MANAGEMENT'S DISCUSSION & ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three and twelve months ended December 31, 2019

Dated March 11, 2020

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

This management's discussion and analysis ("MD&A") of financial condition and results of operations of Baylin Technologies Inc. ("Baylin", the "Company", "we" or "us") was prepared by management as at March 11, 2020. This MD&A should be read in conjunction with the audited consolidated financial statements of Baylin and related notes thereto for the years ended December 31, 2019 ("fiscal 2019") and December 31, 2018 ("fiscal 2018") (collectively, the "Financial Statements"). The Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). In preparing this MD&A, management has taken into account information available to it up to March 11, 2020, 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. "Net cash", which refers to cash and cash equivalents minus revolving bank indebtedness;
ii. "Working capital", which refers to current assets minus current liabilities;
iii. "Non-cash working capital", which refers to working capital minus net cash;
iv. "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;
v. "Gross margin", which refers to gross profit divided by revenue;
vi. "EBITDA", which refers to operating income (loss) plus depreciation and amortization;
vii. "Adjusted EBITDA", which refers to EBITDA plus the sum of the following:
    a) Acquisition expenses, fair value step up of inventory acquired as part of an acquisition, expenses for litigation relating to acquisition agreements, expenses relating to planned restructuring post an acquisition, impairment on fixed and intangible assets (including goodwill) post an acquisition;
    b) Expenses to permanently close/relocate a facility, shut down a line of business, eliminate positions; and,
    c) Expenses relating to corporate re-organization.

    Management believes that "Adjusted EBITDA" provides useful information to investors in order to compare companies across and within an industry. Management uses this non-GAAP measure to assist in evaluating productivity, efficiency, return on capital and forecasting operating performance.

OVERVIEW

Background

Baylin is a leading, diversified, global wireless technology 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, and 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 twelve months ended December 31, 2019 include the following:

- Revenue grew to $153.3 million in fiscal 2019, an increase of $17.1 million or 12.6% compared to fiscal 2018.

- Gross profit was $54.9 million in fiscal 2019, an increase of $4.1 million or 8.1% compared to fiscal 2018. Gross margin was 35.8% in fiscal 2019, a decrease of 1½ percentage points compared to gross margin of 37.3% in fiscal 2018 (see "Non-GAAP Measures" on page 2 of this MD&A).

- Adjusted EBITDA was $12.5 million in fiscal 2019 compared to $15.3 million in fiscal 2018 (see “Non-GAAP Measures” on page 2 of this MD&A).
- Net cash at December 31, 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 (see “Non-GAAP Measures” on page 2 of this MD&A).

Key highlights for the three months ended December 31, 2019 include the following:

- Revenue was $30.0 million in the fourth quarter of 2019, a decrease of $6.0 million or 16.6% compared to the fourth quarter of 2018.
- Gross profit was $10.8 million in the fourth quarter of 2019, a decrease of $0.3 million or 2.8% compared to the fourth quarter of 2018. Gross margin was 35.8% in the fourth quarter of 2019, an increase of five percentage points compared to gross margin of 30.7% in the prior year period.
- Adjusted EBITDA was $2.0 million in the fourth quarter of 2019 compared to $3.9 million in the fourth quarter of 2018.
- Net loss in the fourth quarter of 2019 was $14.6 million compared to net income of $0.7 million in the fourth quarter of 2018. In the fourth quarter of 2019, as a result of the annual goodwill impairment test, a goodwill impairment charge of $12.7 million was recorded related to the Company’s 2018 acquisitions.
- Net cash at December 31, 2019 increased from September 30, 2019 primarily due to repayment of a portion of the Revolving Facility in October 2019.

Recent Developments

The Company filed a (final) short form base shelf prospectus with the securities regulatory authorities in each of the provinces and territories of Canada on February 19, 2020. The base shelf prospectus will allow the Company to offer up to $100,000,000 of common shares, preferred shares, debt securities, subscription receipts, warrants or units, or any combination of those securities, during the 25-month period that the base shelf prospectus remains effective. The specific terms of any offering under the base shelf prospectus will be described in an accompanying prospectus supplement, which will be filed with securities regulatory authorities.

SELECTED FINANCIAL INFORMATION

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

(in $000's except per share amounts)

	Twelve Months Ended December 31,		
	2019	**2018**	**2017**
	$	**$**	**$**
Revenue	153,323	136,214	91,642
Gross profit	54,939	50,841	28,345
Loss before income taxes (2019: including goodwill impairment $12,693)	(18,601)	(10,624)	(3,773)
Income tax expense (recovery)	1,013	(5,180)	436
Net loss (2019: including goodwill impairment $12,693)	(19,614)	(5,444)	(4,209)
Basic and diluted net loss per share	($0.49)	($0.13)	($0.17)
EBITDA	(3,853)	2,733	2,306
Adjusted EBITDA	12,482	15,293	4,954
Current assets	64,293	79,937	64,666
Total assets	147,557	170,517	84,882
Current liabilities	36,848	35,077	26,873
Non-current liabilities	51,828	53,613	2,183
Total liabilities	88,676	88,690	29,056

