, 2020	March 30, 2022	August 8, 2022
Options vested as at December 31, 2016		500,000	-	-
Options vested as at December 31, 2017		925,000	-	-

The Company recognized a stock option expense in fiscal 2017 of $0.2 million, which was included in G&A expense.

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 DSUs issued is determined each month while the director is serving as a board member. DSUs 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 of DSUs issuable is limited to 500,000 units.

The Company recognized a DSU expense of $0.2 million in fiscal year 2017, which was included in G&A expense.

The following table lists the number of DSUs issued during the current year:

	Number of DSUs	Weighted average price in CAD
DSUs outstanding at January 1, 2016	139,422	$2.34
DSUs granted during 2016	85,404	$1.99
DSUs outstanding at December 31, 2016	224,826	$2.21
DSUs granted during 2017	77,596	$2.19
DSUs outstanding at December 31, 2017	302,422	$2.20

OFF-BALANCE SHEET ARRANGEMENTS

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 Company incurred expenses of $140 in general and administrative expenses for the 12 months ended December 31, 2017 under this service agreement. The Company terminated the service agreement, in the second quarter of 2017, with no penalty, and secured alternative office space with a non-related party.

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

FOURTH QUARTER DISCUSSION

Revenue and Gross Profit

(in CAD$000's)	Three Months Ended December 31,		
	2017	2016	Change
	$	$	
Revenue	**24,351**	**19,995**	**21.8%**
Cost of Revenue	17,173	14,235	20.6%
Gross Profit	**7,178**	**5,760**	**24.6%**
Gross Margin %	29.5%	28.8%	

Revenue in the fourth quarter of fiscal 2017 was $24.4 million, representing a 21.8% increase over the fourth quarter of fiscal 2016. Each of Baylin’s product lines demonstrated quarter-over-quarter growth, led by Small Cell/DAS/BSA which grew by 130%.

Fourth quarter revenue was lower than third quarter revenue by 10.3%. Management believes this decline was due to the seasonal nature of the business. There was growth of 18.8% in the Small Cell/DAS/BSA product line and 12.1% in Embedded Solutions, whereas Asia Pacific was lower by 27.2%.

Gross profit in the fourth quarter of 2017 was $7.2 million (or 29.5% of revenue), which compared favourably with the $5.8 million (or 28.8% of revenue) achieved in the same period in fiscal 2016. The improvement was attributable to similar factors cited in the full year results.

Research and Development

(in CAD$000's)	Three Months Ended December 31,		
	2017	2016	Change
	$	$	
Payrolls	2,027	1,733	17.0%
Other development costs	496	767	-35.3%
Depreciation	156	74	110.8%
Total	**2,679**	**2,574**	**4.1%**
As a Percentage of Revenue	11.0%	12.9%	

R&D expenses were $2.7 million in the fourth quarter of fiscal 2017, an increase of 4.1% compared to the same period in fiscal 2016. As noted in the Company's interim MD&A dated November 1, 2017, management anticipated quarter-over-quarter spending to increase in the fourth quarter of fiscal 2017 in comparison to the third quarter of fiscal 2017 (which was approximately $2.4 million) as new products are added into the Company's product road map.

Sales and Marketing

(in CAD$000's)	Three Months Ended December 31,		
	2017	2016	Change
	$	$	
Payrolls	1,013	911	11.2%
Other	512	146	250.7%
Total	**1,525**	**1,057**	**44.3%**
As a Percentage of Revenue	6.3%	5.3%	

Sales and marketing expenses were $1.5 million in the fourth quarter of fiscal 2017, compared to $1.1 million in the fourth quarter of fiscal 2016. The quarter-over-quarter increase was due to similar factors cited under the discussion regarding the full year results.

General and Administrative

(in CAD$000's)			
	Three Months Ended December 31,		
	2017	2016	Change
	$	$	
Payrolls	1,478	967	52.8%
Other	1,393	2,745	-49.3%
Depreciation	79	77	2.6%
Total	**2,950**	**3,789**	**-22.1%**
As a Percentage of Revenue	12.1%	18.9%	

G&A expenses were $3.0 million in the fourth quarter of fiscal 2017, representing a decrease from the same quarter in fiscal 2016 mainly due to a provision for a doubtful account receivable recorded in the fourth quarter of 2016.

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 for a description of these measures. EBITDA and Adjusted EBITDA are reconciled as follows:

Reconciliation to Operating Loss

(in CAD$000's)			
	Three Months Ended December 31		
	2017	2016	Change
	$	$	
Operating income (loss)	**10**	**(1,661)**	**-100.6%**
Amortization and depreciation	969	943	2.8%
EBITDA	**979**	**(718)**	**-236.4%**
Termination costs and other one-time costs	343	815	-57.9%
Adjusted EBITDA	**1,322**	**97**	**1262.9%**

Operating income in the fourth quarter of fiscal 2017 was $0.01 million. This represents a significant improvement over the same period last year, during which the Company incurred an operating loss of $1.7 million. Adjusted EBITDA was $1.3 million in the fourth quarter of fiscal 2017 compared to $0.1 million in the prior year period. The improvement in operating loss and Adjusted EBITDA was attributable to the revenue and gross margin improvements, as noted earlier, and operating expense control. The major one-time items in the fourth quarter of fiscal 2017 were primarily due to final adjustments and write-offs relating to the closure of the facility in Israel.

