MANAGEMENT'S DISCUSSION & ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three and twelve months ended December 31, 2018

Dated March 13, 2019

Baylin Technologies Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three and Twelve Months Ended December 31, 2018

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 March 13, 2019. This MD&A should be read in conjunction with the audited consolidated financial statements of Baylin and related notes thereto for the years ended December 31, 2018 ("fiscal 2018") and December 31, 2017 ("fiscal 2017") (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 March 13, 2019, unless otherwise stated.

Additional information relating to the Company, including the 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.

This MD&A contains commentary from the Company's management regarding the Company's strategy, operating results, financial position and outlook. Management is responsible for the accuracy, integrity, and objectivity of this MD&A. Accordingly, management develops, maintains and supports necessary systems and controls to provide reasonable assurance as to the accuracy of the comments contained herein.

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 management pursues its 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 management believes that the assumptions underlying these statements are reasonable, they may prove to be incorrect, and management 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 anticipated will be realized. Some of these risks, uncertainties and other factors are described in the Company's 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 management assumes 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. Management believes these measures are commonly employed to measure performance in its industry and are used by analysts, investors, lenders and interested parties to evaluate financial performance and the Company's ability to incur and service debt to support its business activities. The measures used are specifically defined where they are first used in this report.

While management believes 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 net cash.

OVERVIEW

Background

Baylin is a leading, diversified, global wireless technology management company. Baylin focuses on research, design, development, manufacturing and sales of passive and active radio frequency (“RF”) products and services. The Company’s products are marketed and sold under the brand names Galtronics, Advantech Wireless, Alga Microwave and Mitec.

The Galtronics line of business, established in 1978, designs and manufactures innovative wireless antenna solutions for customers' mobile, embedded, distributed antenna systems (“DAS”), base station and small cell needs. Baylin operates the Galtronics line of business through certain of its subsidiaries.

The Advantech Wireless line of business, acquired by Baylin on January 17, 2018 (the “Advantech Acquisition”) from Advantech Wireless Inc. (now known as SpaceBridge Inc.) (the “Advantech Vendor”), designs and manufactures RF and microwave products for wireless communications markets, for commercial, critical infrastructure, government and military clients. Baylin operates the Advantech Wireless line of business through certain of its subsidiaries.

The Alga Microwave line of business, acquired by Baylin on July 11, 2018 through the acquisition of all of the issued and outstanding shares of Alga Microwave Inc. (the “Alga Acquisition”), supplies RF and microwave solid state power amplifiers, pulsed amplifiers for radar applications, transmitter and transceiver products as well as RF passive components and systems. Baylin operates the Alga Microwave and Mitec line of business through certain of its subsidiaries.

Key Highlights

Key highlights for the twelve months ended December 31, 2018 include the following:

- Revenue grew to $136.2 million in fiscal 2018, an increase of $44.6 million or 48.6% over fiscal 2017.
- Gross profit was $50.8 million in fiscal 2018, an increase of $22.5 million over fiscal 2017. Gross margin was 37.3% in fiscal 2018, improved by six percentage points compared to gross margin of 30.9% in the prior year period.
- Adjusted EBITDA was $15.3 million in fiscal 2018 compared to $5.0 million in fiscal 2017. Certain non-recurring and one-time expenses (“non-recurring items”) of $12.6 million were incurred in fiscal 2018, which were primarily expenses related to the Advantech Acquisition, the Alga Acquisition, consulting fees paid to the Advantech Vendor and other non-recurring items.
- Cash on hand at December 31, 2018 was $20.9 million, a reduction of $14.3 million from December 31, 2017. The decrease was primarily due to: (i) cash utilized for payment of a portion of the purchase price for Advantech Wireless and related fees and expenses; (ii) cash utilized for payment of a portion of the purchase price for Alga Microwave and related fees and expenses; and, (iii) an increase in non-cash working capital; offset by an increase in cash from: (i) a $33 million term loan from Crown Capital Fund IV, LP; and, (ii) completion of a bought deal public offering of subscription receipts and convertible unsecured debentures for aggregate gross proceeds of $40.25 million.
- Revenue in the Company’s Embedded Antennas Group and Wireless Infrastructure Group has continued to increase, further diversifying the Company’s revenue base.

Key highlights for the three months ended December 31, 2018 include the following:

- Revenue grew to $36.0 million in the fourth quarter of fiscal 2018, an increase of $11.7 million or 47.9% over the fourth quarter of fiscal 2017
- Adjusted EBITDA was $3.9 million in the fourth quarter of fiscal 2018 compared to $1.3 million in the fourth quarter of fiscal 2017.
- The move of the Advantech Wireless operations into the Alga Microwave facility was completed in December 2018. Management expects this will result in cost reductions and improved manufacturing efficiencies.

Recent Developments

In January 2019, the Company announced that Alga Microwave signed an agreement in principal to design and manufacture key components for a Tier 1 global telecom equipment producer headquartered in Sweden. The supply agreement, which commences immediately and extends through the end of 2020, represents a multi-million dollar program whereby Alga Microwave will furnish critical passive components used in point-to-point and point-to-multipoint telecom equipment, along with engineering design and support services.

SELECTED FINANCIAL INFORMATION

The table below discloses selected financial information for the periods indicated.

(in $000's except per share amounts)			
	Twelve Months Ended December 31,		
	2018	2017	2016
	$	$	$
Revenue	136,214	91,642	84,133
Gross Profit	50,841	28,345	23,504
Income (loss) before income taxes	(10,624)	(3,773)	(2,678)
Income tax expense	(5,180)	436	2
Net income (loss)	(5,444)	(4,209)	(2,680)
Basic and diluted income (loss) per share	($0.13)	($0.17)	($0.15)
EBITDA	2,733	2,306	602
Adjusted EBITDA	15,293	4,954	1,816
Current assets	79,937	64,666	43,031
Total assets	170,517	84,882	65,006
Current liabilities	35,077	26,873	22,114
Non-current liabilities	53,613	2,183	1,462
Total liabilities	88,690	29,056	23,576

OUTLOOK

Management believes that the Company has gained access to technology through the strategic acquisitions of Advantech Wireless and Alga Microwave that will accelerate growth by broadening the Company's product offering and better positioning the Company for development of products for 5G (the fifth generation of cellular mobile communications).

Achieving synergies from the move of the Advantech Wireless operations into the Alga Microwave facility will be a key focus for the Company in 2019.

