



**MANAGEMENT'S DISCUSSION & ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**For the Three Months Ended March 31, 2020**

**Dated June 16, 2020**

## **Baylin Technologies Inc.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2020**

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 June 16, 2020. 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, 2019 (the "Annual Financial Statements") and the unaudited interim condensed consolidated financial statements of Baylin and related notes thereto for the three months ended March 31, 2020 (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 June 16, 2020, unless otherwise stated.

Additional information relating to the Company, including the most recent Annual Information Form, may be found under the Company's profile on SEDAR at [www.sedar.com](http://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 under the Company's profile on SEDAR at [www.sedar.com](http://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 following in the prior quarter:
  - a) days sales outstanding, plus;
  - b) days of inventory outstanding, less;
  - c) days payables outstanding;
- 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;
  - c) Expenses relating to corporate re-organization; and,
  - d) Non-cash compensation.

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 and its operations are conducted through subsidiaries.

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.

The Advantech Wireless line of business, acquired by Baylin in January 2018, designs and manufactures RF and microwave products for wireless communications markets, and for commercial, critical infrastructure, government and military clients.

The Alga Microwave line of business (including Mitec VSAT), acquired by Baylin in July 2018, 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.

### **Key Highlights**

Key highlights for the three months ended March 31, 2020 include the following:

- Although the coronavirus pandemic has affected the Company’s business, nevertheless, the Company and all its subsidiaries worldwide have remained open for business. In North America, we have been designated as an essential business, with our products supporting critical communications networks as well as vital government agencies, military companies, aerospace companies and public safety networks.
- Revenue was \$26.9 million in the first quarter of 2020, a decrease of \$12.1 million or 31.0% compared to the first quarter of 2019.

- Gross profit was \$8.6 million in the first quarter of 2020, a decrease of \$5.7 million or 40.0% compared to the first quarter of 2019. Gross margin was 31.9% in the first quarter of 2020, a decrease of approximately five percentage points compared to gross margin of 36.7% in the prior year period (see “Non-GAAP Measures” on page 2 of this MD&A).
- Adjusted EBITDA was \$0.6 million in the first quarter of 2020 compared to \$4.1 million in the first quarter of 2019 (see “Non-GAAP Measures” on page 2 of this MD&A).
- Net cash at March 31, 2020 decreased from December 31, 2019 primarily due to capital expenditures, debt servicing, cash taxes, offset by a decrease in non-cash working capital (see “Non-GAAP Measures” on page 2 of this MD&A).

## Recent Developments

### *Credit Agreement*

On June 8, 2020, the Company and its lenders agreed to make certain amendments to the Credit Agreement (see “Credit facilities” on page 12 of this MD&A). These included amendments to the financial covenants as follows:

- Senior Debt to EBITDA Ratio: (i) as at June 30, 2020 – no covenant; (ii) as at September 30, 2020 – 4.25:1.00; and, (iii) as at December 31, 2020 and at each fiscal quarter end thereafter – 3.00:1.00
- Fixed Charge Coverage Ratio: (i) as at June 30, 2020 – no covenant; (ii) as at September 30, 2020 – 1.00:1.00; and, (iii) as at December 31, 2020 and at each fiscal quarter end thereafter – 1.15:1.00

The Company also agreed: (i) to a minimum Adjusted EBITDA covenant for the twelve months ending June 30, 2020; (ii) to an increase of 0.5% in the rate of interest that would otherwise apply at any time the Senior Debt to EBITDA Ratio is more than 2.75:1.00; (iii) to an increase of 0.1% in the standby fee that would otherwise apply at any time the Senior Debt to EBITDA Ratio is more than 2.75:1.00; (iv) to a reduction of the revolving credit facility by \$2.0 million; and, (v) that the sum of: (a) the unused capacity available under the credit facilities, and (b) cash and cash equivalents, would be at all times greater than \$10.0 million until December 31, 2020.

The Lenders have waived compliance with the financial covenants as at March 31, 2020. The Company expects to be in compliance with the amended financial and other covenants for the remainder of 2020 and beyond.

