MANAGEMENT'S DISCUSSION & ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three and nine months ended September 30, 2019

Dated November 5, 2019

Baylin Technologies Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three and Nine Months Ended September 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 November 5, 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 nine months ended September 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 November 5, 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 includes a number of measures that are not prescribed by Canadian generally accepted accounting principles ("GAAP") and as such may not be comparable to similar measures presented by other companies. 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; (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") and terrestrial microwave 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 months ended September 30, 2019 include the following:

- Revenue was $36.4 million in the third quarter of 2019, a decrease of $1.8 million or 4.6% compared to the third quarter of 2018.
- Gross profit was $12.2 million in the third quarter of 2019, a decrease of $3.9 million or 24.5% compared to the third quarter of 2018. Gross margin was 33.5% in the third quarter of 2019, a decrease of approximately nine percentage points compared to gross margin of 42.3% in the prior year period.
- Adjusted EBITDA was $1.2 million in the third quarter of 2019 compared to $7.1 million in the third quarter of 2018. Certain non-recurring and one-time expenses ("non-recurring items") of $0.4 million were incurred in the third quarter of 2019, which were primarily expenses related to legal fees for a corporate reorganization of an inactive part of the Galtronics business and consulting fees paid to Advantech Wireless Inc. (the consulting agreement will not be extended after it expires on December 31, 2019).
- The Company's net cash at September 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, an earnout payment related to the Alga Acquisition, settlement of stock options and an increase in non-cash working capital.

Recent Developments

In September 2019, the Company announced that Galtronics Vietnam Co. Ltd. had been selected as one of a few vendors to supply a tier one network equipment provider with massive MIMO unit antenna modules. Construction of production lines in its new facility in Vietnam has commenced, with scheduled completion in the first quarter of 2020. Volume production of these antenna modules is expected to begin in the second quarter of 2020. There will be additional 5G products produced in this facility commencing at a later date. Galtronics will invest approximately $9.0 million to design and equip this facility, which will have sufficient capacity to address its customers' needs for the next two to three years, with the ability to double production if required.

In September 2019, the Company announced that its wholly-owned subsidiary, Galtronics USA Inc. ("Galtronics"), partnered with one of Europe's largest pole and lighting companies and released two smart pole antenna solutions to provide 3G and 4G coverage in high density locations.

In September 2019, the Company received approval from the Toronto Stock Exchange ("TSX") for a normal course issuer bid ("NCIB"). The NCIB commenced on September 30, 2019 and will continue until the earlier of the date Baylin has completed its purchases and September 29, 2020, when the bid expires.

In October 2019, the Company announced that Galtronics released a two-foot, 18 port quasi-omni small cell/C-RAN canister antenna designed for the North American market. This antenna has been pre-approved for use by a tier one North American carrier.

In October 2019, the Company announced that Galtronics released to production a six-foot, 12 port base station (macro) antenna to major North American carriers.

In October 2019, the Company announced that Galtronics expanded its popular two-foot, 10 port quasi-omni small cell /C-RAN canister antenna product line to include Manual Electrical Tilt (MET) and Remote Electrical Tilt (RET) capabilities. The MET and RET versions share identical RF performance characteristics and the MET alternative has already been pre-approved for use with a major Tier-1 North American Carrier.

The Company completed the sale of its Kirkland, Quebec, Canada facility ("Quebec Facility") on October 28, 2019. The proceeds, $7.1 million, will be used to repay a portion of the Revolving Facility. The Company has signed a long-term lease and will continue to operate 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 September 30,		Nine Months Ended September 30,		Year Ended December 31,
	2019	2018	2019	2018	2018
	$	$	$	$	$
Revenue	36,430	38,189	123,294	100,205	136,214
Gross profit	12,212	16,168	44,187	39,778	50,841
Loss before income taxes	(567)	(1,104)	(4,379)	(4,931)	(10,624)
Income tax expense (recovery)	151	695	586	1,183	(5,180)
Net loss	(718)	(1,799)	(4,965)	(6,114)	(5,444)
Basic and diluted net loss per share	($0.02)	($0.05)	($0.12)	($0.16)	($0.13)
EBITDA	824	4,774	8,829	5,255	2,733
Adjusted EBITDA	1,223	7,100	10,475	11,435	15,293
Current assets	77,786	78,777	77,786	78,777	79,937
Total assets	173,457	166,903	173,457	166,903	170,517
Current liabilities	50,838	33,328	50,838	33,328	35,077
Non-current liabilities	49,300	53,926	49,300	53,926	53,613
Total liabilities	100,138	87,254	100,138	87,254	88,690

OUTLOOK

In September 2019, we announced that financial results for the third quarter of 2019 would not meet expectations. Challenging industry dynamics have continued to soften demand from several of our primary customers. In addition, the decision to invest in Massive MIMO production in our new facility in Vietnam resulted in additional expenses in the third quarter of 2019 that were not anticipated in the 2019 budget. Revenue from this investment will not be realized until 2020.