Management expects the introduction of new small cell and base station antennas in 2019 to be manufactured at its contract manufacturing facility in Guadalajara, Mexico.

Management expects that engineering operations will continue to accelerate in Canada for traditional DAS, small cell, base station antenna ("BSA") and 5G applications in 2019. Management is expecting revenue growth as these new products hit the market.

Management will continue to focus on controlling spending, optimizing manufacturing efficiencies and managing liquidity in 2019 in an effort to hold the margin gains achieved over the last several years.

DISCUSSION OF OPERATIONS

Description of Operations

<u>Galtronics</u>

The Galtronics line of business is comprised of three interrelated antenna product lines: (i) Asia Pacific, (ii) Embedded Antennas; and, (iii) Wireless Infrastructure (Small Cell/DAS/BSA).

The Asia Pacific Group works with original equipment manufacturer ("OEM") customers to design and produce antennas for mobile phones, smartphones and tablets. All of Asia Pacific volumes are now produced at the Company's plant in Vietnam taking advantage of a lower cost structure.

The Embedded Antennas Group works with OEM customers to design and produce antennas for Wi-Fi routers, set-top boxes, home networking devices and land mobile radio products.

The Wireless Infrastructure Group works with network carrier customers and other businesses to design and produce small cell system antennas, DAS and BSA that support wireless coverage and mobile data capacity requirements.

Advantech Wireless

The Advantech Wireless line of business is founded on 25 years of significant innovations, including pioneering the use of Gallium Nitride ("GaN") technology to create smaller, lighter, and more powerful products. Advantech Wireless designs and manufactures customizable radio frequency and terrestrial microwave products for highly specialized wireless communications markets, including the following:

- *RF Components:* (i) GaN-based power amplifiers (block up converters, solid state power amplifiers ("SSPAs") and solid state power block ("SSPBs") converters); (ii) Gallium arsenide ("GaAs") based power amplifiers; (iii) indoor-frequency converters; (iv) outdoor-frequency converters; and (v) transceivers.
- *Microwave Components:* (i) point- to-point microwave radios; and, (ii) network management software.
- *Antennas & Controllers:* (i) fixed antennas; (ii) mobile antennas; and, (iii) antenna controllers.

Products are designed and produced for customers in the following verticals: (i) broadcast; (ii) maritime and cruise ships; (iii) government and military; (iv) homeland security; (v) direct-to-home satellite; (vi) oil and gas; and, (vii) wireless communications.

Alga Microwave

The Alga Microwave line of business supplies RF and microwave solid state power amplifiers, pulsed amplifiers for radar applications, transmitter and transceiver products as well as RF passive components and systems. The current product offering covers all major frequency standards, including:

- active components: L, S, C, X, Ku and Ka with frequencies that range from 2.0 to 31.0 GHz and within power spectrum of 5 to 12,000 watts; and
- passive components: 500 MHz to 100 GHz. Passive RF components include filters, diplexers, combiners/dividers – aluminum, copper, invar, that are complementary to Alga Microwave's active components and offer significant synergy when integrated within a subassembly or a subsystem.

Revenue and Gross Profit

(in $000's)					
	Twelve Months Ended December 31,				
	2018	**2017**	**2016**	**Change 2017 to 2018**	**Change 2016 to 2017**
	$	**$**	**$**		
Revenue	**136,214**	**91,642**	**84,133**	**48.6%**	**8.9%**
Cost of Revenue	85,373	63,297	60,628	34.9%	4.4%
Gross Profit	**50,841**	**28,345**	**23,505**	**79.4%**	**20.6%**
Gross Margin %	37.3%	30.9%	27.9%		

a) *Factors Affecting Revenue and Gross Profit*

Revenue

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

Gross Profit

Gross profit is impacted by selling prices, sales volumes, product mix and variable costs of goods sold (being direct materials and direct labour).

b) *Fiscal 2018 compared to Fiscal 2017*

Revenue was $136.2 million in fiscal 2018 compared to $91.6 million in fiscal 2017, representing a 48.6% an increase. The increase was primarily due to strong revenue from Embedded Antenna products and Wireless Infrastructure products combined with revenue from Advantech Wireless, which was acquired in January 2018, and revenue from Alga Microwave, which was acquired in July 2018. Revenue from Wireless Infrastructure products grew by 53% and revenue from Embedded Antenna products increased by 11% compared to the fiscal 2017. These increases were slightly offset by a 7% decrease in Asia Pacific revenue.

Gross profit was $50.8 million in fiscal 2018, an increase of $22.5 million over fiscal 2017, and gross margin was 37.3% in fiscal 2018, improved by six percentage points compared to the fiscal 2017 (see "Non-GAAP Measures" on page 2 of this MD&A). This improvement is a result of higher small cell and BSA sales, which generate a higher gross margin, combined with revenue from the Advantech Wireless and Alga Microwave product lines, which also generate higher gross margins. The improvement was somewhat offset by the requirement to record inventory acquired through the Advantech Acquisition and the Alga Acquisition at fair value rather than at cost resulting in a lower gross margin on the sale of this inventory.

Research and Development Expenses

(in $000's)					
	Twelve Months Ended December 31,				
	2018	**2017**	**2016**	**Change 2017 to 2018**	**Change 2016 to 2017**
	$	**$**	**$**		
Development Costs	14,958	10,476	10,000	42.8%	4.8%
Depreciation	405	772	233	(47.5%)	231.3%
Total	**15,363**	**11,248**	**10,233**	**36.6%**	**9.9%**
As a Percentage of Revenue	11.3%	12.3%	12.2%		

a) *Factors Affecting Research and Development Expenses*

The Company's research and development ("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. The Company often incurs significant expenditures in the development of a new product without any assurance that its customers' system designers will ultimately select its product for use in their applications. Management is often required to anticipate which product designs will generate demand in advance of its customers expressly indicating a need for that particular design. Even if the Company's customers' system designers ultimately select its products, a substantial period of time may elapse before the Company generates revenue relative to the possibly significant expenses it has initially incurred.

b) *Fiscal 2018 compared to Fiscal 2017*

R&D expenses in fiscal 2018 were $15.4 million (11.3% of revenue). This represents an increase of 36.6% from the fiscal 2017, which reported R&D expenses of $11.2 million (12.3% of revenue). The increase was attributable to an increase in expenses for development of new small cell and base station antenna products and the inclusion of Advantech Wireless' R&D expenses (acquired in January 2018) and Alga Microwave's R&D expenses (acquired in July 2018).