OUTLOOK

The issues the Company faced in the third and fourth quarters of 2019, specifically a combination of expenses incurred to build our new factory in Vietnam (that were not anticipated in the 2019 budget), softer demand from several of our primary customers due to changes in their capital expenditure plans, and slower progress in addressing legacy issues at Advantech Wireless, are expected to continue to impact the Company through the end of the second quarter of 2020. Management believes these issues are transitory. We continue to focus on improving financial performance, including through further cost reduction initiatives. In the first and second quarters of 2019, we reduced annual expenses by approximately $2.5 million. That reduction, combined with cost reductions implemented in the third and fourth quarters of 2019, and, current initiatives, once fully implemented, are expected to decrease costs by over $8.0 million annually of which approximately $6.0 million are operating expenses with the balance being expenses included in cost of sales.

Like many other companies doing business in China, the coronavirus (COVID-19) outbreak has had a disruptive effect on our business. Although our manufacturing facility in Wuxi, China was delayed in reopening after Chinese New Year, it reopened on February 10, 2020 following approval of the local authorities. We are currently operating at a reduced rate and face some labour shortages, although we expect substantially all our employees to be back at work by the end of March 2020. Our customers and suppliers are also facing disruptions. All this has affected Wireless Infrastructure and Embedded Antenna sales. Asia Pacific sales have also been affected because other smartphone component suppliers in Vietnam have faced shortages of materials from China. To date, Satcom sales have not been affected. The virus has also resulted in a delay in the installation of a test chamber in our Vietnamese factory, which will affect the timing of final certification as well as the commencement of volume production of Massive MIMO antennas, previously expected to begin in the second quarter of 2020.

We continue to monitor the situation closely and are taking measures to mitigate the effect of the outbreak on our business. At this stage, it is too early to tell the full extent of the impact, given the uncertainty around containment of the virus (both in China and elsewhere) and how much our mitigation efforts will minimize the financial impact, however, it could have a material impact on our operations and operating results in China and other countries where we do business.

DISCUSSION OF OPERATIONS

Description of Operations

Galtronics

The Galtronics line of business is comprised of three interrelated antenna product lines: (a) Asia Pacific; (b) Embedded Antenna; and, (c) Wireless Infrastructure (Small Cell/DAS/BSA).

a) 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.

b) 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.

c) 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.

Satcom

The Satcom line of business is comprised of two interrelated antenna product lines: (a) Advantech Wireless; and, (b) Alga Microwave.

a) 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 (solid state power amplifiers ("SSPAs"), solid state power blocks ("SSPBs") and block up 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.

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

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

Revenue and Gross Profit

(in $000's)

	Twelve Months Ended December 31,				
	2019	**2018**	**2017**	**Change 2018 to 2019**	**Change 2017 to 2018**
	$	**$**	**$**	**%**	**%**
Revenue	**153,323**	**136,214**	**91,642**	**12.6%**	**48.6%**
Cost of sales	98,384	85,373	63,297	15.2%	34.9%
Gross profit	**54,939**	**50,841**	**28,345**	**8.1%**	**79.4%**
Gross margin	35.8%	37.3%	30.9%		

a) Factors Affecting Revenue and Gross Profit

- *Revenue*

Revenue is derived from the sale of wireless communication components. Financial results are reported as one reportable segment. The Company manufactures and sells a variety of components, including antenna products, such as antennas for mobile handsets and smartphones, networking and telemetry devices, land mobile radios, telematics and wireless infrastructure antennas and radio frequency and microwave products such as amplifiers, converters and transceivers. Revenue is impacted by the timing of 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 $153.3 million in fiscal 2019 compared to $136.2 million in fiscal 2018, representing an increase of 12.6%. The increase was primarily due to strong revenue from Asia Pacific and Advantech Wireless products as well as the inclusion of Alga Microwave's revenue for a complete year (acquired in July 2018). The increase was somewhat offset by a decrease in Embedded Antenna and Wireless Infrastructure revenue compared to fiscal 2018.

Gross profit was $54.9 million in fiscal 2019, an increase of $4.1 million or 8.1% compared to fiscal 2018. Gross margin was 35.8% in fiscal 2019 compared to gross margin of 37.3% in fiscal 2018. Gross margin was negatively impacted in fiscal 2019 by sales mix – Asia Pacific revenue as a percentage of total revenue was higher than anticipated and its products generate lower gross margins than the other product lines.

Selling and Marketing Expenses

(in $000's)

	Twelve Months Ended December 31,				
	2019	**2018**	**2017**	**Change 2018 to 2019**	**Change 2017 to 2018**
	$	**$**	**$**	**%**	**%**
Payrolls	9,038	9,126	3,879	(1.0%)	135.3%
Other	5,785	4,383	1,611	32.0%	172.1%
Total	**14,823**	**13,509**	**5,490**	**9.7%**	**146.1%**
As a percentage of revenue	9.7%	9.9%	6.0%		

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 fiscal 2019 were $14.8 million (9.7% of revenue) compared to $13.5 million (9.9% of revenue) in fiscal 2018, representing an increase of $1.3 million. The increase was primarily due to higher travel and marketing expenditures by sales people in fiscal 2019 as well as the inclusion of Alga Microwave's selling and marketing expenses for a complete year (acquired in July 2018).

