BAYLIN TECHNOLOGIES

MANAGEMENT'S DISCUSSION & ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three months ended March 31, 2019

Dated May 13, 2019

Baylin Technologies Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three Months Ended March 31, 2019

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 May 13, 2019. This MD&A should be read in conjunction with the audited consolidated financial statements of Baylin and related notes thereto for the year ended December 31, 2018 (the "Annual Financial Statements") and the unaudited interim condensed consolidated financial statements of Baylin and related notes thereto for the three months ended March 31, 2019 (the "Interim Financial Statements" and, together with the Annual Financial Statements, 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 May 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, (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 VSAT.

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 VSAT line of business through certain of its subsidiaries.

Key Highlights

Key highlights for the three month period ended March 31, 2019 include the following:

- Revenue grew to $39.0 million in the first quarter of 2019, an increase of $9.6 million or 32.6% over the first quarter of 2018.
- Gross profit was $14.3 million in the first quarter of 2019, an increase of $3.8 million over the first quarter of 2018. Gross margin was 36.7% in the first quarter of 2019, improved by approximately one percentage point compared to gross margin of 35.9% in the prior year period.
- Adjusted EBITDA was $3.5 million in the first quarter of 2019 compared to $1.4 million in the first quarter of 2018. Certain non-recurring and one-time expenses ("non-recurring items") of $0.5 million were incurred in the first quarter of 2019, which were primarily expenses related to the acquisition of Alga Microwave Inc., consulting fees paid to Advantech Wireless Inc. and other non-recurring items.
- Cash on hand at March 31, 2019 was $12.4 million, a reduction of $8.4 million from December 31, 2018. The decrease was primarily due to: (i) an earn-out payment made to the vendors of Alga Microwave Inc.; (ii) payments made in connection with renovations of the Alga Microwave facility and other capital expenditures; (iii) interest expense; (iv) cash taxes; and, (v) an increase in non-cash working capital.
- 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.

In February 2019, the Company announced that Advantech Wireless released a new line of S-Band GaN based 10kW modular high power amplifiers.

In March 2019, the Company announced that Advantech Wireless released a new line of solid state power amplifiers and block up converters that offer the highest power density and smallest form factor in the industry.

In April 2019, the Company announced that it entered into a loan agreement with Royal Bank of Canada and HSBC Bank Canada for a US$21 million term loan and $20 million revolving loan. A portion of the loan proceeds was used to prepay a $33 million term loan from Crown Capital Fund IV, LP, which the Company had used for the acquisition of the assets of the radio frequency, terrestrial microwave and antenna equipment divisions of Advantech Wireless Inc. in January 2018.

In April 2019, the Company announced the official grand opening of its Advantech Wireless Technologies Centre of Excellence in Kirkland, Quebec.

SELECTED FINANCIAL INFORMATION

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

(in $000's except per share amounts)	**Three Months Ended March 31,**		**Year Ended December 31,**
	2019	**2018**	**2018**
	$	**$**	**$**
Revenue	39,033	29,438	136,214
Gross Profit	14,331	10,562	50,841
Loss before income taxes	(5,432)	(4,470)	(10,624)
Income tax expense (recovery)	469	137	(5,180)
Net loss	(5,901)	(4,607)	(5,444)
Basic and diluted loss per share	($0.19)	($0.14)	($0.13)
EBITDA	3,029	(2,043)	2,733
Adjusted EBITDA	3,514	1,446	15,293
Current assets	78,337	54,752	79,937
Total assets	171,595	115,241	170,517
Current liabilities	44,950	26,429	35,077
Non-current liabilities	50,496	32,580	53,613
Total liabilities	95,446	59,009	88,690