Selling and Marketing Expenses

(in $000's)					
	Twelve Months Ended December 31,				
	2018	2017	2016	Change 2017 to 2018	Change 2016 to 2017
	$	$	$		
Payrolls	9,126	3,879	3,440	135.3%	12.8%
Other	4,383	1,611	694	172.1%	132.1%
Total	**13,509**	**5,490**	**4,134**	**146.1%**	**32.8%**
As a Percentage of Revenue	9.9%	6.0%	4.9%		

a) *Factors Affecting Selling and Marketing Expenses*

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

b) *Fiscal 2018 compared to Fiscal 2017*

The Company's selling and marketing expenses in fiscal 2018 were $13.5 million (9.9% of revenue), compared to $5.5 million (6.0% of revenue) in fiscal 2017. The increase was mainly due to the expansion of the Galtronics' sales team subsequent to the first quarter of 2017 and the addition of selling and marketing expenses attributable to the Advantech Wireless and Alga Microwave lines of business.

General and Administrative Expenses

(in $000's)					
	Twelve Months Ended December 31,				
	2018	2017	2016	Change 2017 to 2018	Change 2016 to 2017
	$	$	$		
Payrolls & Other	10,399	6,123	4,662	69.8%	31.3%
Other	8,247	7,005	7,582	17.7%	(7.6%)
Amortization	4,749	-	-	0.0%	0.0%
Depreciation	473	256	403	84.8%	(36.5%)
Total	**23,868**	**13,384**	**12,647**	**78.3%**	**5.8%**
As a Percentage of Revenue	17.5%	14.6%	15.0%		

a) *Factors Affecting General and 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 2018 compared to Fiscal 2017*

The Company's G&A expenses in fiscal 2018 were $23.9 million (17.5% of revenue), whereas in fiscal 2017 these expenses were $13.4 million (14.6% of revenue). The increase was primarily due to consulting fees paid to the Advantech Vendor in cash and through the issuance of shares at closing of the Advantech Acquisition in the first quarter of 2018, the addition of G&A expenses attributable to Advantech Wireless and Alga Microwave, and amortization of intangibles in the amount of $4.7 million. Amortization of intangibles for the full fiscal year was recorded in the fourth quarter of 2018 upon completion of the purchase price allocation for the Advantech Acquisition and the preliminary purchase price allocation for the Alga Acquisition.

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 $000's)			
	Twelve Months Ended December 31,		
	2018	2017	2016
	$	$	$
Operating income (loss)	**(6,217)**	**(1,777)**	**(3,509)**
Amortization and depreciation	8,950	4,083	4,111
EBITDA	**2,733**	**2,306**	**602**
Acquisition expenses, fair value adjustments, consulting fees and other one-time costs	12,560	2,649	1,214
Adjusted EBITDA	**15,293**	**4,954**	**1,816**

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

Operating loss, EBITDA and Adjusted EBITDA are highly impacted by revenue volumes, the mix of product sales, operating expenses and investment in R&D related to new products.

b) *Fiscal 2018 compared to Fiscal 2017*

The Company's operating loss for fiscal 2018 was $6.2 million, compared to an operating loss in fiscal 2017 of $1.8 million.

Adjusted EBITDA in fiscal 2018 was $15.3 million compared to $5.0 million in fiscal 2017. The non-recurring items in fiscal 2018 amounted to $12.6 million and were comprised primarily of expenses related to the Advantech Acquisition, the Alga Acquisition, fair value increases applied to the inventory acquired in connection with the Advantech Acquisition and Alga Acquisition, consulting fees paid to the Advantech Vendor in cash and through the issuance of shares at closing of the Advantech Acquisition and sundry other non-recurring items.

Net Income (Loss) for the period

(in $000's)					
	Twelve Months Ended December 31,				
	2018	2017	2016	Change 2017 to 2018	Change 2016 to 2017
	$	$	$		
Loss before taxes	(10,624)	(3,773)	(2,678)	181.6%	40.9%
Income tax expense	(5,180)	436	2	(1,288.1%)	21,700.0%
Net income (loss) for the period	**(5,444)**	**(4,209)**	**(2,680)**	**29.3%**	**57.1%**
Basic and diluted income (loss) per share	($0.13)	($0.17)	($0.15)	(23.5%)	13.3%

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 2018 compared to Fiscal 2017*

The Company's net loss in fiscal 2018 was $5.4 million compared with a net loss in fiscal 2017 of $4.2 million. Management considers that the net loss in fiscal 2018 was primarily due to the non-recurring items noted above, the fair value adjustment of the convertible debentures, transaction costs related to the convertible debenture offering included in finance expense, offset by increased revenue and improved gross margin in 2018, and a gain on derecognition of a subsidiary. On a per share basis, fiscal 2018 experienced a loss of ($0.13) per share, compared to a loss of ($0.17) per share in fiscal 2017.

Use of Proceeds Reconciliation

July 2018 Offering

On July 10, 2018, the Company completed a bought deal public offering of 7,419,355 subscription receipts ("Subscription Receipts") and $17.25 million principal amount of 6.5% extendible convertible unsecured debentures ("Debentures") for aggregate gross proceeds of $40.25 million (the "2018 Offering") and net proceeds of approximately $37.6 million. 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 July 3, 2018 and the estimated use of proceeds as at the date of this MD&A:

(in $000's)	**Initial Intended Use of Proceeds ($)**	**Current Estimated Use of Proceeds ($)**
Working capital	6,000	6,000 (3)
General corporate purposes (1)	10,235	9,568 (4)
Alga Acquisition (2)	21,000	22,000 (5)
Totals	**37,235**	**37,568** (6)

Notes:

(1) Including expenses relating to the Alga Acquisition.
(2) On July 11, 2018, Baylin completed the Alga Acquisition.
(3) As at the date of this MD&A, the Company has spent approximately $1.9 million of the 2018 Offering net proceeds on working capital.
(4) As at the date of this MD&A, the Company has spent approximately $8.4 million of the 2018 Offering net proceeds on general corporate purposes.
(5) The Company used $21.0 million of the 2018 Offering net proceeds to satisfy the cash portion of the purchase price for the Alga Acquisition. In January 2019, the Company used $1.0 million of the 2018 Offering net proceeds to satisfy payment of an earn-out to the vendors of Alga Microwave, pursuant to the terms of the Alga Acquisition.
(6) The 2018 Offering net proceeds were higher than the estimate provided in the Company's prospectus supplement dated July 3, 2018 due to a lower fee paid to the underwriters on gross proceeds from the sale of Subscription Receipts and Debentures to certain directors and officers of the Company offset by higher expenses of the 2018 Offering than initially estimated.