Research and Development Expenses

(in $000's)

	Twelve Months Ended December 31,				
	2019	**2018**	**2017**	**Change 2018 to 2019**	**Change 2017 to 2018**
	$	**$**	**$**	**%**	**%**
Development costs	16,405	14,958	10,476	9.7%	42.8%
Depreciation	398	405	772	(1.7%)	(47.5%)
Total	**16,803**	**15,363**	**11,248**	**9.4%**	**36.6%**
As a percentage of revenue	11.0%	11.3%	12.3%		

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 fiscal 2019 were $16.8 million (11.0% of revenue), representing an increase of $1.4 million over fiscal 2018 which reported R&D expenses of $15.4 million (11.3% of revenue). The increase was attributable to a growth in expenses for the development of new small cell and base station antenna products in fiscal 2019 as well as the inclusion of Alga Microwave's R&D expenses for a complete year (acquired in July 2018).

General and Administrative Expenses

(in $000's)

	Twelve Months Ended December 31,				
	2019	**2018**	**2017**	**Change 2018 to 2019**	**Change 2017 to 2018**
	$	**$**	**$**	**%**	**%**
Payrolls	11,778	10,399	6,123	13.3%	69.8%
Other	6,405	8,247	7,005	(22.3%)	17.7%
Depreciation	2,143	473	256	353.1%	84.8%
Amortization	5,399	4,749	-	13.7%	0.0%
Total	**25,725**	**23,868**	**13,384**	**7.8%**	**78.3%**
As a percentage of revenue	16.8%	17.5%	14.6%		

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 fiscal 2019 were $25.7 million (16.8% of revenue) compared to $23.9 million (17.5% of revenue) in fiscal 2018. Excluding depreciation and amortization and adjustments to EBITDA, G&A expenses in fiscal 2019 were $15.0 million compared to $14.5 million in fiscal 2018. The increase of $0.5 million was primarily due to the additional payroll expenses attributable to the inclusion of Alga Microwave's expenses for a complete year (acquired in July 2018), 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). EBITDA and Adjusted EBITDA are reconciled as follows:

Reconciliation to Operating Loss

(in $000's)

	Twelve Months Ended December 31,				
	2019	**2018**	**2017**	**Change 2018 to 2019**	**Change 2017 to 2018**
	$	**$**	**$**	**%**	**%**
Operating loss	**(15,825)**	**(6,217)**	**(1,777)**	**154.5%**	**249.9%**
Depreciation and amortization	11,972	8,950	4,083	33.8%	119.2%
EBITDA	**(3,853)**	**2,733**	**2,306**	**(241.0%)**	**18.5%**
Adjustments to EBITDA	16,335	12,560	2,648	30.1%	374.3%
Adjusted EBITDA	**12,482**	**15,293**	**4,954**	**(18.4%)**	**208.7%**

Adjustments to EBITDA

(in $000's)

	Twelve Months Ended December 31,				
	2019	**2018**	**2017**	**Change 2018 to 2019**	**Change 2017 to 2018**
	$	**$**	**$**	**%**	**%**
Acquisition expenses, fair value step up of inventory acquired as part of an acquisition, expenses for litigation relating to acquisition agreements, expenses relating to planned restructuring post an acquisition; impairment on fixed and intangible assets (including goodwill) post an acquisition	14,795	10,837	159	36.5%	6715.7%
Expenses to permanently close/relocate a facility, shut down a line of business, eliminate positions	910	1,388	2,269	(34.4%)	(38.8%)
Corporate re-organization expenses	630	335	220	88.1%	52.3%
Total	**16,335**	**12,560**	**2,648**	**30.1%**	**374.3%**

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 fiscal 2019 was $15.8 million, compared to the operating loss of $6.2 million in fiscal 2018. During the twelve months ended December 31, 2019, the Company determined that indicators of possible goodwill impairment existed for the Satcom Group. Since the closing of the acquisitions of Advantech and Alga in 2018, the Company has dealt with ongoing, historical legacy issues and experienced a number of challenges integrating the Satcom Group. These challenges include an industry wide shortage of a key component, factory production optimization and consolidation following the move of Advantech's operations into the Alga facility and product line consolidation. As a result, the Company has a more prolonged path to achieving the financial performance than the Company believes the Satcom Group is capable of generating. Based on the impairment analysis performed, the Company concluded that there was an impairment to goodwill and recorded an impairment expense of $12.7 million within operating expenses in fiscal 2019.

Adjusted EBITDA in fiscal 2019 was $12.5 million compared to $15.3 million in fiscal 2018. Adjustments to EBITDA amounting to $16.3 million in fiscal 2019 are detailed in the chart above.