As part of the amendments, the Company agreed (without the consent of the Lenders) not to pay more than \$100,000 in cash interest on each of the June 30, 2020 and December 31, 2020 interest payment dates for the Debentures (see “Convertible debentures” on page 13 of this MD&A) except in common shares of the Company or from the proceeds generated from the sale of common shares for that purpose. The amount of interest payable on the Debentures on each interest payment date is \$560,625. At June 16, 2020, the Company had commitments from: (i) holders of Debentures representing approximately 59% in principal amount of the Debentures to accept common shares in lieu of cash interest; and, (ii) insiders of the Company, including executives and senior management, to subscribe for approximately \$290,000 of common shares of the Company. In each case, the common shares will be priced at a 15% discount from the volume-weighted average price of the common shares on the TSX for the five trading days ending on June 29, 2020. All such shares, which will be listed on the TSX, will be subject to a four-month hold period before they can be freely traded. To the extent the Company has excess subscriptions on the June 30, 2020 interest payment date, they will be used to pay interest on the December 31, 2020 interest payment date.

The Lenders have also agreed that the scheduled principal repayments on the term loan on June 30, 2020 and September 30, 2020 may be deferred at the Company’s option.

### *Coronavirus*

The coronavirus (COVID-19) outbreak has been unsettling, however, despite the government shutdowns, the Company and all of its subsidiaries worldwide have remained open for business throughout the entire period to date. The Company’s two Quebec based manufacturing subsidiaries, Advantech Wireless Technologies Inc. (“Advantech”) and Alga Microwave Inc. (“Alga”), are considered “essential businesses” under the interim exceptional measures announced by the Quebec government. Advantech and Alga supply products to leading Canadian and American global communications companies, government agencies, military companies and various NATO countries.

The products made in the Quebec factory are also essential to critical infrastructure viability in the defence, media and telecommunications industries, including the CBC, a North American Tier 1 network carrier, a national cable news network and early warning radar systems. Additionally, Advantech and Alga supply products to leading global

providers of information and communication technology and the maintenance and operations of strategic global infrastructure.

The Company's US subsidiary, Galtronics USA, Inc., headquartered in Tempe, Arizona, has been designated as the provider of an "essential critical service" by a leading Tier 1 network carrier and as an "essential manufacturing supplier of critical components" for the US Department of Defense by a leading global aerospace and defence technology company. Galtronics supplies antennas that support a public safety network in the United States. This critical network ensures that first responders, public messaging, 911 communications and other critical communications remain functional.

The Company's operations in China have returned to full capacity and substantially all employees have now returned to work.

The Company's operations in Vietnam were not subject to any government restrictions during this period of time. However, the Vietnam government closed the International Airport in Hanoi which did impact the timing of the completion of the new Massive MIMO factory under construction.

In order to supply the critical products, the Company has taken a number of proactive and precautionary measures to protect the health and safety of our workers, customers and communities, including work from home whenever possible, temporary bans on travel, and self-isolation when required. The Company has had no reported cases of COVID-19 by any of its employees in any country.

In response to the economic and business challenges brought on by COVID-19, the Company completed a comprehensive assessment of its operations and costs to ensure it remains competitive. In addition to efficiencies implemented in the fourth quarter of 2019, the Company implemented a cost saving plan that is expected to reduce expenses by approximately \$6.5 million annually. One-third of the reduction was initially expected to be permanent, however, we now expect the permanent cost reductions will be closer to two thirds. The plan includes postponing or cancelling discretionary expenditures, reducing travel costs, freezing all non-essential hiring, deferring a portion of senior executives' salaries and temporary layoffs of a number of employees.

The Company filed for and received government stimulus related to COVID-19 relief including reduced corporate social insurance premiums in China, forgivable government loans in the United States under the Paycheck Protection Program, and wage subsidies in Canada under the Canada Emergency Wage Subsidy.