SUMMARY OF QUARTERLY RESULTS

(in $000's, except per share amounts)				
	Three Months Ended			
	March 31, 2018	**June 30, 2018**	**September 30, 2018**	**December 31, 2018**
	$	**$**	**$**	**$**
Revenue	29,438	32,578	38,189	36,009
Gross Profit	10,562	13,048	16,168	11,063
EBITDA	(2,043)	2,524	4,774	(2,522)
Adjusted EBITDA	1,446	2,889	7,100	3,858
Net Income (Loss)	(4,607)	292	(1,799)	670
Basic and diluted income (loss) per share	($0.14)	$0.01	($0.05)	$0.02
Total current assets	54,752	55,500	78,777	79,937
Total assets	115,241	115,991	166,903	170,517
Total liabilities	59,009	59,107	87,254	88,690

(in $000's, except per share amounts)				
	Three Months Ended			
	March 31, 2017	**June 30, 2017**	**September 30, 2017**	**December 31, 2017**
	$	**$**	**$**	**$**
Revenue	19,801	20,349	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)	(3,205)	896	(257)
Basic and diluted income (loss) per share	($0.08)	($0.15)	$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

CAPITAL RESOURCES AND LIQUIDITY

The Company's 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

Management's approach is to ensure, to the extent possible, that sufficient liquidity exists to meet 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, a low CCC implies a more efficient use of working capital employed.

The Company had cash and cash equivalents at December 31, 2018 and December 31, 2017 of $20.9 million and $35.2 million, respectively.

During the twelve months ended December 31, 2018, the Company used $0.6 million in cash from operating activities, which included cash to fund an increase in non-cash working capital of $1.9 million and $3.4 million for interest expense. In addition, the Company generated $58.6 million from financing activities. The Company used $5.4 million in cash for capital expenditures and approximately $68.5 million for the Advantech Acquisition and the Alga Acquisition.

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, customers 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 December 31, 2018, the Company's CCC was 80 days, compared to 15 days at December 31, 2017. The increase was primarily due to including Advantech Wireless with a CCC of 175 days. Management expects to decrease Advantech Wireless' CCC going forward.

During the twelve months ended December 31, 2018, non-cash working capital increased by $1.9 million. Management considers that this increase was primarily due to the factors noted below.

Net trade receivables were $29.4 million as at December 31, 2018 compared to $16.1 million as at December 31, 2017. The increase was mainly due to the addition of Advantech Wireless' and Alga Microwave's trade receivables.

Inventory as at December 31, 2018 was $23.5 million, compared to $9.2 million as at December 31, 2017. The increase was attributable to the addition of Advantech Wireless' and Alga Microwave's inventory.

Trade payables and accrued liabilities at December 31, 2018 were $33.3 million compared to $22.6 million at December 31, 2017. The increase was primarily related to the addition of Advantech Wireless' and Alga Microwave's payables.

Commitments for Capital Expenditures

The Company has made commitments for capital expenditures in the amount of approximately $0.9 million as at the date of this MD&A.

Credit Facilities

As at December 31, 2018, the Company had credit facilities with banks domiciled in Canada, China, Vietnam and Korea (collectively the “Credit Facilities”). These Credit Facilities (except 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 repaid in the first quarter of 2018 and were not redrawn and the third tranche was repaid in the third quarter of 2018 and was not redrawn. The Credit Facilities bear interest at annual interest rates ranging from approximately 3.6%-5.9% and are collateralized by trade receivables, inventory, an irrevocable letter of credit issued by Baylin to the lender in Korea, and property, plant and equipment. As at December 31, 2018, the Company had access to approximately $11 million of credit of which $0.4 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 the Credit Facilities. The Credit Facilities are available to fund working capital, capital expenditures and general corporate purposes.

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.

Long-term Debt

In connection with the Advantech Acquisition, the Company entered into a term loan (“Loan”) with Crown Capital Fund IV, LP with a principal amount of $33.0 million, an annual interest rate of 9% and a maturity date of January 17, 2023. In connection with the Loan, the Company issued warrants to acquire up to 682,500 common shares at an exercise price of $3.37 per common share, expiring on January 17, 2023. The credit agreement applicable to the Loan dated January 17, 2018, as amended, contains certain covenants that the Company must comply with, failing which the Loan may become payable on demand. As of the date of this MD&A, the Company is in compliance with all applicable covenants under the credit agreement.

Convertible Debentures

On July 10, 2018, the Company completed a bought deal financing of $17.25 million principal amount of 6.5% extendible convertible unsecured debentures (the “Debentures”). The Debentures bear interest at a rate of 6.5% per annum, payable in arrears semi-annually on June 30 and December 31 of each year, and mature on July 10, 2023 (the “Maturity Date”).

The Debentures are convertible at the holder’s option into common shares at any time prior to the close of business on the earliest of: (i) the last business day before the Maturity Date; or (ii) if called for redemption, the business day immediately preceding the date specified by the Company for redemption, at a conversion price of $3.85 per common share (the “Conversion Price”), being a ratio of approximately 260 common shares per $1,000 principal amount of Debentures, subject to adjustment in certain events in accordance with the convertible debenture indenture dated July 10, 2018 (the “Indenture”).

The Debentures will not be redeemable by the Company prior to July 10, 2021 (except in certain limited circumstances following a Change of Control (as defined in the Indenture). On or after July 10, 2021, and prior to the Maturity Date, the Company may, at its option, subject to providing not more than 60 days’ and not less than 30 days’ prior notice, redeem the Debentures, in whole or, from time to time, in part, at par plus accrued and unpaid interest provided that the volume weighted-average trading price of the common shares on the Toronto Stock Exchange (the “TSX”) for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given (the “Current Market Price”) is not less than 125% of the Conversion Price. The Company may, at its option, subject to regulatory approval, elect to satisfy its obligation to pay the principal amount of the Debentures on redemption or at maturity, provided no Event of Default (as defined in the Indenture) has occurred and is continuing at such time, upon not more than 60 days’ and not less than 30 days’ prior written notice, by delivering that number of freely tradeable common shares obtained by dividing the principal amount of the Debentures being repaid by 95% of the Current Market Price on the date of redemption or maturity, as applicable.