Net Loss

(in $000's except per share amounts)

	Twelve Months Ended December 31,				
	2019	**2018**	**2017**	**Change 2018 to 2019**	**Change 2017 to 2018**
	$	**$**	**$**	**%**	**%**
Loss before income taxes	(18,601)	(10,624)	(3,773)	75.1%	181.6%
Income tax expense (recovery)	1,013	(5,180)	436	(119.6%)	(1288.1%)
Net loss	**(19,614)**	**(5,444)**	**(4,209)**	**260.3%**	**29.3%**
Basic and diluted net loss per share	($0.49)	($0.13)	($0.17)		

a) *Factors Affecting Net Loss*

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

b) Fiscal 2019 compared to Fiscal 2018

The Company's net loss in fiscal 2019 was $19.6 million compared to the net loss of $5.4 million in fiscal 2018. Management considers that the net loss in fiscal 2019 was primarily due to the adjustments to EBITDA noted above which included the goodwill impairment charge of $12.7 million, lower gross margin (as discussed above), 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, fiscal 2019 produced a net loss of $0.49 per share, compared to the net loss of $0.13 per share in fiscal 2018.

SUMMARY OF QUARTERLY RESULTS

(in $000's except per share amounts)

	Three Months Ended			
	March 31, 2019	**June 30, 2019**	**September 30, 2019**	**December 31, 2019**
	$	**$**	**$**	**$**
Revenue	39,033	47,831	36,430	30,029
Gross profit	14,331	17,644	12,212	10,752
EBITDA	3,029	4,976	824	(12,682)
Adjusted EBITDA	3,514	5,738	1,223	2,007
Net income (loss)	(5,901)	1,654	(718)	(14,649)
Basic and diluted net income (loss) per share	($0.19)	$0.04	($0.02)	($0.36)
Total current assets	78,337	84,518	77,786	64,293
Total assets	171,595	179,103	173,457	147,557
Total liabilities	95,446	105,091	100,138	88,676

(in $000's except per share amounts)

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

CAPITAL RESOURCES AND LIQUIDITY

The Company's capital resources are in part used to fund working capital (see "Non-GAAP Measures" on page 2 of this MD&A) 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 (see "Non-GAAP Measures" on page 2 of this MD&A). 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 December 31, 2019	As at December 31, 2018
	$	**$**
Cash and cash equivalents	13,974	20,859
Less: Credit from banks	(10,874)	(377)
Net Cash	**3,101**	**20,482**

The Company had net cash at December 31, 2019 and December 31, 2018 of $3.1 million and $20.5 million, respectively. The decrease was 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.

Working capital requirements

Working capital requirements are mainly for materials, production, sales and marketing, R&D, operations and G&A expenses. Working capital requirements can increase because of increased revenue, customers payment delays, increased inventory levels to meet additional demand and/or paying our suppliers more quickly. These changes increase the CCC, which in turn reduces the overall liquidity in the business. As at December 31, 2019, the Company's CCC was 89 days, compared to 80 days at December 31, 2018. The increase was primarily due to slower turnover of Wireless Infrastructure inventory and longer days outstanding in Advantech Wireless trade receivables.

During the twelve months ended December 31, 2019, non-cash working capital increased by $4.0 million. Management considers that this increase was primarily due to the following factors:

a) Trade payables and other liabilities as at December 31, 2019 were $20.3 million compared to $33.3 million as at December 31, 2018. The decrease was mainly attributable to the decline in sales and production volumes in the fourth quarter of 2019.

b) Other current assets as at December 31, 2019 were $9.8 million compared to $6.2 million as at December 31, 2018. The increase was primarily due to higher prepaid expenses and other receivables in the fourth quarter of 2019.

c) Net trade receivables were $19.4 million as at December 31, 2019 compared to $29.4 million as at December 31, 2018. The decrease was mainly due to lower sales volumes of Asia Pacific in the fourth quarter of 2019.

d) Inventory as at December 31, 2019 was $21.1 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.

Commitments for capital expenditures

As at December 31, 2019, the Company had made commitments to purchase approximately $5.1 million of equipment for the Company's manufacturing facility in Vietnam.

Credit facilities

As at December 31, 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 South Korea, and property, plant and equipment. As at December 31, 2019, the Company had access to approximately $23.8 million of credit of which $10.9 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 $20.0 million. As at December 31, 2019, $10.9 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 December 31, 2019, the interest rate on the Revolving Facility was 7.00% on United States Dollar advances and 5.70% per annum on Canadian Dollar advances and 4.56% per annum on LIBO Rate 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. Certain of the Company's subsidiaries are guarantors of the Revolving Facility. The Revolving Facility is secured by substantially all the assets of the Company and the guarantors. 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 December 31, 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 $5.2 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 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 9.0% and a maturity date of January 17, 2023. In connection with the Loan, the Company issued warrants to acquire 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 $27.3 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 quarterly in arrears. As at December 31, 2019, the interest rate on the Term Loan was 4.75% per annum. Commencing July 26, 2019, the Company entered into an interest rate swap arrangement where the LIBO Rate portion of the interest rate on the Term Loan was fixed at 2.00% until maturity on March 29, 2022.