OUTLOOK

Management expects that engineering operations will continue to accelerate in Canada for traditional DAS, small cell, base station antenna (“BSA”), satellite connectively products 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 improve upon 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. Asia Pacific volumes are 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 over 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)			
	Three Months Ended March 31,		
	2019	2018	Change
	$	$	
Revenue	**39,033**	**29,438**	**32.6%**
Cost of Revenue	24,702	18,876	30.9%
Gross Profit	**14,331**	**10,562**	**35.7%**
Gross Margin %	36.7%	35.9%	0.8%

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) *First Quarter 2019 compared to First Quarter 2018*

Revenue was $39.0 million in the first quarter of 2019 compared to $29.4 million in the first quarter of 2018, representing an increase of 32.6%. The increase was primarily due to strong revenue from Asia Pacific, Embedded Antenna and Advantech Wireless products combined with revenue from Alga Microwave, which was acquired in July 2018. Revenue from Asia Pacific products increased by 33%, revenue from Embedded Antenna products increased by 13% and revenue from Advantech Wireless products increased by 36% compared to the first quarter of 2018. These increases were slightly offset by a 6% decrease in Wireless Infrastructure revenue which was impacted by a delay of an approval of a product from a US wireless carrier. The approval was received in the second quarter of 2019.

Gross profit was $14.3 million in the first quarter of 2019, an increase of $3.8 million over the first quarter of 2018. Gross margin was 36.7% in the first quarter of 2019 compared to 35.9% in the first quarter of 2018 (see "Non-GAAP Measures" on page 2 of this MD&A). Despite the improvement compared to the prior year period, gross margin was negatively impacted in the first quarter of 2019 by the following: (i) sales mix – Asia Pacific revenue as a percentage of total revenue was higher than anticipated. Asia Pacific's products generate lower gross margins than the other product lines; and, (ii) the move of the Advantech Wireless operations into the Alga Microwave facility resulted in additional costs, such as overtime, to get product shipped on time. The addition of Alga Microwave product revenue offset some of these costs as its products generate higher gross margins.

Research and Development Expenses

(in $000's)	**Three Months Ended March 31,**		
	2019	**2018**	**Change**
	$	**$**	**$**
Development Costs	3,716	3,093	623
Depreciation	108	170	(62)
Total	**3,824**	**3,263**	**561**
As a Percentage of Revenue	9.8%	11.1%	

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) *First Quarter 2019 compared to First Quarter 2018*

R&D expenses in the first quarter of 2019 were $3.8 million (9.8% of revenue). This represents an increase of $0.6 million from the first quarter of 2018, which reported R&D expenses of $3.3 million (11.1% of revenue).

The increase was attributable to the inclusion of Alga Microwave's R&D expenses (acquired in July 2018) and an increase in expenses for development of new small cell and base station antenna products.

Selling and Marketing Expenses

(in $000's)			
	Three Months Ended March 31,		
	2019	**2018**	**Change**
	$	**$**	**$**
Payrolls	2,243	1,734	509
Other	1,140	696	444
Total	**3,383**	**2,430**	**953**
As a Percentage of Revenue	8.7%	8.3%	

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) *First Quarter 2019 compared to First Quarter 2018*

The Company's selling and marketing expenses in the first quarter of 2019 were $3.4 million (8.7% of revenue), compared to $2.4 million (8.3% of revenue) in the first quarter of 2018. The increase was mainly due to the addition of Wireless Infrastructure sales people subsequent to the first quarter of 2018, timing of tradeshows and the inclusion of Alga Microwave's selling and marketing expenses subsequent to the completion of the Alga Acquisition in July 2018.

General and Administrative Expenses

(in $000's)			
	Three Months Ended March 31,		
	2019	**2018**	**Change**
	$	**$**	**$**
Payrolls & Other	3,040	2,622	418
Other	2,033	3,413	(1,380)
Amortization	1,197	-	1,197
Depreciation	557	86	471
Total	**6,827**	**6,121**	**706**
As a Percentage of Revenue	17.5%	20.8%	

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, other corporate expenses and amortization of intangibles.

b) *First Quarter 2019 compared to First Quarter 2018*

The Company's G&A expenses in the first quarter of 2019 were $6.8 million (17.5% of revenue), compared to expenses of $6.1 million (20.8% of revenue) in the first quarter of 2018. The increase was primarily due the addition of G&A expenses attributable to Alga Microwave and amortization of intangibles not recorded in the first quarter of 2018. The increase was offset by the decrease in other G&A expenses relating to the one time consulting fees paid to the Advantech Vendor through the issuance of shares at closing of the Advantech Acquisition in the first quarter of 2018.