Net Loss for the period

(in CAD$000's)			
	Three Months Ended December 31,		
	2017	2016	Change
	$	$	
Loss before taxes	(255)	(1,670)	-84.7%
Income tax expense (recovery)	2	(17)	-111.8%
Net loss for the period	**(257)**	**(1,653)**	**-84.5%**
Basic and diluted loss per share	**$ 0.00**	**$ (0.09)**	

Net loss for the fourth quarter of 2017 was $0.3 million, materially improved from the $1.7 million net loss in the prior year.

CRITICAL ESTIMATES

The preparation of the Company's Financial Statements requires management to make estimates and judgements that affect the reported numbers. On an ongoing basis, management evaluates 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. The reserve for bad debts at December 31, 2017 was lower than at December 31, 2016, due to a large reserve in 2016 relating to a customer balance that was not going to 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. In relation to the closure of the Company's engineering facility in Tiberias, Israel, an impairment charge of $351 was taken in the twelve months ended December 31, 2017 for property and equipment that could not be transferred and for which the company intends to dispose of. The property and equipment only has use in the Tiberias, Israel engineering facility thus the carrying value had exceeded fair value. There was no indication of an impairment of any other fixed assets at December 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

As at the date of this MD&A, management is not aware of any pending material legal claims.

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. The company has adopted these standards where they were applicable to the Company. The adoption of new standards and amendments did not have any impact on the amounts recognized in prior period and did not affect the current periods. The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, refer to Note 10 of the Financial Statements.

New standards and interpretations not yet adopted

At the date of authorization of the 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 consolidated 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 consolidated financial statements.

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.

The Company has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The financial assets held by the Company include debt instruments currently classified as loans and receivables and measured at amortized cost, which meet the conditions for classification at amortized cost under IFRS 9. Accordingly, the Company does not expect the new guidance to affect the classification and measurement of these financial assets.

There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date and as the Company has taken insurance to help mitigate against credit losses, the Company does not expect a material impact on the loss allowance for trade creditors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

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.

The Company analyzed its significant customer relationships to determine the effects of IFRS 15. In particular, the Company assessed under the new guidance whether its existing contracts with customers to produce certain goods would permit the Company to recognize revenue over time versus at a point in time, based on whether the given product has an alternative use or not and whether there is an enforceable right to payment under the contract for product produced to date.

The Company expects to adopt IFRS 15 using the modified retrospective approach as of January 1, 2018. The modified retrospective approach allows the cumulative impact of the adoption to be recognized in retained earnings as of January 1, 2018 and that comparatives will not be restated. Based on its assessment to date, the Company has tentatively concluded that it does not satisfy the criteria to recognize revenue over time, and, therefore, expects to continue to recognize revenue at a point in time consistent with its current policies and processes. Consequently, the Company does not expect the adoption of IFRS 15 to have a material impact on its consolidated financial statements and revenue recognition practices.

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 consolidated 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, 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:

We believe interest rate risk is low. Interest rates have been relatively stable over the past several years.

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. 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. The Group recognized an aggregate of 51% and 52% of revenue, directly and indirectly, from its largest customer and its subcontractors for the 12 months ended December 31, 2017 and December 31, 2016, respectively. The Company's strategy in managing this risk is to diversify its customer base by expanding its product portfolio and enhancing its sales and marketing efforts.

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

Liquidity risk:

The Group monitors 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 its operating entities through a combination of cash on hand, borrowings under Credit Facilities, and generating operating cash flow. The Group also regularly monitors the amounts owing to Galtronics China by other subsidiaries to ensure compliance with China's State of Administration of Foreign Exchange ("SAFE") requirements.

On November 28, 2017, the Company completed a public offering of 8,441,490 common shares at a price of $2.35 per common share, for gross proceeds of $19,837,501, which further strengthened its liquidity position. The common shares issued pursuant to the public offering were qualified by a prospectus supplement dated November 20, 2017 to a short form base shelf prospectus dated November 16, 2017.

OUTSTANDING SHARE DATA

As of February 28, 2018, the Company had 31,207,356 common shares issued and outstanding.

The aggregate number of common shares reserved for issuance under the Company's Stock Option Plan is a maximum of 10% of the issued and outstanding common shares. As at the date of this MD&A, options to purchase up to an aggregate of 2,110,000 common shares were outstanding.

As at the date of this MD&A, there are outstanding common share purchase warrants to purchase up to 745,670 common shares.

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 December 31, 2017.

No significant changes to the Company's internal controls over financial reporting occurred during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting. A new full time CFO was appointed 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 December 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, 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 February 28, 2018, which is available on SEDAR at www.sedar.com.