Certain of the Company's subsidiaries are guarantors of the Term Loan. The Term Loan is secured by substantially all the assets of the Company and the guarantors. 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 30th and December 31st 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 are not 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.

COMMITMENTS

Baylin and certain of its subsidiaries, including Galtronics Electronics (Wuxi) Co., Ltd. ("Galtronics China"), Galtronics Korea Ltd. ("Galtronics Korea"), Galtronics Corporation Ltd. ("Galtronics Israel"), Galtronics Vietnam Co., Ltd. ("Galtronics Vietnam"), Galtronics USA Inc., Advantech Wireless Technologies Inc. and Alga Microwave Inc., lease various premises expiring within 10 years with further extensions available.

The future minimum lease fees payable by Baylin and its subsidiaries are as follows:

(in $000's)

		As at December 31, 2019	**As at December 31, 2018**
		$	**$**
Year 1:	2019	-	1,060
Years 2 to 5:	2020 to 2023	-	2,085
Years 6 onward:	2024 to 2028	-	1,447
Total		**-**	**4,592**

From January 1, 2019, the Company has recognized right of use assets for these leases, except for short-term and low-value leases.

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 December 31, 2019:

Options grant date	Options granted	Exercise price	Options expiry date	Options vested as at: December 31, 2019	Options vested as at: December 31, 2018	Options exercised as at: December 31, 2019	Options expired as at: December 31, 2019	Options surrendered as at: December 31, 2019	Outstanding options as at: December 31, 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	250,000
Aug. 8, 2017	500,000	$2.00	Aug. 8, 2022	333,333	166,667	-	-	-	500,000
Mar. 10, 2018	30,000	$3.51	Mar. 10, 2023	10,000	-	-	-	-	30,000
May 17, 2018	275,000	$3.34	May 17, 2023	81,666	-	-	43,334	21,666	210,000
May 22, 2018	25,000	$3.34	May 22, 2023	5,000	-	-	-	-	25,000
Jul. 11, 2018	197,500	$3.50	Jul. 11, 2023	39,500	-	-	-	-	197,500
Nov. 9, 2018	250,000	$3.84	Nov. 9, 2023	83,333	-	-	-	-	250,000
Mar. 25, 2019	325,000	$3.89	Mar. 25, 2024	-	-	-	150,000	-	175,000
May 21, 2019	270,000	$3.57	May 21, 2024	-	-	-	-	-	270,000
Aug. 16, 2019	60,000	$3.18	Aug. 16, 2024	-	-	-	-	-	60,000
	3,542,500			1,934,498	1,320,000	138,750	338,334	1,097,916	1,967,500

The Company recognized a stock option expense of $1.0 million in the twelve months ended December 31, 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 will be settled subsequent to a director ceasing to be a director of the Company and its subsidiaries by one or more of: (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. The number of common shares reserved for issuance upon redemption of DSUs under the DSU Plan is limited to 500,000.

The Company recognized a DSU expense of $0.2 million for the twelve months ended December 31, 2019, which was included in G&A expenses.

The following table lists the number of DSUs outstanding as at December 31, 2019 and 2018 and the number of DSUs issued during the twelve months ended December 31, 2019 and 2018:

	Number of DSUs	Weighted Average Price
DSUs outstanding as at January 1, 2019	325,418	$2.43
DSUs granted during 2019	70,031	$2.91
DSUs outstanding as at December 31, 2019	395,449	$2.51

	Number of DSUs	Weighted Average Price
DSUs outstanding as at January 1, 2018	302,422	$2.20
DSUs granted during 2018	53,021	$3.61
DSUs redeemed during 2018	(30,025)	$2.23
DSUs outstanding as at December 31, 2018	325,418	$2.43

Employee Purchase Plan

In January 2018, certain employees of the Company ("Participants") commenced participation in the Employee Purchase Plan ("EPP"). The Company granted each Participant a number of shares equal to each Participant's annual share purchase commitment. During the twelve months ended December 31, 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 EPP. During the twelve months ended December 31, 2019, 56,700 common shares were issued with a value of $0.1 million to fulfill the Company's obligations under the EPP. The Company did not recognize an expense for the twelve months ended December 31, 2019 and for the twelve months ended December 31, 2018, the Company recognized $0.1 million in G&A expenses with regards to the EPP.

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 $0.1 million in G&A expenses for the twelve months ended December 31, 2019.

During the twelve months ended December 31, 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 $0.1 million in G&A expenses with regards to these shares under the ESCP for the twelve months ended December 31, 2019.

With regards to the other 64,863 shares issued, the Company recognized $0.3 million in G&A expenses for the twelve months ended December 31, 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

Advantech Wireless Inc.

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 was 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 targets were not met in 2018 and 2019.

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 was entitled to receive a fee of $2.5 million, payable, as to one-half, in cash and, as to one-half, through 385,802 common shares issued at a deemed price of $3.24 per share, in each case, payable in quarterly instalments. The trading of such common shares was subject to certain time release restrictions for a period of up to 24 months following closing of the Advantech Acquisition. $0.6 million was recognized in G&A expenses for the twelve months ended December 31, 2019.