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)			
	Three Months Ended March 31,		
	2019	**2018**	**Change**
	$	**$**	
Operating income (loss)	**117**	**(3,040)**	**NMF**
Amortization and depreciation	2,912	997	**192.1%**
EBITDA	**3,029**	**(2,043)**	**NMF**
Non-recurring items	485	3,489	**(86.1%)**
Adjusted EBITDA	**3,514**	**1,446**	**143.0%**

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

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

b) *First Quarter 2019 compared to First Quarter 2018*

The Company's operating income for the three months ended March 31, 2019 was $0.1 million, compared to an operating loss in the first quarter of 2018 of $3.0 million.

Adjusted EBITDA in the first quarter of 2019 was $3.5 million compared to $1.4 million in the first quarter of 2018. The non-recurring items in the first quarter of 2019 amounted to $0.5 million and were comprised primarily of expenses related to the Advantech Acquisition, the Alga Acquisition and sundry other non-recurring items.

Net Loss

(in $000's)			
	Three Months Ended March 31,		
	2019	**2018**	**Change**
	$	**$**	
Loss before taxes	(5,432)	(4,470)	21.5%
Income tax expense	469	137	242.3%
Net loss for the period	**(5,901)**	**(4,607)**	**28.1%**
Basic and diluted loss per share	($0.19)	($0.14)	

a) *Factors Affecting Net Income or Loss*

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

b) *First Quarter 2019 compared to First Quarter 2018*

The Company's net loss in the first quarter of 2019 was $5.9 million compared with a net loss in the first quarter of 2018 of $4.6 million. Management considers that the net loss in the first quarter of 2019 was primarily due to the non-recurring items noted above, the prepayment penalty of $0.99 million relating to the early prepayment of the Loan (as defined herein) with Crown Capital Fund IV, LP, expensing of the Crown Capital Fund IV, LP unamortized deferred issuance costs in the amount of $2.8 million which were included in finance expense and amortization of intangibles in the amount of $1.2 million. On a per share basis, the first quarter of 2019 experienced a loss of ($0.19) per share, compared to loss of ($0.14) per share in the first quarter of 2018.

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 $6.0 million of the 2018 Offering net proceeds on working capital.
(4) As at the date of this MD&A, the Company has spent approximately $9.6 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			
	June 30, 2018	**Sept 30, 2018**	**December 31, 2018**	**March 31, 2019**
	$	**$**	**$**	**$**
Revenue	32,578	38,189	36,009	39,033
Gross Profit	13,048	16,168	11,063	14,331
EBITDA	2,524	4,774	(2,522)	3,029
Adjusted EBITDA	2,889	7,100	3,858	3,514
Net Income (Loss)	292	(1,799)	670	(5,901)
Basic and diluted income (loss) per share	$0.01	($0.05)	$0.02	($0.19)
Total current assets	55,500	78,777	79,937	78,337
Total assets	115,991	166,903	170,517	171,595
Total liabilities	59,107	87,254	88,690	95,446

(in $000's, except per share amounts)				
	Three Months Ended			
	June 30, 2017	Sept 30, 2017	December 31, 2017	March 31, 2018
	$	$	$	$
Revenue	20,349	27,140	24,351	29,438
Gross Profit	6,801	8,424	7,178	10,562
EBITDA	(1,101)	2,652	979	(2,043)
Adjusted EBITDA	406	3,076	1,322	1,446
Net Income (Loss)	(3,205)	896	(257)	(4,607)
Basic and diluted income (loss) per share	($0.15)	$0.04	$0.00	($0.14)
Total current assets	41,478	44,926	64,666	54,752
Total assets	61,944	64,244	84,882	115,241
Total liabilities	24,493	27,207	29,056	59,009