### ***New Orders***

In April and May 2020, the Company announced several significant purchase orders and supply agreements including:

- Advantech:
  - received over \$1.2 million in purchase orders for its Satcom frequency converters;
  - received an initial order of \$0.7 million for its high-power S-band solid state power amplifiers (SSPA);
- Alga:
  - signed supply agreements with global Tier 1 satellite and terrestrial telecommunications network providers to supply over \$5.0 million of its C-Band 5G Filters;
  - received a separate purchase order for over \$2.5 million of its C-Band 5G Filters.

### ***Best Quality Award Winner***

Galtronics recently received the best quality supplier award for the fourth quarter of 2019 from one of Asia Pacific's major customers in recognition of its innovation and outstanding performance.

## **OUTLOOK**

The Company expects to see a continuing improvement across its business lines during the remainder of the year as governments begin to lift restrictions on commercial activities, leading to higher expected revenue in each of the remaining quarters in 2020 compared to the first quarter of 2020. All of the Company's business lines have seen an increase in sales orders and planning for the second half of 2020 is very robust.

We continue to monitor the COVID-19 situation closely and are taking measures to mitigate the effect of the outbreak on our business. The Company has been able to continue its operations and shipments during this challenging period.

The end customers in each of our markets were challenged with the global lockdown, but within a month after the lockdown our customers responded with new priorities and even with important ways to improve wireless communications to assist in the fight of the pandemic. We benefited from this change and volumes returned quickly.

Asia Pacific was impacted the most due to the stark decline in global smartphone sales as a result of commercial store closures, however, Asia Pacific has a much-improved forecast due to pent up demand in its sector during the lockdown and the re-opening of cellular stores. Smartphone replacements and the upgrade market has returned.

The Wireless Infrastructure, Embedded Antenna, and Satcom groups' end markets were essential to support the explosive need for bandwidth and latency in the wireless network due to the move to working from home and other remote emergency needs. The Satcom group has seen a general move towards increased military spending in this segment.

The higher expected quarterly revenue combined with the expense reductions implemented in the third and fourth quarters of 2019 and the further expense reductions implemented in March 2020, are expected to result in improved profitability for the balance of the year. One third of the March 2020 annualized cost reductions of \$6.5 million were initially expected to be permanent, however, management now expects that the permanent cost reductions will be closer to two thirds.

The Massive MIMO Unit factory construction in Vietnam was delayed due to travel restrictions. Critical equipment suppliers could not finalize installations and equipment calibrations and customers' final manufacturing certification audits were postponed. The impact has pushed management's expectation for revenue to the fourth quarter of this year, contingent on the Vietnam airport opening on the currently scheduled date of July 1, 2020.

## SELECTED FINANCIAL INFORMATION

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

(in \$000's except per share amounts)

	Three Months Ended March 31,		Year Ended
	2020	2019	December 31,
	2020	2019	2019
	\$	\$	\$
Revenue	26,942	39,033	153,323
Gross profit	8,599	14,331	54,939
Loss before income taxes	(3,270)	(5,432)	(18,601)
Income tax expense (recovery)	(809)	469	1,013
Net loss	(2,461)	(5,901)	(19,614)
Basic and diluted net loss per share	(\$0.06)	(\$0.19)	(\$0.49)
EBITDA	(195)	3,029	(3,853)
Adjusted EBITDA (2019: revised to include non-cash compensation)	555	4,098	13,801
Current assets	64,963	78,337	64,293
Total assets	151,996	171,595	147,557
Current liabilities	63,732	44,950	36,848
Non-current liabilities	28,768	50,496	51,828
Total liabilities	92,500	95,446	88,676

## 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, duplexers, 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)

	<b>Three Months Ended March 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>Change</b>
	<b>\$</b>	<b>\$</b>	<b>%</b>
<b>Revenue</b>	<b>26,942</b>	<b>39,033</b>	<b>(31.0%)</b>
Cost of sales	18,343	24,702	(25.7%)
<b>Gross profit</b>	<b>8,599</b>	<b>14,331</b>	<b>(40.0%)</b>
Gross margin	31.9%	36.7%	

#### a) *Factors Affecting Revenue and Gross Profit*

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

*b) First Quarter of 2020 compared to First Quarter of 2019*

Revenue was \$26.9 million in the first quarter of 2020 compared to \$39.0 million in the first quarter of 2019, representing a decrease of \$12.1 million or 31.0%.