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

During the twelve months ended December 31, 2019, the Advantech Vendor and certain of its affiliates acted as agent for the Company through cash collections of $0.7 million. As at December 31, 2019, $2.2 million due to the Company was included in trade receivables and $1.5 million due to the agent was included in accounts payable and accrued liabilities.

As at December 31, 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.

Alga

For the twelve months ended December 31, 2019, the Company recognized revenue of $0.2 million for premises leased to a company owned partly by Michael Perelshtein, an employee of Alga Microwave.

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 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 a portion of additional compensation of up to $1.0 million conditional on the Alga Microwave business meeting certain performance targets in each of 2019 and 2020.

Pursuant to the terms of the Alga Acquisition, 10860085 Canada Inc., a company partly owned by Michael Perelshtein, granted an option to 9380-4987 Quebec Inc. (a wholly owned subsidiary of Baylin which amalgamated with Alga Microwave Inc.) to purchase all of the issued and outstanding shares (the “Trilogix Shares”) of 167018 Canada Inc. (o/a Trilogix). Pursuant to the terms of the option agreement, if 9380-4987 Quebec Inc. elected not to purchase the Trilogix Shares, a payment of $323,000 became due to 167018 Canada Inc. 9380-4987 Quebec Inc. elected not to purchase the Trilogix Shares and paid $323,000 to 167018 Canada Inc. on June 24, 2019.

Offering

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” on page 22 of this MD&A).

Executive officer remuneration

Short-term benefits, pension and post-retirement benefits of the executive officers of the Company amounted to $8.5 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.

Share-based payment for executive officer

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.

Other

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. As consideration for the services provided under the agreement, the Company agreed to pay Mr. Royer an annual fee of $150,000 either in cash or securities of the Company as mutually agreed between the Company and Mr. Royer. For the twelve months ended December 31, 2019, the Company paid $150,000 to Mr. Royer under this agreement.

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

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 when 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. No date has been set to hear 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 $5.6 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. In January 2020, the court found that Mr. Gelerman is entitled to complete his term as a director and the set-off shares must be released. The Company intends to appeal the ruling.

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 required to pay any amounts related to these legal proceedings.

FOURTH QUARTER DISCUSSION

Revenue and Gross Profit

(in $000's)

	Three Months Ended December 31,		
	2019	**2018**	**Change**
	$	**$**	**%**
Revenue	**30,029**	**36,009**	**(16.6%)**
Cost of sales	19,277	24,946	(22.7%)
Gross profit	**10,752**	**11,063**	**(2.8%)**
Gross margin	35.8%	30.7%	

- *Fourth Quarter of 2019 compared to Fourth Quarter of 2018*

  Revenue was $30.0 million in the fourth quarter of 2019 compared to $36.0 million in the fourth quarter of 2018, representing a decrease of $6.0 million or 16.6%. The decrease was primarily due to weaker sales for Asia Pacific and Embedded Antenna products in the fourth quarter of 2019, somewhat offset by higher revenue from Wireless Infrastructure and Satcom products compared to the fourth quarter of 2018.

  Gross profit was $10.8 million in the fourth quarter of 2019, a decrease of $0.3 million compared to the fourth quarter of 2018. Gross margin was 35.8% in the fourth quarter of 2019 compared to 30.7% in the fourth quarter of 2018. Gross margin was positively impacted in the fourth quarter of 2019 by the change of sales mix – Asia Pacific revenue as a percentage of total revenue was lower by ten percentage points compared to the prior year period.

Selling and Marketing Expenses

(in $000's)

	Three Months Ended December 31,		
	2019	**2018**	**Change**
	$	**$**	**%**
Payrolls	2,262	2,532	(10.7%)
Other	1,445	1,559	(7.3%)
Total	**3,707**	**4,091**	**(9.4%)**
As a percentage of revenue	12.3%	11.4%	

- *Fourth Quarter of 2019 compared to Fourth Quarter of 2018*

  The Company’s selling and marketing expenses in the fourth quarter of 2019 were $3.7 million (12.3% of revenue), compared to $4.1 million (11.4% of revenue) in the fourth quarter of 2018. The decrease was primarily due to the reduction in sales people headcount compared to the prior year period.

Research and Development Expenses

(in $000's)

	Three Months Ended December 31,		
	2019	**2018**	**Change**
	$	**$**	**%**
Development costs	3,540	4,659	(24.0%)
Depreciation	92	69	33.3%
Total	**3,632**	**4,728**	**(23.2%)**
As a percentage of revenue	12.1%	13.1%	

- *Fourth Quarter of 2019 compared to Fourth Quarter of 2018*

  The Company’s R&D expenses in the fourth quarter of 2019 were $3.6 million (12.1% of revenue), representing a $1.1 million decrease from the fourth quarter of 2018 which reported R&D expenses of $4.7 million (13.1% of revenue). The decrease was attributable to timing of expenses with higher expenses incurred in the first three quarters of 2019 for the development of new small cell and base station antenna products.