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 March 31, 2019 and December 31, 2018 of $12.4 million and $20.9 million, respectively. During the three months ended March 31, 2019, the Company used $7.1 million in cash for operating activities, which included cash to fund an increase in non-cash working capital of $8.5 million. In addition, the Company used $1.8 million in cash for capital expenditures.

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 March 31, 2019, the Company's CCC was 89 days, compared to 80 days at December 31, 2018. The increase was primarily due to a lower CCC in the fourth quarter of 2018 caused by the impact of the fair value inventory adjustments relating to the acquisitions of Advantech and Alga Microwave.

During the three months ended March 31, 2019, non-cash working capital increased by $8.5 million. Management considers that this increase was primarily due to the factors noted below.

Net trade receivables were $34.9 million as at March 31, 2019 compared to $29.4 million as at December 31, 2018. The increase was mainly due to higher sales volumes for both Asia Pacific Group and Advantech Wireless in the latter portions of the quarter.

Inventory as at March 31, 2019 was $23.7 million, compared to $23.5 million as at December 31, 2018. The increase was attributable to the addition of Alga Microwave's inventory.

Trade payables and accrued liabilities at March 31, 2019 were $32.1 million compared to $33.3 million at December 31, 2018. The decrease was primarily related to the payment of the Alga Microwave earnout which had been accrued.

Commitments for Capital Expenditures

There were no material commitments for capital expenditures as at March 31, 2019.

Credit Facilities

As at March 31, 2019, the Company had credit facilities with banks domiciled in Canada, China, and Korea (collectively the "Credit Facilities"). These Credit Facilities (except for the Term Loan, described below) are revolving and renewable by the banks for periods up to three years. 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 March 31, 2019, the Company had access to approximately $25.5 million of credit of which $6.7 million was utilized.

On March 29, 2019, the Company entered into a credit agreement (the "Credit Agreement") with Royal Bank of Canada and HSBC Bank Canada (collectively, the "Lenders") pursuant to which the Lenders established a revolving credit facility (the "Revolving Facility") in favour of the Company for up to $20 million. As at March 31, 2019, $6.7 million was outstanding under the Revolving Facility. The availability of the Revolving Facility is based on the Company's accounts receivables and inventory balances. The interest rate on the Revolving Facility is determined based on the type of advance, the applicable margin and the Company's senior debt to EBITDA ratio and is payable monthly in arrears, as set out in the Credit Agreement. As at March 31, 2019, the interest rate on the Revolving Facility was 5.0%. The standby fee on the undrawn portion of the Revolving Facility has a fee of 0.50% per annum if the Company's senior debt to EBITDA ratio is less than 1.75:1.0 and 0.55% per annum if the Company's senior debt to EBITDA ratio is greater than 1.75:1.0. Baylin and certain of its subsidiaries are guarantors of the Revolving Facility and granted and pledged certain security in favour of the Lenders including, without limitation, a general security agreement, as well as executing and delivering in favour of the Lenders various other loan documents. The Credit Agreement contains certain covenants that the Company must comply with, including the following financial covenants: the Company must maintain a fixed charge coverage ratio and senior debt to EBITDA ratio (as defined in the Credit Agreement) calculated at the end of each quarter. The Credit Agreement also includes other customary covenants and events of default. As at the date of this MD&A, the Company is in compliance with all of the covenants under the Credit Agreement. A copy of the Credit Agreement is available on the Company's profile on www.sedar.com.

Prior to March 29, 2019, the Company had a United States dollar revolving credit facility with HSBC Bank Canada for up to $5.3 million. This facility was cancelled when the Company entered into the Revolving Facility. There were no borrowings under the facility at the time it was cancelled or as at December 31, 2018.