Upon a Change of Control of the Company, the Company may be required to repurchase the Debentures, at the option of the holder, in whole or in part, at a price equal to 101% of the principal amount of the Debentures outstanding, plus accrued interest.

The Debentures are classified as financial liabilities at fair value through profit or loss and are measured at fair value with changes recognized in the consolidated statement of net income (loss) and other comprehensive income (loss).

Further details of the Debentures are set out in the Indenture filed on the Company's profile at www.sedar.com.

Alga Facility

Concurrent with the closing of the Alga Acquisition on July 11, 2018, Baylin acquired, through a wholly-owned subsidiary, the premises in which Alga Microwave's operations are primarily conducted (the "Alga Facility") for a purchase price of $6.2 million.

The purchase price for the Alga Facility was satisfied in part by the assumption of existing debt, with the balance of the purchase price payable to the vendor one year after closing and bearing interest at 8% per annum, payable quarterly, and repayable at any time without penalty. The Company repaid the amount owing to the vendor on September 12, 2018.

The existing debt, assumed by the Company, due to a Canadian chartered bank, had a principal amount of $3.0 million at the closing of the acquisition of the Alga Facility, bore interest at 3.24% and matured on December 19, 2018. The Company repaid the outstanding principal amount on December 19, 2018.

CONTRACTUAL COMMITMENTS AND OBLIGATIONS

As of the date of this MD&A, management is not aware of any commitments or obligations 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 of December 31, 2018, amounts restricted from distribution, which constitute 10% of Galtronics China's retained earnings, amounted to approximately $1.4 million.

Known contractual obligations as at December 31, 2018 were as follows:

(in $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	377	-	-	33,000		-	33,377
Convertible Debentures	-	-	-	-	17,250	-	17,250
Trade and other payables	33,257		-	-	-	-	33,257
Operating lease commitments	1,269	1,077	961	927	892	434	5,560
Total	**34,903**	**1,077**	**961**	**33,927**	**18,142**	**434**	**89,444**

The purchase price for Advantech Wireless is subject to customary post-closing adjustments and the vendor may be entitled to additional compensation between $0.75 million and $3 million in each of 2018 and 2019 conditional on Advantech Wireless meeting certain performance targets.

The vendors of Alga Microwave earned an additional $1 million upon the satisfaction of certain criteria pursuant to the terms of the Alga Acquisition and may be entitled to additional compensation up to $1 million conditional on Alga Microwave meeting certain performance targets in each of 2019 and 2020.

COMMITMENTS

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"), Galtronics USA Inc., Advantech Wireless Technologies Inc. and Alga Microwave Inc., have entered into rental agreements for certain premises.

The future minimum lease fees payable by Baylin and its subsidiaries as at December 31, 2018 were as follows:

(in $000's)	
	$
Year 1:	1,269
Year 2 to 5:	3,857
Year 6 onwards:	434
Total expenses	**5,560**

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 over three to five years with an equal number of common shares vesting 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 grants made under the Stock Option Plan as at December 31, 2018:

				Options vested as at:	
Stock option grant date	**Stock options granted**	**Exercise Price**	**Option expiry date**	**December 31, 2018**	**December 31, 2017**
August 24, 2015	925,000	$1.51	August 24, 2020	925,000	925,000
March 30, 2017	685,000	$1.98	March 30, 2022	228,333	-
August 8, 2017	500,000	$2.00	August 8, 2022	166,667	-
March 10, 2018	30,000	$3.51	January 8, 2023	-	-
May 17, 2018	275,000	$3.34	May 17, 2023	-	-
May 22, 2018	25,000	$3.34	May 22, 2023	-	-
July 11, 2018	197,500	$3.50	July 11, 2023	-	-
November 9, 2018	250,000	$3.84	November 9, 2023	-	-

The Company recognized a stock option expense in the twelve months ended December 31, 2018 of $0.9 million, which was included in G&A expense.

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 may be settled subsequent to a director ceasing to be a director of the Company and its subsidiaries: (i) in common shares purchased by the Company on the open market for delivery to the director; (ii) in cash; or (iii) any combination of the foregoing. The number of DSUs issuable is limited to 500,000 units.

The Company recognized a DSU expense of $0.2 million in the twelve months ended December 31, 2018, which was included in G&A expense.

The following table lists the number of DSUs outstanding as at December 31, 2018 and the number redeemed during the year ended December 31, 2018:

	Number of DSUs	Weighted average price
DSUs outstanding as of January 1, 2017	302,422	$2.20
DSUs granted during 2018	53,021	$3.61
DSUs redeemed during 2018	-30,025	$2.23
DSUs outstanding as of December 31, 2018	325,418	$2.43

Employee Share Purchase Plan

In January 2018, certain employees of the Company ("Participants") commenced participation in the Employee Share Purchase Plan ("ESPP"). The Company will grant each Participant a number of shares equal to each Participant's annual share purchase commitment. A total of 126,968 common shares were acquired for an aggregate purchase price of $0.4 million to fulfill the Company's obligations under the ESPP. The Company recognized $0.1 million in general and administrative expenses for the twelve months ended December 31, 2018 with regards to the ESPP.

OFF-BALANCE SHEET ARRANGEMENTS

Off-balance sheet arrangements consist of the Credit Facilities 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 retains the services of Mr. Jeffrey C. Royer, pursuant to a services agreement between Mr. Royer and the Company dated as of January 1, 2015, to fulfill the position of Chairman of the board of directors and to provide related strategic leadership and guidance to the board of directors and management of the Company. The agreement has been renewed for one year terms on each of January 1, 2016, January 1, 2017, January 1, 2018 and most recently on January 1, 2019. As consideration for the services provided under the agreement, the Company agreed to pay Mr. Royer an annual fee of $150,000 in cash or securities of the Company as mutually agreed between the Company and Mr. Royer. Mr. Royer irrevocably renounced to be paid any amount under this agreement for the years ended December 31, 2015, 2016 and 2017. For the year ended December 31, 2018, the Company paid $150,000 to Mr. Royer under this agreement. As of the date of this MD&A, the Company has paid $25,000 to Mr. Royer under this agreement for 2019.

In January 2018, the Company acquired Advantech Wireless from the Advantech Vendor which is owned and controlled by David Gelerman, a director of the Company.

Pursuant to the terms of the Advantech Acquisition, the Advantech Vendor 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 Advantech Wireless business meeting certain EBITDA targets in those years.