General and Administrative Expenses

(in $000's)

	Three Months Ended December 31,		
	2019	**2018**	**Change**
	$	**$**	**%**
Payrolls	2,424	2,515	(3.6%)
Other	1,741	2,523	(31.0%)
Depreciation	368	167	120.4%
Amortization	1,227	4,749	(74.2%)
Total	**5,760**	**9,954**	**(42.1%)**
As a percentage of revenue	19.2%	27.6%	

- *Fourth Quarter of 2019 compared to Fourth Quarter of 2018*

  The Company's G&A expenses in the fourth quarter of 2019 were $5.8 million (19.2% of revenue), compared to $10.0 million (27.6% of revenue) in the fourth quarter of 2018. The decrease of $4.2 million was primarily attributable to the amortization of intangibles of fiscal 2018 fully recorded in the fourth quarter of 2018.

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA are reconciled as follows:

Reconciliation to Operating Loss

(in $000's)

	Three Months Ended December 31,		
	2019	**2018**	**Change**
	$	**$**	**%**
Operating loss	**(15,221)**	**(8,396)**	**81.3%**
Depreciation and amortization	2,539	5,874	(56.8%)
EBITDA	**(12,682)**	**(2,522)**	**402.9%**
Adjustments to EBITDA	14,689	6,380	130.2%
Adjusted EBITDA	**2,007**	**3,858**	**(48.0%)**

Adjustments to EBITDA

(in $000's)

	Three Months Ended December 31,		
	2019	**2018**	**Change**
	$	**$**	**%**
Acquisition expenses, fair value step up of inventory acquired as part of an acquisition, expenses for litigation relating to acquisition agreements, expenses relating to planned restructuring post an acquisition; impairment on fixed and intangible assets (including goodwill) post an acquisition	13,756	5,954	131.0%
Expenses to permanently close/relocate a facility, shut down a line of business, eliminate positions	459	417	10.1%
Corporate re-organization expenses	474	9	5166.7%
Total	**14,689**	**6,380**	**130.2%**

- *Fourth Quarter of 2019 compared to Fourth Quarter of 2018*

  The Company's operating loss in the fourth quarter of 2019 was $15.2 million, compared to the operating loss of $8.4 million in the fourth quarter of 2018. In the fourth quarter of 2019, the Company determined that indicators of possible goodwill impairment existed for the Satcom Group. Since the closing of the acquisitions of Advantech and Alga in 2018, the Company has dealt with ongoing, historical legacy issues and experienced a number of challenges integrating the Satcom Group. These challenges include an industry wide shortage of a key component, factory production optimization and consolidation following the move of Advantech's operations into the Alga facility and product line consolidation. As a result, the Company has a more prolonged path to achieving the financial performance than the Company believes the Satcom Group is capable of generating. Based on the impairment analysis performed, the Company concluded that there was an impairment to goodwill and recorded an impairment expense of $12.7 million within operating expenses in the fourth quarter of 2019.

  Adjusted EBITDA in the fourth quarter of 2019 was $2.0 million compared to $3.9 million in the fourth quarter of 2018. Adjustments to EBITDA amounting to $14.7 million in the fourth quarter of 2019 are detailed in the chart above.

Net Income (Loss)

(in $000's except per share amounts)

	Three Months Ended December 31,		
	2019	**2018**	**Change**
	$	**$**	**%**
Loss before income taxes	(14,222)	(5,693)	149.8%
Income tax expense (recovery)	427	(6,363)	(106.7%)
Net income (loss)	**(14,649)**	**670**	**(2286.4%)**
Basic and diluted net income (loss) per share	($0.36)	$0.02	

- *Fourth Quarter of 2019 compared to Fourth Quarter of 2018*

  The Company's net loss in the fourth quarter of 2019 was $14.6 million compared to net income of $0.7 million in the fourth quarter of 2018. Management considers that the net loss in the fourth quarter of 2019 was primarily due to the adjustments to EBITDA noted above which included the goodwill impairment charge of $12.7 million. On a net income (loss) per share basis, the fourth quarter of 2019 produced a net loss of $0.36 per share, compared to the net income of $0.02 per share in the fourth quarter of 2018. The net loss in the three months ended December 31, 2019 was primarily due to the adjustments to EBITDA noted above.

SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's Financial Statements requires management to make judgements, estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates and judgements made by the Company that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Operating segments

The Company is considered to operate as one segment. In making this judgement, the Company has evaluated the business activities from which it earns revenues and incurs expenses, at which level operating results are reviewed by the chief operating decision maker and for which discrete financial information is available. The chief executive officer has been deemed the chief operating decision maker.

Impairment of non-financial assets

Impairment exists when the carrying amount of an asset exceeds its recoverable amount. In evaluating impairment, the Company determines recoverable amount based on value in use. The fair value of property plant and equipment and finite-life intangible assets is determined using the depreciated replacement cost ("DRC") approach for certain assets, and a market approach using comparable transactions for other assets. The value in use of indefinite life intangibles and goodwill are based on estimated discounted future cash flows.