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 ("Crown Capital") 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.

On March 29, 2019, the Company prepaid the Loan using funds advanced under the Term Loan (as defined below) and the Revolving Facility. The Company paid Crown Capital Fund IV, LP a prepayment fee of $0.99 million and expensed the unamortized debt issuance costs in the amount of $2.8 million which were included in finance expense.

On March 29, 2019, in connection with the Revolving Facility and pursuant to the Credit Agreement, the Lenders also established a term credit facility ("Term Loan") in favour of the Company for up to $28.1 million. The principal amount under the Term Loan was advanced in United States Dollars at closing and was used to prepay the Loan. Quarterly principal payments in the amount of $1.0 million are due commencing June 30, 2019. The Term Loan matures on March 29, 2022. The interest rate on the Term Loan is determined based on the LIBO Rate (as defined in the Credit Agreement) plus the applicable margin and the Company's senior debt to EBITDA ratio (as detailed in the Credit Agreement) and is payable monthly in arrears. As at March 31, 2019, the interest rate on the Term Loan was 5.0%. Baylin and certain of its subsidiaries are guarantors of the Term Loan and granted and pledged certain security in favour of the Lenders including, without limitation, a general security agreement, as well as executing and delivering in favour of the Lenders various other loan documents. The Credit Agreement contains certain covenants that the Company must comply with including the following financial covenants: the Company must maintain a fixed charge coverage ratio and senior debt to EBITDA ratio (as defined in the Credit Agreement) calculated at the end of each quarter. The Credit Agreement also includes other customary covenants and events of default. As at March 31, 2019, the Company is in compliance with all of the covenants under the Credit Agreement. A copy of the Credit Agreement is available on the Company's profile on www.sedar.com.

Convertible Debentures

On July 10, 2018, the Company completed the 2018 Offering of Subscription Receipts and 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).

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

SHARE-BASED PAYMENTS

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 March 31, 2019:

				Optioned vested as at:	
Stock option grant date	**Stock options granted**	**Exercise price**	**Option expiry date**	**March 31, 2019**	**December 31, 2018**
Aug. 24, 2015	925,000	$1.51	Aug. 24, 2020	925,000	925,000
Mar. 30, 2017	685,000	$1.98	Mar. 30, 2022	456,666	228,333
Aug. 8, 2017	500,000	$2.00	Aug. 8, 2022	166,667	166,667
Mar. 10, 2018	30,000	$3.51	Mar. 10, 2023	10,000	-
May 17, 2018	275,000	$3.34	May 17, 2023	-	-
May 22, 2018	25,000	$3.34	May 22, 2023	-	-
Jul. 11, 2018	197,500	$3.50	Jul. 11, 2023	-	-
Nov. 9, 2018	250,000	$3.84	Nov. 9, 2023	-	-
Mar. 25, 2019	325,000	$3.89	Mar. 25, 2024	-	-

The Company recognized a stock option expense in the three months ended March 31, 2019 of $0.2 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 common shares issued from treasury; (iii) in cash; or (iv) any combination of the foregoing. The maximum number of common shares reserved for issuance upon redemption of DSUs under the DSU Plan is equal to 500,000 .

The Company recognized a DSU expense of less than $0.1 million in the three months ended March 31, 2019, which was included in G&A expense.

