BAYLIN TECHNOLOGIES

MANAGEMENT'S DISCUSSION & ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three and six months ended June 30, 2019

Dated August 7, 2019

Baylin Technologies Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three and Six Months Ended June 30, 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 August 7, 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 and six months ended June 30, 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 August 7, 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 revolving bank indebtedness; (vi) "working capital", which refers to current assets minus current liabilities; (vii) "non-cash working capital", which refers to working capital minus net cash; and, (viii) "cash conversion cycle", which refers to the number of: (a) days sales outstanding, plus (b) days of inventory outstanding, less (c) days payables outstanding, in the prior quarter.

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 and six months ended June 30, 2019 include the following:

- Revenue grew to $47.8 million in the second quarter of 2019, an increase of $15.3 million or 46.8% over the second quarter of 2018.

- Gross profit was $17.6 million in the second quarter of 2019, an increase of $4.6 million or 35.5% over the second quarter of 2018. Gross margin was 36.9% in the second quarter of 2019, a decrease of approximately three percentage points compared to gross margin of 40.1% in the prior year period.

- Adjusted EBITDA was $5.7 million in the second quarter of 2019 compared to $2.9 million in the second quarter of 2018. Certain non-recurring and one-time expenses ("non-recurring items") of $0.8 million were incurred in the second quarter of 2019, which were primarily expenses related to the closure of the Galtronics' New Jersey office and consulting fees paid to Advantech Wireless Inc. (the consulting agreement will not be extended subsequent to the expiry on December 31, 2019).

- The Company's net cash at June 30, 2019 decreased from December 31, 2018 primarily due to repayment of a portion of the Crown Capital Fund IV, LP loan, capital expenditures, debt servicing, cash taxes, settlement of stock options and an increase in non-cash working capital.

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.

On March 29, 2019, the Company entered into a credit 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.

Subsequent to June 30, 2019, the Company has agreed to the sale of its Kirkland, Quebec, Canada facility ("Quebec Facility") for $7.1 million subject to conditions, including the completion of the purchaser's due diligence. The proceeds will be used to repay a portion of the Revolving Facility and the sale is expected to close during the third quarter of 2019. The Company has also negotiated a long-term lease of the Quebec Facility and will continue to have operations in the Quebec Facility.

SELECTED FINANCIAL INFORMATION

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

(in $000's except per share amounts)

	Three Months Ended June 30,		**Six Months Ended June 30,**		**Year Ended December 31,**
	2019	**2018**	**2019**	**2018**	**2018**
	$	**$**	**$**	**$**	**$**
Revenue	47,831	32,578	86,864	62,016	136,214
Gross profit	17,644	13,048	31,975	23,610	50,841
Income (loss) before income taxes	1,620	643	(3,812)	(3,827)	(10,624)
Income tax expense (recovery)	(34)	351	435	488	(5,180)
Net income (loss)	1,654	292	(4,247)	(4,315)	(5,444)
Basic and diluted income (loss) per share	$0.04	$0.01	($0.11)	($0.13)	($0.13)
EBITDA	4,976	2,524	8,005	481	2,733
Adjusted EBITDA	5,738	2,889	9,252	4,335	15,293
Current assets	84,518	55,500	84,518	55,500	79,937
Total assets	179,103	115,991	179,103	115,991	170,517
Current liabilities	53,579	26,431	53,579	26,431	35,077
Non-current liabilities	51,512	32,676	51,512	32,676	53,613
Total liabilities	105,091	59,107	105,091	59,107	88,690

OUTLOOK

Management expects that the changes implemented at Advantech Wireless and Alga Microwave over the last year will result in improved manufacturing efficiencies and increasing profitability in the second half of 2019 and into 2020.

Management believes that its portfolio of small cells positions the Company well to defend its strong market share position.

The Company's recently launched base station antennas have all been approved for the market by key customers and we expect to receive orders for this product line in the second half of 2019.

We have seen some early 5G contract wins and expect this momentum to continue in 2019 and accelerate thereafter.

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.

<u>*Advantech Wireless*</u>

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.