In the first quarter of 2019, Asia Pacific was awarded several "one-time" platforms from a major customer that were not expected to be repeated in the first quarter of 2020. Taking that into consideration, the vast majority of the remaining revenue shortfall in the first quarter of 2020 was due to the COVID-19 outbreak. The initial stages of the pandemic had a disruptive effect on each of the Company's lines of business in February and March: (i) Asia Pacific's revenue was impacted initially by supply chain shortages in China and then by lower consumer demand due to commercial store lockdowns in Europe and North America; (ii) Wireless Infrastructure and Embedded Antenna's revenues were impacted by delayed shipments in China during the government mandated extension of the Lunar New Year holiday; and, (iii) Satcom generated lower revenue due to less demand from its commercial customers, which was somewhat offset by strength of emergency services and military customers.

Gross profit was \$8.6 million in the first quarter of 2020, a decrease of \$5.7 million compared to the first quarter of 2019. Gross margin was 31.9% in the first quarter of 2020 compared to 36.7% in the first quarter of 2019. Gross margin was negatively impacted by the significant decrease of sales volumes in the first quarter of 2020. Asia Pacific's gross margin was lower than anticipated as the smartphones that were sold in the first quarter of 2020 were primarily less expensive models and the antennas in these models generate a lower gross margin than the flagship models.

***Selling and Marketing Expenses***

**(in \$000's)**

	<b>Three Months Ended March 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>Change</b>
	<b>\$</b>	<b>\$</b>	<b>%</b>
Payrolls	1,861	2,243	(17.0%)
Other	825	1,140	(27.6%)
<b>Total</b>	<b>2,686</b>	<b>3,383</b>	<b>(20.6%)</b>
As a percentage of revenue	10.0%	8.7%	

*a) Factors Affecting Selling and Marketing Expenses*

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

*b) First Quarter of 2020 compared to First Quarter of 2019*

The Company's selling and marketing expenses in the first quarter of 2020 were \$2.7 million (10.0% of revenue) compared to \$3.4 million (8.7% of revenue) in the first quarter of 2019. The decrease was primarily due to lower travel expenses in the first quarter of 2020 as a result of the Company's imposed travel restrictions, lower commissions as well as the impact of the cost reduction measures implemented in the third and fourth quarters of 2019.

## Research and Development Expenses

(in \$000's)

	Three Months Ended March 31,		
	2020	2019	Change
	\$	\$	%
Development costs	3,349	3,716	(9.9%)
Depreciation	79	108	(26.9%)
<b>Total</b>	<b>3,428</b>	<b>3,824</b>	<b>(10.4%)</b>
As a percentage of revenue	12.7%	9.8%	

### 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) First Quarter of 2020 compared to First Quarter of 2019

The Company's R&D expenses in the first quarter of 2020 were \$3.4 million (12.7% of revenue), representing a \$0.4 million decrease from the first quarter of 2019 which reported R&D expenses of \$3.8 million (9.8% of revenue). The decrease was mainly attributable to the impact of the cost reduction measures implemented in the third and fourth quarters of 2019.

## General and Administrative Expenses

(in \$000's)

	Three Months Ended March 31,		
	2020	2019	Change
	\$	\$	%
Payrolls	2,554	3,040	(16.0%)
Other	1,168	2,033	(42.5%)
Depreciation	646	557	16.0%
Amortization	1,308	1,197	9.3%
<b>Total</b>	<b>5,676</b>	<b>6,827</b>	<b>(16.9%)</b>
As a percentage of revenue	21.1%	17.5%	

### 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, professional fees, insurance, other corporate expenses and amortization of intangibles.

### b) First Quarter of 2020 compared to First Quarter of 2019

The Company's G&A expenses in the first quarter of 2020 were \$5.7 million (21.1% of revenue) compared to \$6.8 million (17.5% of revenue) in the first quarter of 2019. The decrease of \$1.2 million was primarily attributable to lower travel expenditures incurred in the first quarter of 2020 as a result of the Company's imposed travel restrictions as well as the impact of the cost reduction measures implemented in the third and fourth quarters of 2019.