Estimates used in arriving at value in use involve significant judgement of changes in market and other conditions that can affect value in use. DRC includes adjustments for obsolescence which are based in part on assumptions that are influenced by factors that are both internal and external to the Company, and therefore, changes in such factors can affect those assumptions. Discounted future cash flows include a number of estimates and assumptions surrounding assumed growth rates, number of years in discounted future cash flow models and the discount rate. The determination of cash generating unit ("CGU") or groups of CGUs for the purpose of impairment testing requires judgement.

Leases

The Company has applied judgement to determine the incremental borrowing rate and the lease term for some lease contracts in which it is a lessee that include renewal options, which significantly affects the amount of lease liability and right of use assets recognized. The Company has used the practical expedient of applying hindsight in assessing certain lease extension options. The Company has also used judgement in determining the incremental borrowing rate based on the term, security, the lessee entities economic environment, credit rating, level of indebtedness and asset specific adjustments.

Interest rate swap contracts

The Company has an interest rate swap arrangement valued at fair value through profit and loss. Judgement is applied to determine the LIBO Rate forward curve for the term of the interest rate swap contract.

Income taxes

The Company is subject to income taxes in all jurisdictions in which it operates. Significant judgement is required in determining the tax provision. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Deferred tax assets are recognized for unutilized carry forward tax losses and deductible temporary differences to the extent that it is probable that taxable income will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Business combination

Management applies IFRS 3, Business Combinations, to account for business acquisitions. Significant judgement is required in identifying and determining the fair value of assets and liabilities acquired, including intangible assets and residual goodwill, if any.

As disclosed in Note 6 of the Financial Statements and elsewhere in this MD&A, the Advantech Vendor was entitled to additional compensation between $0.75 and $3.0 million conditional on the Advantech Wireless business meeting certain performance targets in each of 2018 and 2019. Further, as disclosed in Note 6 of the Financial Statements and elsewhere in this MD&A, the vendors of Alga Microwave may be entitled to receive additional compensation of up to $1.0 million conditional on the Alga Microwave business meeting certain performance targets in each of 2019 and 2020. The Company's liability for such additional compensation is carried at fair value. Management uses current and historical operational results, estimates and probabilities of future earnings and discounted cash flows to estimate the additional compensation.

Significant judgement and estimation was applied in arriving at the discount rate used to determine the fair value of the time based 385,802 share release portion of the consulting agreement as disclosed in Note 6 of the Financial Statements. Changes in these estimates could have affected the carrying value of the Company's liability and the related gain or loss in the statement of loss or comprehensive loss.

Share-based payments

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

Deferred tax assets and liabilities

The Company makes significant judgements in interpreting tax rules and regulations when calculating deferred tax assets and liabilities. Judgement is used to evaluate whether a deferred tax asset can be recovered based on our assessment of existing tax laws, estimates of future profitability, and tax planning strategies.

Intercompany net investment

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

Provision for impairment of inventories

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

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

A portion of the Company's transactions are denominated in currencies other than the functional currency of the respective subsidiary. As a result, the Company is exposed to currency risk on these transactions. The Company's objective in managing its currency risk is to minimize its exposure to currencies other than its functional currency. Gains and losses are primarily derived from changes in the Canadian dollar exchange rate in relation to the United States dollar.

Interest rate risk

The Company has exposure to interest rate risks on credit from banks with variable interest rate. The Company reduces its exposure to this risk by reducing debt levels and entering into interest rate swap arrangements, as disclosed in Note 16 of the Financial Statements and elsewhere in this MD&A. The Company believes that interest rate risk is low as the majority of its loans are short-term or have fixed interest rates.

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 38% and 33% of revenue, directly and indirectly, from the Company's largest customer and its subcontractors for the twelve months ended December 31, 2019 and December 31, 2018, respectively. The Company's strategy in managing this risk is to diversify its customer base by expanding its product portfolio and enhancing its sales and marketing efforts.

The Company and its subsidiaries typically extend 30 to 90-day credit terms to its customers and regularly monitor 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 its 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, 40,258,907 common shares were issued and outstanding.

As at the date of this MD&A, $17.25 million principal amount of Debentures are outstanding. 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, 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.

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 1,995,317 common shares were outstanding and options to purchase up to an additional 2,030,573 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 and has certified the operating effectiveness of its internal controls as at December 31, 2019.

No significant changes in the Company's internal controls over financial reporting occurred during the twelve months ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Disclosure Controls and Procedures

Management is also responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's President and Chief Executive Officer and Chief

Financial Officer have each evaluated the design of the Company's disclosure controls and procedures as at December 31, 2019 and have concluded that these controls and procedures were appropriately designed.

ADDITIONAL INFORMATION

Additional information relating to the Company, including the most recently filed Annual Information Form and Management Information Circular, is available on SEDAR at www.sedar.com.

RISK FACTORS

For a detailed description of risk factors associated with the Company, refer to the "Risk Factors" section of the Company's Annual Information Form dated March 11, 2020 which is available on SEDAR at www.sedar.com.