<u>*Alga Microwave*</u>

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 June 30,			Six Months Ended June 30,		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
	$	**$**	**$**	**$**	**$**	**$**
Revenue	**47,831**	**32,578**	**46.8%**	**86,864**	**62,016**	**40.1%**
Cost of Revenue	30,187	19,530	54.6%	54,889	38,406	42.9%
Gross Profit	**17,644**	**13,048**	**35.2%**	**31,975**	**23,610**	**35.4%**
Gross Margin %	36.9%	40.1%	(8.0%)	36.8%	38.1%	(3.4%)

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 2019 compared to Fiscal 2018*

Revenue was $47.8 million in the second quarter of 2019 compared to $32.6 million in the second quarter of 2018, representing an increase of 46.8%. The increase was primarily due to strong revenue from Asia Pacific and a 49.5% increase in Advantech Wireless products revenue compared to the second quarter of 2018 combined with revenue from Alga Microwave products (acquired in July 2018).

Revenue for the six months ended June 30, 2019 was $86.9 million compared to $62.0 million for the six months ended June 30, 2018, representing an increase of 40.1%. The increase was due to the reasons noted above.

Gross profit was $17.6 million in the second quarter of 2019, an increase of $4.6 million over the second quarter of 2018. Gross margin was 36.9% in the second quarter of 2019 compared to 40.1% in the second quarter of 2018 (see "Non-GAAP Measures" on page 2 of this MD&A). Despite the increase in gross profit compared to the prior year period, gross margin was negatively impacted in the second quarter of 2019 by 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. The addition of Alga Microwave product revenue offset some of the impact of lower Asia Pacific gross margin as its products generate relatively higher gross margins.

Gross profit was $32.0 million, or 36.8% of revenue, for the six months ended June 30, 2019, compared to $23.6 million, or 38.1% of revenue, for the comparable period last year. The decline in gross margin was due to the reasons noted above.

Research and Development Expenses

(in $000's)

	Three Months Ended June 30,			**Six Months Ended June 30,**		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
	$	**$**	**$**	**$**	**$**	**$**
Development Costs	4,831	3,518	1,313	8,547	6,611	1,936
Depreciation	119	105	14	227	275	(48)
Total	**4,950**	**3,623**	**1,327**	**8,774**	**6,886**	**1,888**
As a Percentage of Revenue	10.3%	11.1%		10.1%	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) *Fiscal 2019 compared to Fiscal 2018*

The Company's R&D expenses in the second quarter of 2019 were $5.0 million (10.3% of revenue). This represents a $1.3 million increase from the second quarter of 2018, which reported R&D expenses of $3.6 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.

The Company's R&D expenses for the six months ended June 30, 2019 were $8.8 million, compared to $6.9 million for the six months ended June 30, 2018. The increase was due to the reasons noted above.

Selling and Marketing Expenses

(in $000's)

	Three Months Ended June 30,			**Six Months Ended June 30,**		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
	$	**$**	**$**	**$**	**$**	**$**
Payrolls	2,274	2,351	(77)	4,517	4,085	432
Other	1,761	1,223	538	2,901	1,919	982
Total	**4,035**	**3,574**	**461**	**7,418**	**6,004**	**1,414**
As a Percentage of Revenue	8.4%	11.0%		8.5%	9.7%	

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 2019 compared to Fiscal 2018*

The Company's selling and marketing expenses in the second quarter of 2019 were $4.0 million (8.4% of revenue), compared to $3.6 million (11.0% of revenue) in the second quarter of 2018. The increase was mainly due to the inclusion of Alga Microwave's selling and marketing expenses (acquired in July 2018). Selling and marketing expenses, as a percentage of revenue, have decreased in the second quarter of 2019 compared to the second quarter of 2018 as additional selling and marketing expenses were not required to achieve the higher sales that were generated.

The Company's selling and marketing expenses for the six months ended June 30, 2019 were $7.4 million, compared to $6.0 million for the six months ended June 30, 2018. The increase was primarily due to the reasons noted above.