### ***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 Income (Loss)**

(in \$000's)

	Three Months Ended March 31,		
	2020	2019	Change
	\$	\$	%
<b>Operating income (loss)</b>	<b>(3,215)</b>	<b>117</b>	<b>(2847.9%)</b>
Depreciation and amortization	3,020	2,912	3.7%
<b>EBITDA</b>	<b>(195)</b>	<b>3,029</b>	<b>(106.4%)</b>
Adjustments to EBITDA (2019: revised to include non-cash compensation)	750	1,069	(29.8%)
<b>Adjusted EBITDA</b>	<b>555</b>	<b>4,098</b>	<b>(86.5%)</b>

#### **Adjustments to EBITDA**

(in \$000's)

	Three Months Ended March 31,		
	2020	2019	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	290	504	(42.5%)
Expenses to permanently close/relocate a facility, shut down a line of business, eliminate positions	109	-	N/A
Corporate re-organization expenses	10	(19)	(152.6%)
Non-cash compensation	341	584	(41.6%)
<b>Total</b>	<b>750</b>	<b>1,069</b>	<b>(29.8%)</b>

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

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

#### *b) First Quarter of 2020 compared to First Quarter of 2019*

The Company's operating loss in the first quarter of 2020 was \$3.2 million compared to an operating income of \$0.1 million in the first quarter of 2019. Management considers that the operating loss in the first quarter of 2020 was primarily due to the lower revenue and gross margin somewhat offset by lower operating expenses.

Adjusted EBITDA in the first quarter of 2020 was \$0.6 million compared to \$4.1 million in the first quarter of 2019. Adjustments to EBITDA amounting to \$0.8 million in the first quarter of 2020 are detailed in the chart above.

## Net Loss

(in \$000's except per share amounts)

	Three Months Ended March 31,		
	2020	2019	Change
	\$	\$	%
Loss before income taxes	(3,270)	(5,432)	(39.8%)
Income tax expense (recovery)	(809)	469	(272.5%)
<b>Net loss</b>	<b>(2,461)</b>	<b>(5,901)</b>	<b>(58.3%)</b>
Basic and diluted net loss per share	(\$0.06)	(\$0.19)	

### a) Factors Affecting Net Loss

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

### b) First Quarter of 2020 compared to First Quarter of 2019

The Company's net loss in the first quarter of 2020 was \$2.5 million compared to the net loss of \$5.9 million in the first quarter of 2019. Management considers that the net loss in the first quarter of 2020 was primarily due to the operating loss noted above offset by a fair value adjustment to the Debentures. On a net loss per share basis, the first quarter of 2020 produced a net loss of \$0.06 per share, compared to the net loss of \$0.19 per share in the first quarter of 2019.

## SUMMARY OF QUARTERLY RESULTS

(in \$000's except per share amounts)

	Three Months Ended			
	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020
	\$	\$	\$	\$
Revenue	47,831	36,430	30,029	26,942
Gross profit	17,644	12,212	10,752	8,599
EBITDA	4,976	824	(12,682)	(195)
Adjusted EBITDA (2019: revised to include non-cash compensation)	6,121	1,442	2,140	555
Net income (loss)	1,654	(718)	(14,649)	(2,461)
Basic and diluted net income (loss) per share	\$0.04	(\$0.02)	(\$0.36)	(\$0.06)
Current assets	84,518	77,786	64,293	64,963
Total assets	179,103	173,457	147,557	151,996
Current liabilities	53,579	50,838	36,848	63,732
Total liabilities	105,091	100,138	88,676	92,500

(in \$000's except per share amounts)