Additionally, our Infrastructure Group has seen a softening in its business with its tier one telco customers experiencing a delay and/or reduction in capital expenditures until 2020 as well as a postponement of a significant base station project. We expect the Infrastructure revenue to continue to be below budget for the remainder of the fiscal year.

We are pleased with the progress that we have made to rectify the legacy issues of Advantech Wireless that existed at the time we acquired the business. Although these issues continue to have a negative impact on profitability, we believe most of them are now behind us. Management stands by its previously stated goals for cost synergies and is seeing accelerated revenue opportunities in adjacent markets where Advantech has not traditionally participated.

Management believes that the issues faced in the third quarter of 2019 will continue to impact the Company for the balance of the year and into the first quarter of 2020. While management believes the issues are transitory, management is focused on improving financial performance including cost reduction initiatives that are expected to decrease costs by over $4.0 million annually.

Management expects gross margin to increase in the fourth quarter of 2019 and through 2020, returning to historical levels as the Infrastructure and Embedded Antenna revenue recovers and the Advantech Wireless and Alga Microwave revenue continues to grow.

We continue to be optimistic about the acceleration of new programs, new contract wins and new major 5G massive MIMO opportunities, and we are continuing to invest in high growth areas and are entering into new markets.

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 Antenna; 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 Antenna 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. Embedded Antenna volumes are produced at the Company's plant in China.

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. Wireless Infrastructure volumes are produced at the Company's plant in China.

<u>Advantech Wireless</u>

The Advantech Wireless line of business represents 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 September 30,			**Nine Months Ended September 30,**		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
	$	**$**	**%**	**$**	**$**	**%**
Revenue	**36,430**	**38,189**	**(4.6%)**	**123,294**	**100,205**	**23.0%**
Cost of sales	24,218	22,021	10.0%	79,107	60,427	30.9%
Gross profit	**12,212**	**16,168**	**(24.5%)**	**44,187**	**39,778**	**11.1%**
Gross margin	33.5%	42.3%		35.8%	39.7%	

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 customers' 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 $36.4 million in the third quarter of 2019 compared to $38.2 million in the third quarter of 2018, representing a decrease of 4.6%. The decrease was primarily due to weaker sales for Embedded Antenna and Wireless Infrastructure products compared to the third quarter of 2018, somewhat offset by higher revenue from Asia Pacific products and higher combined revenue from Advantech Wireless and Alga Microwave products compared to the third quarter of 2018.

Revenue for the nine months ended September 30, 2019 was $123.3 million compared to $100.2 million for the nine months ended September 30, 2018, representing an increase of 23.0%. The increase was primarily due to strong revenue from Asia Pacific, Advantech Wireless and Alga Microwave products. Alga Microwave was acquired in July 2018.

Gross profit was $12.2 million in the third quarter of 2019, a decrease of $3.9 million compared to the third quarter of 2018. Gross margin was 33.5% in the third quarter of 2019 compared to 42.3% in the third quarter of 2018 (see “Non-GAAP Measures” on page 2 of this MD&A). Gross margin was negatively impacted in the third quarter of 2019 by sales mix – Asia Pacific revenue as a percentage of total revenue was higher than anticipated, however, its products generate lower gross margins than the other product lines.

Gross profit was $44.2 million, or 35.8% of revenue, for the nine months ended September 30, 2019, compared to $39.8 million, or 39.7% of revenue, for the comparable period last year. The decline in gross margin was due to the reasons noted above.

Selling and Marketing Expenses

(in $000's)

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
	$	**$**	**$**	**$**	**$**	**$**
Payrolls	2,259	2,509	(250)	6,776	6,594	182
Other	1,439	905	534	4,340	2,824	1,516
Total	**3,698**	**3,414**	**284**	**11,116**	**9,418**	**1,698**
As a percentage of revenue	10.2%	8.9%		9.0%	9.4%	

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 third quarter of 2019 were $3.7 million (10.2% of revenue), compared to $3.4 million (8.9% of revenue) in the third quarter of 2018. The increase was primarily due to timing of marketing expenses.