Pursuant to the terms of the Advantech Acquisition, the Company entered into a consulting agreement with the Advantech Vendor pursuant to which the vendor agreed to provide the services of its principals David and Stella Gelerman for two years following closing. In consideration for these services, the Advantech Vendor is entitled to receive a fee of $2.5 million, payable, as to one-half, in cash in quarterly instalments and, as to one-half, through 385,802 common shares issued at closing at a deemed price of $3.24 per common share. The trading of such common shares is subject to certain time release restrictions for a period of up to 24 months following closing of the Advantech Acquisition.

In the fourth quarter of 2018, the Company received a payment from the escrow agent of approximately $1.8 million as a result of an indemnity claim made by the Company against the portion of the cash purchase price being held in escrow pursuant to the terms of the Advantech Acquisition. Post the payment, the Advantech vendor asserted the payment was made without prejudice which has been since disputed by the Company. Certain other indemnity claims have been asserted by the Company to the escrow agent, which claims remain subject to ongoing discussions between the Company and the Advantech Vendor.

During the twelve months ended December 31, 2018, the Advantech Vendor and certain of its affiliates acted as agent for the Company through cash collections of $8.6 million and cash payments of $7.5 million on the Company's behalf. As at December 31, 2018, $0.3 million due to the Company was included in trade receivables and $20 thousand due to the agent was included in accounts payable and accrued liabilities.

During the twelve months ended December 31, 2018, the Company recognized revenue in the amount of $1.7 million related to the sale of goods to the Advantech Vendor and certain of its affiliates.

For the twelve months ended December 31, 2018, less than $0.2 million was recognized in cost of sales and $0.1 million in general and administrative expenses for premises subleased from the Advantech Vendor and certain of its affiliates.

During the period from closing of the Advantech Acquisition to December 31, 2018, the Company provided services to the Advantech Vendor and certain of its affiliates in the amount of $0.5 million. As of December 31, 2018, less than $0.3 million was included within trade receivables.

Certain directors and officers of the Company, directly and indirectly, purchased an aggregate of 3,791,724 Subscription Receipts and $8.69 million principal amount of Debentures pursuant to the 2018 Offering.

Short-term benefits, pension and post-retirement benefits of the executive officers of the Company amounted to $6.2 million. These amounts comprise of executive officers' salary and benefits earned during the year, plus bonuses awarded for the year. The amounts also represent the estimated costs of providing defined benefit pensions and other post-retirement benefits to executive officers in respect of the current year of service.

The Company leases premises to a company owned by Michael Perelshtein and Frank Panarello, employees of Alga Microwave. For the twelve months ended December 31, 2018, the Company recognized revenue of $0.1 million related to this lease.

In connection with the Alga Acquisition, Messrs. Perelshtein and Panarello earned an additional $1 million upon completion of certain criteria and may be entitled to additional compensation of up to $1 million conditional on the Alga Microwave business meeting certain performance targets in each of 2019 and 2020.

In accordance with the terms of the share purchase agreement dated June 28, 2018, the working capital adjustment related to the purchase price for the Alga Acquisition was finalized and paid to the vendors of Alga Microwave in the amount of $0.4 million on October 15, 2018.

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

FOURTH QUARTER DISCUSSION

Revenue and Gross Profit

(in $000's)			
	Three Months Ended December 31,		
	2018	**2017**	**Change**
	$	**$**	
Revenue	**36,009**	**24,351**	**47.9%**
Cost of Revenue	24,946	17,173	45.3%
Gross Profit	**11,063**	**7,178**	**54.1%**
Gross Margin %	30.7%	29.5%	4.1%

Revenue in the fourth quarter of fiscal 2018 was $36.0 million, representing an increase of 47.9% over the fourth quarter of fiscal 2017. The main contributor to the quarter-over-quarter revenue growth was the addition of revenue from Advantech Wireless and Alga Microwave.

Gross profit in the fourth quarter of fiscal 2018 was $11.1 million (or 30.7% of revenue), which compared favourably with the $7.2 million (or 29.5% of revenue) achieved in the fourth quarter of fiscal 2017. The improvement was attributable to similar factors cited in the full year results. Gross margin was 30.7% in the fourth quarter of fiscal 2018. Gross margin was negatively impacted by a $3.7 million fair value increase applied to the inventory acquired in connection with the acquisitions of Advantech Wireless and Alga Microwave, an adjustment recorded in the fourth quarter. Excluding this one-time impact, gross margin was 41.3% in the fourth quarter of 2018.

Research and Development

(in $000's)			
	Three Months Ended December 31,		
	2018	2017	Change
	$	$	$
Development Costs	4,659	2,523	2,136
Depreciation	69	156	(87)
Total	**4,728**	**2,679**	**2,049**
As a Percentage of Revenue	13.1%	11.0%	

R&D expenses were $4.7 million in the fourth quarter of fiscal 2018, an increase of $2.0 million compared to the fourth quarter of fiscal 2017. The increase was primarily due to the addition of R&D expenses related to Advantech Wireless and Alga Microwave.

Selling and Marketing

(in $000's)			
	Three Months Ended December 31,		
	2018	2017	Change
	$	$	$
Payrolls	2,532	1,013	1,519
Other	1,558	512	1,046
Total	**4,090**	**1,525**	**2,565**
As a Percentage of Revenue	11.4%	6.3%	

Selling and marketing expenses were $4.1 million in the fourth quarter of fiscal 2018, compared to $1.5 million in the fourth quarter of fiscal 2017. The quarter-over-quarter increase was due to similar factors cited under the discussion regarding the full year results.

General and Administrative

(in $000's)			
	Three Months Ended December 31,		
	2018	2017	Change
	$	$	$
Payrolls & Other	2,515	1,478	1,037
Other	2,522	1,393	1,129
Amortization	4,749	-	4,749
Depreciation	167	79	88
Total	**9,953**	**2,950**	**7,003**
As a Percentage of Revenue	27.6%	12.1%	

G&A expenses were $10.0 million in the fourth quarter of fiscal 2018, representing an increase of $7.0 million from the fourth quarter of fiscal 2017. The quarter-over-quarter increase was due to similar factors cited under the discussion regarding the full year results.

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 $000's)			
	Three Months Ended December 31,		
	2018	**2017**	**Change**
	$	**$**	
Operating income (loss)	**(8,396)**	**10**	**(84,060.0%)**
Amortization and depreciation	5,874	969	**506.2%**
EBITDA	**(2,522)**	**979**	**(357.6%)**
Fair value adjustments, consulting fees and other one-time costs	6,380	343	**1,760.1%**
Adjusted EBITDA	**3,858**	**1,322**	**191.8%**

Operating loss in the fourth quarter of fiscal 2018 was $8.4 million compared to an operating income of $10 thousand in the same period last year. Adjusted EBITDA was $3.9 million in the fourth quarter of fiscal 2018 compared to $1.3 million in the prior year period.