General and Administrative Expenses

(in $000's)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
	$	**$**	**$**	**$**	**$**	**$**
Payrolls	3,442	1,977	1,465	6,482	4,599	1,883
Other	1,477	1,636	(159)	3,510	5,049	(1,539)
Depreciation	600	86	514	1,157	172	985
Amortization	1,602	-	1,602	2,799	-	2,799
Total	**7,121**	**3,699**	**3,422**	**13,948**	**9,820**	**4,128**
As a Percentage of Revenue	14.9%	11.4%		16.1%	15.8%	

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) *Fiscal 2019 compared to Fiscal 2018*

The Company's G&A expenses in the second quarter of 2019 were $7.1 million (14.9% of revenue), compared to $3.7 million (11.4% of revenue) in the second quarter of 2018. The increase of $3.4 million was primarily due the addition of G&A expenses attributable to the inclusion of Alga Microwave expenses (acquired in July 2018), amortization of intangibles not recorded in the second quarter of 2018 and the costs relating to the closure of the Galtronics' New Jersey office.

The Company's G&A expenses for the six months ended June 30, 2019 were $13.9 million, an increase of $4.1 million compared to the six months ended June 30, 2018. The increase was primarily due to the reasons noted above 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 Income (Loss)

(in $000's)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
	$	**$**	**$**	**$**	**$**	**$**
Operating income (loss)	1,538	1,514	1.6%	1,655	(1,526)	(208.5%)
Depreciation and amortization	3,438	1,010	240.4%	6,350	2,007	216.4%
EBITDA	**4,976**	**2,524**	**97.1%**	**8,005**	**481**	**1564.2%**
Non-recurring items	762	365	108.8%	1,247	3,854	(67.6%)
Adjusted EBITDA	**5,738**	**2,889**	**98.6%**	**9,252**	**4,335**	**113.4%**

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

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

b) Fiscal 2019 compared to Fiscal 2018

The Company's operating income in the second quarter of 2019 was $1.5 million, compared to the operating income of $1.5 million in the second quarter of 2018.

Adjusted EBITDA in the second quarter of 2019 was $5.7 million compared to $2.9 million in the second quarter of 2018. The non-recurring items in the second quarter of 2019 amounted to $0.8 million and were comprised primarily of expenses related to the closure of the Galtronics' New Jersey office and consulting fees paid to Advantech Wireless Inc. (the consulting agreement will not be extended subsequent to the expiry on December 31, 2019).

The Company's operating income for the six months ended June 30, 2019 was $1.7 million, compared to an operating loss of $1.5 million for the six months ended June 30, 2018.

Adjusted EBITDA for the six months ended June 30, 2019 was $9.3 million compared to $4.3 million for the six months ended June 30, 2018. The non-recurring items in the six months ended June 30, 2019 amounted to $1.2 million and were comprised primarily of expenses noted above, expenses related to the Advantech Acquisition and sundry other non-recurring items.

Net Income (Loss)

(in $000's except per share amounts)

	Three Months Ended June 30,			**Six Months Ended June 30,**		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
	$	**$**	**$**	**$**	**$**	**$**
Income (loss) before income taxes	1,620	643	151.9%	(3,812)	(3,827)	(0.4%)
Income tax expense (recovery)	(34)	351	(109.7%)	435	488	(10.9%)
Net income (loss)	**1,654**	**292**	**466.4%**	**(4,247)**	**(4,315)**	**(1.6%)**
Basic and diluted income (loss) per share	$0.04	$0.01		($0.11)	($0.13)	

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 2019 compared to Fiscal 2018

The Company's net income in the second quarter of 2019 was $1.7 million compared with the net income of $0.3 million in the second quarter of 2018. On an income per share basis, the second quarter of 2019 produced an income of $0.04 per share, compared to the income of $0.01 per share in the second quarter of 2018.

The Company's net loss for the six months ended June 30, 2019 was $4.2 million compared with the net loss of $4.3 million for the six months ended June 30, 2018. Management considers that the net loss in the first half 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 first quarter of 2019 in the amount of $2.8 million which were included in finance expense. On a loss per share basis, the six months ended June 30, 2019 experienced a loss of $0.11 per share, compared to the loss of $0.13 per share in the six months ended June 30, 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)
Total	**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			
	September 30, 2018	**December 31, 2018**	**March 31, 2019**	**June 30, 2019**
	$	**$**	**$**	**$**
Revenue	38,189	36,009	39,033	47,831
Gross profit	16,168	11,063	14,331	17,644
EBITDA	4,774	(2,522)	3,029	4,976
Adjusted EBITDA	7,100	3,858	3,514	5,738
Net income (loss)	(1,799)	670	(5,901)	1,654
Basic and diluted income (loss) per share	($0.05)	$0.02	($0.19)	$0.04
Total current assets	78,777	79,937	78,337	84,518
Total assets	166,903	170,517	171,595	179,103
Total liabilities	87,254	88,690	95,446	105,091