The Company’s selling and marketing expenses for the nine months ended September 30, 2019 were $11.1 million, compared to $9.4 million for the nine months ended September 30, 2018. The increase was primarily due to the reasons noted above as well as the inclusion of Alga Microwave’s selling and marketing expenses (acquired in July 2018).

Research and Development Expenses

(in $000's)

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
	$	**$**	**$**	**$**	**$**	**$**
Development costs	4,318	3,688	630	12,865	10,299	2,566
Depreciation	79	61	18	306	336	(30)
Total	**4,397**	**3,749**	**648**	**13,171**	**10,635**	**2,536**
As a percentage of revenue	12.1%	9.8%		10.7%	10.6%	

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 the 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 our 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 third quarter of 2019 were $4.4 million (12.1% of revenue). This represents a $0.6 million increase from the third quarter of 2018, which reported R&D expenses of $3.7 million (9.8% of revenue). The increase was attributable to more expenses for development of new small cell and base station antenna products in the third quarter of 2019.

The Company's R&D expenses for the nine months ended September 30, 2019 were $13.2 million, compared to $10.6 million for the nine months ended September 30, 2018. The increase was primarily due to the reasons noted above and the inclusion of Alga Microwave's R&D expenses (acquired in July 2018).

General and Administrative Expenses

(in $000's)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	**2018**	**Change**	**2019**	**2018**	**Change**
	$	**$**	**$**	**$**	**$**	**$**
Payrolls	2,872	3,285	(413)	9,354	7,884	1,470
Other	1,154	675	479	4,664	5,724	(1,060)
Depreciation	618	134	484	1,775	306	1,469
Amortization	1,373	-	1,373	4,172	-	4,172
Total	**6,017**	**4,094**	**1,923**	**19,965**	**13,914**	**6,051**
As a percentage of revenue	16.5%	10.7%		16.2%	13.9%	

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 third quarter of 2019 were $6.0 million (16.5% of revenue), compared to $4.1 million (10.7% of revenue) in the third quarter of 2018. The increase of $1.9 million was primarily attributable to the amortization of intangibles not recorded in the third quarter of 2018.

The Company's G&A expenses for the nine months ended September 30, 2019 were $20.0 million, an increase of $6.1 million compared to the nine months ended September 30, 2018. The increase was primarily due to the reasons noted above and the costs relating to the closure of the Galtronics' New Jersey office in the second quarter of 2019, offset by the decrease in other non-recurring 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 September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
	$	$	%	$	$	%
Operating income (loss)	(2,259)	3,705	(161.0%)	(604)	2,179	(127.7%)
Depreciation and amortization	3,083	1,069	188.4%	9,433	3,076	206.7%
EBITDA	**824**	**4,774**	**(82.7%)**	**8,829**	**5,255**	**68.0%**
Non-recurring items	399	2,326	(82.8%)	1,646	6,180	(73.4%)
Adjusted EBITDA	**1,223**	**7,100**	**(82.8%)**	**10,475**	**11,435**	**(8.4%)**

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 loss in the third quarter of 2019 was $2.3 million, compared to an operating income of $3.7 million in the third quarter of 2018. Operating income in the third quarter of 2018 included 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. This amount was included as an offset against G&A expenses for the third quarter of 2018.

Adjusted EBITDA in the third quarter of 2019 was $1.2 million compared to $7.1 million in the third quarter of 2018. The non-recurring items in the third quarter of 2019 amounted to $0.4 million and were comprised primarily of expenses related to legal fees for a corporate reorganization of an inactive part of the Galtronics business and consulting fees paid to Advantech Wireless Inc. (the consulting agreement will not be extended after it expires on December 31, 2019).

The Company's operating loss for the nine months ended September 30, 2019 was $0.6 million, compared to an operating income of $2.2 million for the nine months ended September 30, 2018.

Adjusted EBITDA for the nine months ended September 30, 2019 was $10.5 million compared to $11.4 million for the nine months ended September 30, 2018. The non-recurring items in the nine months ended September 30, 2019 amounted to $1.6 million and were comprised primarily of expenses noted above, expenses related to the closure of the Galtronics' New Jersey office in the second quarter of 2019, expenses related to the Advantech Acquisition and sundry other non-recurring items.

Net Loss

(in $000's except per share amounts)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	2019	2018	Change
	$	$	%	$	$	%
Loss before income taxes	(567)	(1,104)	(48.6%)	(4,379)	(4,931)	(11.2%)
Income tax expense	151	695	(78.3%)	586	1,183	(50.5%)
Net loss	**(718)**	**(1,799)**	**(60.1%)**	**(4,965)**	**(6,114)**	**(18.8%)**
Basic and diluted net loss per share	($0.02)	($0.05)		($0.12)	($0.16)	

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 loss in the third quarter of 2019 was $0.7 million compared with the net loss of $1.8 million in the third quarter of 2018. On a net loss per share basis, the third quarter of 2019 produced a net loss of $0.02 per share, compared to the net loss of $0.05 per share in the third quarter of 2018.