	Three Months Ended			
	June 30, 2018	September 30, 2018	December 31, 2018	March 31, 2019
	\$	\$	\$	\$
Revenue	32,578	38,189	36,009	39,033
Gross profit	13,048	16,168	11,063	14,331
EBITDA	2,524	4,774	(2,522)	3,029
Adjusted EBITDA (2018 & 2019: revised to include non-cash compensation)	3,182	7,372	4,297	4,098
Net income (loss)	292	(1,799)	670	(5,901)
Basic and diluted net income (loss) per share	\$0.01	(\$0.05)	\$0.02	(\$0.19)
Current assets	55,500	78,777	79,937	78,337
Total assets	115,991	166,903	170,517	171,595
Current liabilities	26,431	33,328	35,077	44,950
Total liabilities	59,107	87,254	88,690	95,446

## 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 March 31, 2020	As at December 31, 2019
	\$	\$
Cash and cash equivalents	13,568	13,974
Less: Credit from banks	(12,061)	(10,874)
<b>Net Cash</b>	<b>1,508</b>	<b>3,101</b>

The Company had net cash at March 31, 2020 and December 31, 2019 of \$1.5 million and \$3.1 million, respectively. The decrease was primarily due to capital expenditures, debt servicing, cash taxes, offset by a decrease 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 March 31, 2020, the Company's CCC was 87 days, compared to 89 days at December 31, 2019.

During the three months ended March 31, 2020, non-cash working capital decreased by \$1.2 million. Management considers that the decrease was primarily due to the following factors:

- a) Trade payables and other liabilities as at March 31, 2020 were \$24.7 million compared to \$20.3 million as at December 31, 2019. The increase was mainly attributable to an extension in days payable outstanding in the first quarter of 2020.
- b) Other current assets as at March 31, 2020 were \$9.0 million compared to \$9.8 million as at December 31, 2019. The decrease was primarily due to less prepaid expenses incurred in the first quarter of 2020.
- c) Trade receivables as at March 31, 2020 were \$21.3 million compared to \$19.4 million as at December 31, 2019. The increase was mainly due to higher sales volumes of Infrastructure products in the latter portion of the first quarter of 2020.

### *Commitments for capital expenditures*

As at March 31, 2020, the Company had made commitments to purchase approximately \$3.0 million of equipment for the Company's manufacturing facility in Vietnam.

### *Credit facilities*

As at March 31, 2020, 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 two years. As for the bank credit in China, there is a staggered renewal schedule, with each of its three tranches renewable in April, May and June of every year. 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 March 31, 2020, the Company had access to approximately \$24.1 million of Credit Facilities of which \$12.1 million was drawn and 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 March 31, 2020, \$12.1 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 March 31, 2020, the interest rate on the Revolving Facility was 5.50% on United States Dollar advances and 4.20% per annum on Canadian Dollar advances and 3.75% 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 1.75:1.00 and 0.55% per annum if the Company’s senior debt to EBITDA ratio is equal to or greater than 1.75:1.00. 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 discussed above, the Credit Agreement has been amended.

#### *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 \$29.8 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 \$1.1 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 March 31, 2020, the interest rate on the Term Loan was 4.25% 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 discussed above, the Credit Agreement has been amended.

#### *Convertible debentures*

On July 10, 2018, the Company issued \$17.25 million of extendible convertible unsecured debentures (the “Debentures”). The Debentures bear interest at a rate of 6.5% per annum, payable in arrears semi-annually on June 30 and December 31 of each year and mature on July 10, 2023 (the “Maturity Date”). The Company has offered holders of the Debentures the option to receive common shares as an alternative to cash as payment of interest due for the interest

payment date on June 30, 2020. Holders who exercise the option will receive common shares at 85% of their current market price on the June 30, 2020 interest payment date. The shares will be subject to a restriction on resale for a period of four months after that 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 under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## **SHARE-BASED PAYMENTS**

### *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; or (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 following table lists the number of DSUs outstanding as at March 31, 2020 and March 31, 2019:

	<u>Number of DSUs</u>	<u>Weighted Average Price</u>
DSUs outstanding as at January 1, 2020	395,449	\$2.51
DSUs granted during 2020	48,785	\$1.66
DSUs redeemed during 2020	(52,759)	\$2.10
DSUs outstanding as at March 31, 2020	<u>391,475</u>	<u>\$2.46</u>
	<u>Number of DSUs</u>	<u>Weighted Average Price</u>
DSUs outstanding as at January 1, 2019	325,418	\$2.43
DSUs granted during 2019	11,525	\$4.12
DSUs outstanding as at March 31, 2019	<u>336,943</u>	<u>\$2.49</u>

The Company recognized a DSU expense of \$0.1 million during the three months ended March 31, 2020, which was included in G&A expenses.