(in $000's except per share amounts)

	Three Months Ended			
	September 30, 2017	**December 31, 2017**	**March 31, 2018**	**June 30, 2018**
	$	**$**	**$**	**$**
Revenue	27,140	24,351	29,438	32,578
Gross profit	8,424	7,178	10,562	13,048
EBITDA	2,652	979	(2,043)	2,524
Adjusted EBITDA	3,076	1,322	1,446	2,889
Net income (loss)	896	(257)	(4,607)	292
Basic and diluted income (loss) per share	$0.04	$0.00	($0.14)	$0.01
Total current assets	44,926	64,666	54,752	55,500
Total assets	64,244	84,882	115,241	115,991
Total liabilities	27,207	29,056	59,009	59,107

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 net cash at June 30, 2019 and December 31, 2018 of $2.4 million and $20.5 million, respectively. During the six months ended June 30, 2019, the Company used $4.0 million in cash for operating activities, which included cash to fund an increase in non-cash working capital of $8.6 million. In addition, the Company used $3.9 million in cash for capital expenditures, $6.7 million of the revolving credit facility to repay a portion of the Crown Capital Fund IV, LP loan, an earnout payment to the vendors of Alga Microwave, cash taxes, interest and principal repayments, a payment for the surrender of stock options, and, an option payment to acquire a business that the Company elected not to acquire.

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 June 30, 2019, the Company's CCC was 65 days, compared to 80 days at December 31, 2018. The decrease was primarily due to lower Asia Pacific inventory and lower Advantech Wireless accounts receivable.

During the six months ended June 30, 2019, non-cash working capital increased by $8.6 million. Management considers that this increase was primarily due to the factors noted below.

Net trade receivables were $35.5 million as at June 30, 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.

Other current assets as at June 30, 2019 were $8.3 million compared to $6.2 million as at December 31, 2018. The increase was primarily due to higher receivables from government authorities related to recoverable purchases taxes as well as higher prepaid expenses and deposits.

Commitments for Capital Expenditures

As at June 30, 2019, the Company had made commitments to purchase approximately $2.5 million of equipment for the Company's manufacturing facility in Vietnam.

Credit Facilities

As at June 30, 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 June 30, 2019, the Company had access to approximately $25.3 million of credit of which $14.8 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 June 30, 2019, $14.8

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 June 30, 2019, the interest rate on the Revolving Facility was 7.4% on United States Dollar advances and 5.38% on Canadian Dollar advances. 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 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 $5.2 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 at the date of this MD&A, the Company is in compliance with all applicable financial covenants under the Credit Facilities.

Long-term Debt

On January 17, 2018, 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 $27.5 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 June 30, 2019, the interest rate on the Term Loan was 5.0%. Commencing July 26, 2019, the LIBO Rate portion of the interest rate on the Term Loan was fixed at 2% until maturity on March 29, 2022. 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 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.

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 June 30, 2019:

				Options vested as at:		Options exercised as at:	Options surrendered or expired as at:
Stock option grant date	**Stock options granted**	**Exercise price**	**Option expiry date**	**June 30, 2019**	**December 31, 2018**	**June 30, 2019**	**June 30, 2019**
Aug. 24, 2015	925,000	$1.51	Aug. 24, 2020	925,000	925,000	138,750	786,250
Mar. 30, 2017	685,000	$1.98	Mar. 30, 2022	456,666	228,333	-	145,000
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	81,667	-	-	43,333
May 22, 2018	25,000	$3.34	May 22, 2023	5,000	-	-	-
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	-	-	-	-
May 21, 2019	270,000	$3.57	May 21, 2024	-	-	-	-

The Company recognized a stock option expense of $0.5 million in the six months ended June 30, 2019, which was included in G&A expenses.

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 $0.1 million for the six months ended June 30, 2019, which was included in G&A expenses.