The Company’s net loss for the nine months ended September 30, 2019 was $5.0 million compared with the net loss of $6.1 million for the nine months ended September 30, 2018. Management considers that the net loss in the nine months ended September 30, 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, offset by a fair value adjustment of the Debentures. On a net loss per share basis, the nine months ended September 30, 2019 produced a net loss of $0.12 per share, compared to the net loss of $0.16 per share in the nine months ended September 30, 2018.

SUMMARY OF QUARTERLY RESULTS

(in $000's except per share amounts)

	Three Months Ended			
	December 31, 2018	**March 31, 2019**	**June 30, 2019**	**September 30, 2019**
	$	**$**	**$**	**$**
Revenue	36,009	39,033	47,831	36,430
Gross profit	11,063	14,331	17,644	12,212
EBITDA	(2,522)	3,029	4,976	824
Adjusted EBITDA	3,858	3,514	5,738	1,223
Net income (loss)	670	(5,901)	1,654	(718)
Basic and diluted net income (loss) per share	$0.02	($0.19)	$0.04	($0.02)
Total current assets	79,937	78,337	84,518	77,786
Total assets	170,517	171,595	179,103	173,457
Total liabilities	88,690	95,446	105,091	100,138

(in $000's except per share amounts)

	Three Months Ended			
	December 31, 2017	**March 31, 2018**	**June 30, 2018**	**September 30, 2018**
	$	**$**	**$**	**$**
Revenue	24,351	29,438	32,578	38,189
Gross profit	7,178	10,562	13,048	16,168
EBITDA	979	(2,043)	2,524	4,774
Adjusted EBITDA	1,322	1,446	2,889	7,100
Net income (loss)	(257)	(4,607)	292	(1,799)
Basic and diluted net income (loss) per share	$0.00	($0.14)	$0.01	($0.05)
Total current assets	64,666	54,752	55,500	78,777
Total assets	84,882	115,241	115,991	166,903
Total liabilities	29,056	59,009	59,107	87,254

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 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 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.

(in $000's)

	As at September 30, 2019	As at December 31, 2018
	$	**$**
Cash and cash equivalents	16,501	20,859
Credit from banks	15,010	377
Net Cash	**1,491**	**20,482**

The Company had net cash at September 30, 2019 and December 31, 2018 of $1.5 million and $20.5 million, respectively. During the nine months ended September 30, 2019, the Company used $4.4 million in cash for operating activities, which included cash to fund an increase in non-cash working capital of $6.3 million. In addition, the Company used $5.4 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 September 30, 2019, the Company's CCC was 88 days, compared to 80 days at December 31, 2018. The increase was primarily due to higher level of Wireless Infrastructure inventory and slower turnover in Advantech Wireless accounts receivable.

During the nine months ended September 30, 2019, non-cash working capital increased by $6.3 million. Management considers that this increase was primarily due to the factors noted below.

Net trade receivables were $32.6 million as at September 30, 2019 compared to $29.4 million as at December 31, 2018. The increase was mainly due to higher sales volumes for Asia Pacific in the latter portions of the third quarter of 2019.

Inventory as at September 30, 2019 was $22.7 million compared to $23.5 million as at December 31, 2018. The decrease was primarily due to the reduction in Asia Pacific and Embedded Antenna finished products.

Trade payables and other liabilities as at September 30, 2019 were $29.8 million compared to $33.3 million as at December 31, 2018. The decrease was mainly attributable to the reduction in bonus provision and payroll accruals.

Commitments for Capital Expenditures

As at September 30, 2019, the Company had made commitments to purchase approximately $3.2 million of equipment for the Company's manufacturing facility in Vietnam.