The following table lists the number of DSUs outstanding as at March 31, 2019 and the number issued during the three months ended March 31, 2019:

	Number of DSUs	**Weighted average price**
DSUs outstanding at January 1, 2019	325,418	$ 2.43
DSUs granted during 2019	11,525	$ 4.12
DSUs outstanding at March 31, 2019	336,943	$ 2.49

	Number of DSUs	**Weighted average price in CAD**
DSUs outstanding at January 1, 2018	302,422	$ 2.21
DSUs granted during 2018	12,220	$ 2.01
DSUs outstanding at March 31, 2018	314,642	$ 2.19

Employee Share Purchase Plan

In January 2018, certain employees of the Company ("Participants") commenced participation in the Employee Share Purchase Plan ("ESPP"). The Company granted each Participant a number of shares equal to each Participant's annual share purchase commitment. A total of 83,968 common shares were acquired in the three months ended March 31, 2018 for an aggregate purchase price of $0.3 million to fulfill the Company's obligations under the ESPP. The Company did not recognize any amount in general and administrative expenses for the three months ended March 31, 2019 and less than $0.1 million for the three months ended March 31, 2018 with regards to the ESPP.

Employee Share Compensation Plan

In February 2018, the Company granted certain employees and executives 49,738 restricted common shares. Fifty percent of the common shares vest 12 months subsequent to the date of grant and fifty percent vest 24 months subsequent to the date of the grant. The Company recognized less than $0.1 million in general and administrative expenses for the three months ended March 31, 2019.

In the first quarter of 2019, the Company granted certain employees and executives 128,126 restricted common shares. Of the total common shares issued, 64,263 common shares are restricted with fifty percent vesting 12 months subsequent to the date of grant and fifty percent vesting 24 months subsequent to the date of the grant.

OFF-BALANCE SHEET ARRANGEMENTS

Off-balance sheet arrangements consist of the Credit Facilities disclosed in the "Credit Facilities" section of this MD&A.

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 $37,500 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. The EBITDA target for 2018 was not met.

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. $0.2 million was recognized in general and administrative expenses for the three months ended March 31, 2019.

Discussions between the Company and the Advantech Vendor related to certain indemnity claims pursuant to the terms of the Advantech Acquisition are ongoing. Statements of claim, statements of defence and counterclaims have been filed as outlined in the Legal Proceedings section below.

During the three months ended March 31, 2019, the Advantech Vendor and certain of its affiliates acted as agent for the Company through cash collections of $0.6 million. As at March 31, 2019, $2.0 million due to the Company was included in trade receivables and $1.2 million due to the agent was included in accounts payable and accrued liabilities.

During the period from closing of the Advantech Acquisition to March 31, 2019, the Company provided services to the Advantech Vendor and certain of its affiliates in the amount of $0.4 million. As of March 31, 2019, $0.4 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 $8.7 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 $2.7 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. Michael Perelshtein is an employee of Alga Microwave. For the three months ended March 31, 2019, the Company recognized revenue of less than $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.

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

There have been no significant changes to our critical accounting judgments, estimates and assumptions made since our annual financial reporting for the year ended December 31, 2018, except as disclosed in Note 4 in the Interim Financial Statements.

LEGAL PROCEEDINGS

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. The sum was released by the escrow agent because the vendor of Advantech failed to contest the indemnity claim within the prescribed time period. Post the payment, the vendor of Advantech filed an application for relief from forfeiture to have the sum returned to the escrow agent. The Company is opposing the application. A date has not been set for the hearing of the application.

The Company has filed statements of claim for certain other indemnity obligations of the vendor pursuant to the terms of the Advantech Acquisition. The claims, in the aggregate, total approximately $5.7 million. The vendor has filed statements of defence as well as statements of counterclaim totaling approximately $1.6 million. The Company will file statements of defence relating to the counterclaims.

No amounts of settlement can be determined at this time. Accordingly, no provision has been recorded in respect of the claims or counter claims.

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

Refer to Note 5 of the Interim 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 39% and 34% of revenue, directly and indirectly, from its largest customer and its subcontractors for the 3 months ended March 31, 2019 and March 31, 2018, 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. The Company also insures a significant portion of its receivables to manage credit risk.

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 May 13, 2019, 40,135,580 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 3,212,500 common shares were outstanding and options to purchase up to an additional 800,958 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 March 31, 2019.

No significant changes in the Company's internal controls over financial reporting occurred during the three months ended March 31, 2019 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 March 31, 2019 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.