The improvement in 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 2018 were primarily the fair value increases applied to the inventory acquired in connection with the Advantech Acquisition and Alga Acquisition.

Net Income (Loss) for the period

(in $000's)			
	Three Months Ended December 31,		
	2018	**2017**	**Change**
	$	**$**	
Loss before taxes	(5,693)	(255)	2,132.5%
Income tax expense (benefit)	(6,363)	2	(318,250.0%)
Net income (loss) for the period	**670**	**(257)**	**-360.7%**
Basic and diluted income (loss) per share	$0.02	$0.00	

Net income for the fourth quarter of fiscal 2018 was $0.7 million, compared to the $0.3 million net loss in the prior year.

The net income for the three months ended December 31, 2018 was primarily due to (i) the fair value adjustments, consulting fees and other one-time cost noted above in the amount of $6.4 million; and (ii) amortization of intangibles in the amount of $4.7 million representing amortization for the full fiscal year which was all recorded in the fourth quarter of 2018; offset by: (i) a fair value adjustment of $2.1 million relating to the convertible debentures; and (ii) an income tax benefit of $6.4 million. Excluding these items, net income for the fourth quarter of 2018 was $3.3 million.

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. Management bases its 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, the Company's financial condition and results of operations may be materially impacted.

The Company's most significant assets, accounts receivable, inventory and property, plant and equipment, are subject to critical estimates or judgments.

Accounts Receivable

Under IFRS 9, the loss allowance for trade receivables must be calculated using the expected lifetime credit loss and recorded at the time of initial recognition. Management exercises judgement in determining a portion of the trade receivables which required an incremental loss allowance in order to comply with the requirements of IFRS 9. There is no significant effect on the carrying value of our other financial instruments under IFRS 9 related to this new requirement. As a result of IFRS 9 application, no decrease to accounts receivable was recognized effective January 1, 2018.

Inventory Valuation

Management evaluates inventory balances on an ongoing basis and records 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

Management conducts an annual impairment assessment of property, plant and equipment in the fourth quarter of each year (which corresponds to the Company's 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 any fixed assets as at December 31, 2018.

Other areas involving significant estimates and judgements include:

Contingent Compensation

As disclosed in Note 6 of the Financial Statements and elsewhere in this MD&A, the Advantech Vendor may be entitled to additional compensation between $0.75 and $3.0 million conditional on the Advantech Wireless business meeting certain performance targets in each of 2018 and 2019.

Further, as disclosed in Note 6 of the Financial Statements and elsewhere in this MD&A, the vendors of Alga Microwave may be entitled to receive additional compensation of up to $1.0 million conditional on the Alga Microwave business meeting certain performance targets in each of 2019 and 2020.

Post-employment Benefits Liabilities

The Company operates defined benefit plans in respect of severance, retirement and other local labor laws relevant to post-employment benefit liabilities in 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.

Stock-based Payments, Warrants and Deferred Share Units

The Company generally utilizes the Black-Scholes option pricing model to determine the fair values of stock-based payments, warrants and deferred share units. The Company uses significant judgement in the calculation of the input variables in the Black-Scholes calculation which include: risk free interest rate, expected stock price volatility, expected life, and expected dividend yield

Income Taxes

Management believes that it has 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. The Company's 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.

Intercompany net investment

Long term receivables or loans from the Company's foreign operations may have exchange gains and losses. Judgement is required to determine if the long term loan or receivable form part of the Company's net investment in the foreign operation based on whether settlement is neither planned nor likely to occur in the foreseeable future. In this case exchange differences are recognized in other comprehensive income rather than net loss.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Business Combinations

Management applies IFRS 3, Business Combinations, to account for business acquisitions. Significant judgment is required in identifying and determining the fair value of assets and liabilities acquired, including assets and residual goodwill, if any. The final purchase price allocation for the Alga Acquisition disclosed in Note 6 of the Financial Statements was not complete as further information was required. Provisional amounts are reported and disclosed in Note 6 of the Financial Statements. New information obtained during the measurement period may result in an adjustment to some or all of the provisional amounts.

Vendor Compensation

As disclosed in Note 6 of the Financial Statements and elsewhere in this MD&A, the Advantech Vendor may be entitled to additional compensation between $0.75 and $3.0 million conditional on the Advantech Wireless business meeting certain performance targets in each of 2018 and 2019.

Further, as disclosed in Note 6 of the Financial Statements and elsewhere in this MD&A, the vendors of Alga Microwave may be entitled to receive additional compensation of up to $1.0 million conditional on the Alga Microwave business meeting certain performance targets in each of 2019 and 2020.

The Company's liability for such additional compensation is carried at fair value.

Significant judgement and estimation was applied in arriving at the discount rate used to determine the fair value of the time based 385,802 common share release portion of the consulting agreement as disclosed in Note 6 of the Financial Statements.

Legal Liabilities

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

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

New standards and amendments adopted

IFRS 15 Revenue from Contracts with Customers

On January 1, 2018, IFRS 15 Revenue from Contracts with Customers became effective and the Company has applied the standard on a modified retrospective basis. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to retained earnings thus information has not been restated. No adjustment to retained earnings was required upon adoption of IFRS 15. IFRS 15 established a comprehensive framework for determining whether, how much and when revenue from contracts with customers is recognized.

The Company considers the terms of the contract in determining all steps of the framework (Note 4) to recognize revenue from contracts with customers. The transaction price is based upon the amount the entity expects to be entitled to in exchange for the transferring of promised goods and related services. The Company earns revenue from contracts with customers related to its product sales and related services. The Company satisfies its performance obligation and control is transferred for its product sales and related services based upon specified contract terms which are generally upon shipment or upon delivery. At this time the Company has transferred the significant risk and rewards of ownership of the goods and related services to the buyer and the Company has a present right to payment. Revenue from a contract to provide services is recognized over time as the services are rendered based on either a fixed price or an hourly rate. IFRS 15 requires additional disclosures relating to the disaggregation of revenue which has been included in Note 26 of the consolidated financial statements. In addition, as a result of this adoption, the Company has revised the description of its accounting policy for revenue recognition included in Note 3 of its consolidated financial statements.