Credit Facilities

As at September 30, 2019, the Company had credit facilities with banks domiciled in Canada, China, and South 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%-7.0% 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 September 30, 2019, the Company had access to approximately $25.2 million of credit of which $15.0 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 September 30, 2019, $15.0 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. The Revolving Facility matures on March 29, 2022. As at

September 30, 2019, the interest rate on the Revolving Facility was 7.0% on United States Dollar advances and 5.45% on Canadian Dollar advances. The standby fee on the undrawn portion of the Revolving Facility is 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 equal to or 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 September 30, 2019, 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 $5.3 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 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 $27.8 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 commenced 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 September 30, 2019, the interest rate on the Term Loan was 4.81%. 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 earlier 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 September 30, 2019:

				Options vested as at:		Options exercised as at:	Options expired as at:	Options surrendered as at:
Stock option grant date	**Stock options granted**	**Exercise price**	**Option expiry date**	**September 30, 2019**	**December 31, 2018**	**September 30, 2019**	**September 30, 2019**	**September 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	290,000
Aug. 8, 2017	500,000	$2.00	Aug. 8, 2022	333,333	166,667	-	-	-
Mar. 10, 2018	30,000	$3.51	Mar. 10, 2023	10,000	-	-	-	-
May 17, 2018	275,000	$3.34	May 17, 2023	81,666	-	-	43,334	21,666
May 22, 2018	25,000	$3.34	May 22, 2023	5,000	-	-	-	-
Jul. 11, 2018	197,500	$3.50	Jul. 11, 2023	39,500	-	-	-	-
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	-	-	-	-	-
Aug. 16, 2019	60,000	$3.18	Aug. 16, 2024	-	-	-	-	-
	3,542,500			1,851,165	1,320,000	138,750	188,334	1,097,916

The Company recognized a stock option expense of $0.8 million in the nine months ended September 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 $0.2 million for the nine months ended September 30, 2019, which was included in G&A expenses.

The following table lists the number of DSUs outstanding as at September 30, 2019 and 2018 and the number of DSUs issued during the nine months ended September 30, 2019 and 2018:

	Number of DSUs	Weighted Average Price
DSUs outstanding as at January 1, 2019	325,418	$2.43
DSUs granted during 2019	43,506	$3.51
DSUs outstanding as at September 30, 2019	368,924	$2.56

	Number of DSUs	Weighted Average Price
DSUs outstanding as at January 1, 2018	302,422	$2.20
DSUs granted during 2018	39,876	$3.60
DSUs outstanding as at September 30, 2018	342,298	$2.37

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 nine months ended September 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 nine months ended September 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 nine months ended September 30, 2019 and for the nine months ended September 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 nine months ended September 30, 2019.

In the nine months ended September 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 50% vesting 12 months subsequent to the date of grant and 50% 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 nine months ended September 30, 2019.

With regards to the other 64,863 shares issued, the Company recognized $0.3 million in G&A expenses for the nine months ended September 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 $112,500 to Mr. Royer under this agreement for the nine months ended September 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 $3.0 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 of the Advantech Acquisition 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. $0.5 million was recognized in G&A expenses for the nine months ended September 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 nine months ended September 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 September 30, 2019, $2.2 million due to the Company was included in trade receivables and $1.4 million due to the agent was included in accounts payable and accrued liabilities.

As at September 30, 2019, $0.4 million related to the services which the Company had 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 offering in July 2018 to finance the Alga Acquisition. See "Outstanding Share Data".

Short-term benefits, pension and post-retirement benefits of the executive officers of the Company amounted to $6.4 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 nine months ended September 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 $1.0 million upon completion of certain criteria and may be entitled to additional compensation of up to $1.0 million conditional on the Alga Microwave business meeting certain performance targets in each of 2019 and 2020.

In accordance with the Alga Acquisition, 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.

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. After the payment had been made, 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. The application is expected to be heard during the first quarter of 2020.

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 has contested 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 common 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 related to claims for compensation. The issue of whether the Company is entitled to assert set-off on the common shares was argued on October 29, 2019 and is under reserve, as is the issue of whether Mr. Gelerman is required to tender his resignation as a director under the Company's Majority Voting Policy.

In the third quarter of 2019, the vendors of Alga Microwave filed an application asserting that an event occurred which triggered the payment of an earnout in the amount of $1.0 million as detailed in the share purchase agreement. The Company does not agree that the payment has been triggered and has contested the application. No date has been set for the application.

The Company is unable to determine at this time whether it will be entitled to recover or required to pay any amounts related to these legal proceedings. 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, customer concentration and credit risk, and liquidity risk. Our risk management focuses on activities that reduce to a minimum any 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 the applicable 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 41% and 35% of revenue, directly and indirectly, from its largest customer and its subcontractors for the nine months ended September 30, 2019 and September 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 to 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 requirements.

OUTSTANDING SHARE DATA

As at the date of this MD&A, 40,330,649 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 an offering of 7,419,355 Subscription Receipts and $17.25 million principal amount of Debentures, the proceeds from which were used in part to finance the Alga Acquisition. 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 2,117,500 common shares were outstanding and options to purchase up to an additional 1,915,564 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 September 30, 2019.

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