The following table lists the number of DSUs outstanding as at June 30, 2019 and the number of DSUs issued during the six months ended June 30, 2019:

	Number of DSUs	Weighted Average Price
DSUs outstanding as at January 1, 2019	325,418	$2.43
DSUs granted during 2019	25,406	$3.99
DSUs outstanding as at June 30, 2019	350,824	$2.54

	Number of DSUs	Weighted Average Price
DSUs outstanding as at January 1, 2018	302,422	$2.20
DSUs granted during 2018	26,842	$3.59
DSUs outstanding as at June 30, 2018	329,264	$2.32

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. In the six months ended June 30, 2018, a total of 80,968 common shares of the Company were acquired for an aggregate purchase price of $0.3 million to fulfill the Company's obligations under the ESPP. During the six months ended June 30, 2019, 56,700 common shares were issued with a value of $0.2 million to fulfill the Company's obligations under the ESPP. The Company did not recognize an expense for the six months ended June 30, 2019 and for the six months ended June 30, 2018, the Company recognized $0.1 million in G&A expenses with regards to the ESPP.

Employee Share Compensation Plan

The Company provides for the issuance of common shares to employees of the Company under the terms of the Employee Share Compensation Plan ("ESCP").

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 G&A expenses for the six months ended June 30, 2019.

In the six months ended June 30, 2019, the Company granted certain employees and executives 129,126 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. The

Company recognized less than $0.1 million in G&A expenses with regards to these shares under the ESCP for the six months ended June 30, 2019.

With regards to the other 64,863 shares issued, the Company recognized $0.3 million in G&A expenses for the six months ended June 30, 2019 under the ESCP.

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. As of the date of this MD&A, the Company has paid $75,000 to Mr. Royer under this agreement for the six months ended June 30, 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. $0.3 million was recognized in G&A expenses for the six months ended June 30, 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 six months ended June 30, 2019, the Advantech Vendor and certain of its affiliates acted as agent for the Company through cash collections of $0.6 million. As at June 30, 2019, $2.1 million due to the Company was included in trade receivables and $1.6 million due to the agent was included in accounts payable and accrued liabilities.

As at June 30, 2019, $0.4 million related to the services which the Company provided to the Advantech Vendor and certain of its affiliates was included in 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 $4.5 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 partly by Michael Perelshtein, an employee of Alga Microwave. For the six months ended June 30, 2019, the Company recognized revenue of $0.1 million related to this lease.

In connection with the Alga Acquisition, Michael Perelshtein earned a portion of 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.

In June 2019, the Company's President and Chief Executive Officer exercised 138,750 stock options at an exercise price of $1.51 per share and surrendered 786,250 stock options in exchange for the intrinsic value of the stock options of approximately $1.9 million.

Subsequent to June 30, 2019, a former executive officer of the Company surrendered 311,666 stock options in exchange for the intrinsic value of the surrendered stock options of approximately $0.4 million which will be settled in shares of the Company.

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 Advantech Vendor failed to contest the indemnity claim within the prescribed time period. Post the payment, the Advantech Vendor 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 Advantech Vendor pursuant to the terms of the Advantech Acquisition. The claims, in the aggregate, total approximately $6.0 million. The Advantech Vendor has filed statements of defence as well as statements of counterclaim totaling approximately $1.6 million. The Advantech Vendor has also delivered multiple indemnity claims pursuant to the terms of the Advantech Acquisition seeking to set off the amounts being claimed by the Company. The Company will contest the indemnity claims.

In the second quarter of 2019, the Advantech Vendor filed an application asserting oppression for, among other things, unspecified amounts in relation to the 2018 earn out under the terms of the Advantech Acquisition and for shares in the Company for which set-off has been claimed by the Company. The Advantech Vendor alleges that Mr. Gelerman was improperly denied from participating in the management of the Company resulting in a lower earn out. The Company will defend the allegations. No date has been set for the application.

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 42% and 26% of revenue, directly and indirectly, from its largest customer and its subcontractors for the six months ended June 30, 2019 and June 30, 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 August 7, 2019, 40,274,330 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

2,369,166 common shares were outstanding and options to purchase up to an additional 1,658,267 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 June 30, 2019.

No significant changes in the Company's internal controls over financial reporting occurred during the three months ended June 30, 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 June 30, 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.