The Company assessed whether the new guidance on 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. Based on its assessment, the Company has 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 which is at shipment or delivery.

The Company's standard warranty period is not considered to be a distinct performance obligation. Warranties are accounted for as warranty obligations and the estimated cost of satisfying them is recognized at the time the necessity of such provision is evident. The adoption of IFRS 15 has no material impact on the timing or the amount of sales revenue or warranty provisions recognized. Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved.

Consequently, the adoption of IFRS 15 does not have a material impact on its consolidated financial statements and revenue recognition practices.

IFRS 9 Financial instruments

On January 1, 2018, IFRS 9 Financial Instruments became effective. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 from January 1, 2018 resulted in changes in accounting policies as described in Note 3. In accordance with the transitional provisions in IFRS 9 comparative figures have not been restated.

As of January 1, 2018, the Company's management has assessed that the Company has a business model whose objective is to hold financial assets held by the Group in order to collect contractual cash flows and has determined that amortized cost is the appropriate IFRS 9 category. The Company was required to revise its impairment methodology under IFRS 9. There was no additional impairment loss identified. There was no impact from the IFRS 9 adoption on the Company's financial assets and financial liabilities as these continued to be accounted as financial assets and financial liabilities at amortized cost except for convertible debentures that are classifies as FVTPL and were issued during the year.

Financial liabilities at FVTPL which include convertible debentures are initially recognized at fair value with changes to fair value recognized in the consolidated statements of loss.

The following table explains the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and financial liabilities:

Financial asset or financial liability	Prior Classification and Measurement under IAS 39	Current Classification and Measurement under IFRS 15
Cash and cash equivalents	Loans and receivables at amortized cost	Amortized cost
Trade and other receivables	Loans and receivables at amortized cost	Amortized cost
Credit from banks	Other liabilities at amortized cost	Amortized cost
Accounts payable and accrued liabilities	Other liabilities at amortized cost	Amortized cost
Term Loan	Other liabilities at amortized cost	Amortized cost
Convertible debentures	Fair value through profit or loss	Fair value through profit or loss

IFRS 2 Share-Based Payments

In June 2016, the IASB issued final amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: (i) the effects of vesting and non-vesting conditions on the measurement of cash settled share-based payments; (ii) share-based payment transactions with a net settlement feature for withholding tax obligations; and (iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. This amendment is effective for annual periods beginning on or after January 1, 2018. The adoption of the new amendments did not have a material impact on the measurement, presentation and disclosure of share-based payments in the consolidated financial statements.

New standards and interpretations not yet adopted

At the date of authorization of the consolidated 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 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 based on 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 right-of-use assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). Lease liabilities will be reduced over the term of the lease by allocating lease payments to a reduction in liability and an interest expense recognized in finance costs. Right-of-use assets will be amortized over the term of the lease.

The company has elected not to restate comparative information for reporting periods after January 1, 2019, instead the cumulative effect of initially applying this standard will be reflected as an adjustment to the opening balance of retained earnings. Using a borrowing rate, the present value of the lease liabilities will be recognized for agreements previously recognized as operating leases. The liability will be adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. A right-of-use asset will be recognized using a cost model as if the standard had been applied since the commencement date of the lease, future periods will recognize a depreciation charge on right-of-use assets in the statement of profit and loss. The company has elected not to apply the recognition requirements to short term leases and leases for which the underlying asset is less than $7 thousand.

The company has identified leases in terms of contracts that were previously identified as leases in terms of IAS 17 Leases, assessed the lease term on those contracts and determined an interest rate based on either the incremental borrowing rate or the implicit interest rate in the lease if readily determinable. The Company has set up a committee and implemented a workplan to review and assess the impact of IFRS 16 on the consolidated financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 was issued in June 2017 as a clarification to requirements under IAS 12, Income Taxes. IFRIC 23 clarifies the application of various recognition and measurement requirements when there is uncertainty over income tax treatments. This interpretation is effective for annual reporting periods on or after January 1, 2019. The Company is currently assessing the impact of IFRIC 23 may have on its consolidated financial statements.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's activities expose it 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, the Company is 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. Management's objective in managing currency risk is to minimize exposure to currencies other than functional currency. The Company's policy is to match foreign denominated assets with foreign denominated liabilities.

Interest rate risk:

Management believes 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 the Company's 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 the Company's business, results of operations and financial condition. The Company recognized an aggregate of 33% and 51% of revenue, directly and indirectly, from its largest customer and its subcontractors for the 12 months ended December 31, 2018 and December 31, 2017, 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 Company 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 Company monitors liquidity risk through the use of quarterly budgets, weekly cash flow projections, and close monitoring of the Company's 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 Company 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.

OUTSTANDING SHARE DATA

As of March 13, 2019, 40,070,318 common shares were issued and outstanding.

On January 17, 2018, the Company issued 308,642 common shares to the Advantech Vendor at a deemed price of $3.24 per common share, in partial satisfaction of the purchase price for the Advantech Acquisition.

On July 10, 2018, the Company closed its 2018 Offering of 7,419,355 Subscription Receipts and $17.25 million principal amount of Debentures. On July 11, 2018, upon satisfaction of certain escrow release conditions, each Subscription Receipt was converted into one common share. The Debentures are convertible at the holder's option into common shares at any time prior to the close of business on the earliest of: (i) the last business day before the Maturity Date; or (ii) if called for redemption, the business day immediately preceding the date specified by the Company for redemption, at a conversion price of $3.85 per common share, being a ratio of approximately 260 common shares per $1,000 principal amount of Debentures, subject to adjustment in certain events in accordance with the Indenture.

On July 11, 2018, the Company issued 1,176,470 common shares to the vendors of Alga Microwave at a deemed price of $3.40 per common share, in partial satisfaction of the purchase price for the Alga Acquisition.

The aggregate number of common shares reserved for issuance under the 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 2,887,500 common shares were outstanding and options to purchase up to an additional 1,119,531 common shares are available for grant under the Stock Option Plan.

As at the date of this MD&A, warrants to purchase up to 682,500 common shares are outstanding.

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, 2018.

No significant changes in the Company's internal controls over financial reporting occurred during the three months ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Disclosure Controls and Procedures

Management is also responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's President and Chief Executive Officer and Chief Financial Officer have each evaluated the design of the Company's disclosure controls and procedures as at December 31, 2018 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 dated March 13, 2019 which is available on SEDAR at www.sedar.com.