#### *Stock Option Grants*

The Company's stock option plan (the "Stock Option Plan") was adopted to provide the board of directors with the ability to grant stock options to directors, officers, employees and consultants of the Company (or its affiliates) as performance incentives. There are limitations on the number of common shares issuable under the Stock Option Plan (and all other security-based compensation arrangements), as well as limitations on the number common shares issuable to insiders (or their affiliates). At the time of granting a stock option, the board of directors must approve: (i) the exercise price, being not less than the market value of the common shares; (ii) the vesting provisions, generally being over three to five years with an equal number of common shares vesting on each anniversary of the grant date, and (iii) the expiry date, generally being no more than seven years after the grant date.

The table below summarizes grants made under the Stock Option Plan as at March 31, 2020:

Options grant date	Options granted	Exercise price	Options expiry date	Options vested as at:		Options	Options	Options	Outstanding
				March 31, 2020	December 31, 2019	exercised as at: March 31, 2020	expired as at: March 31, 2020	surrendered as at: March 31, 2020	options as at: March 31, 2020
Mar. 30, 2017	685,000	\$1.98	Mar. 30, 2022	540,000	456,666	-	145,000	290,000	250,000
Aug. 8, 2017	500,000	\$2.00	Aug. 8, 2022	333,333	333,333	-	-	-	500,000
Mar. 10, 2018	30,000	\$3.51	Mar. 10, 2023	10,000	10,000	-	-	-	30,000
May 17, 2018	275,000	\$3.34	May 17, 2023	81,666	81,666	-	43,334	21,666	210,000
May 22, 2018	25,000	\$3.34	May 22, 2023	5,000	5,000	-	25,000	-	-
Jul. 11, 2018	197,500	\$3.50	Jul. 11, 2023	39,500	39,500	-	-	-	197,500
Nov. 9, 2018	250,000	\$3.84	Nov. 9, 2023	83,333	83,333	-	-	-	250,000
Mar. 25, 2019	325,000	\$3.89	Mar. 25, 2024	35,000	-	-	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
	<u>2,617,500</u>			<u>1,127,832</u>	<u>1,009,498</u>	-	<u>363,334</u>	<u>311,666</u>	<u>1,942,500</u>

The Company recognized a stock option expense of \$0.2 million during the three months ended March 31, 2020, which was included in G&A expenses.

### *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. The Company did not recognize an expense for the three months ended March 31, 2020 and for the three months ended March 31, 2019 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. 50% of the common shares vest 12 months subsequent to the date of grant and 50% vest 24 months subsequent to the date of the grant. The Company recognized less than \$0.1 million in G&A expenses for the three months ended March 31, 2020 and March 31, 2019, respectively.

In February 2019, the Company issued an additional 64,863 shares and recognized \$0.3 million in G&A expenses for the three months ended March 31, 2019 under the ESCP.

In March 2019, the Company issued 64,263 restricted common shares of which 50% vest 12 months subsequent to the date of grant and 50% vest 24 months subsequent to the date of grant. The Company recognized less than \$0.1 million in G&A expenses for the three months ended March 31, 2020 in terms of the ESCP.

## **OFF-BALANCE SHEET ARRANGEMENTS**

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

## **TRANSACTIONS WITH RELATED PARTIES**

### *Advantech Wireless Inc.*

In January 2018, the Company acquired the Advantech Wireless line of business from Advantech Wireless Inc. (now known as SpaceBridge Inc.) (the “Advantech Vendor”), which is owned and controlled by David Gelerman (the “Advantech Acquisition”).

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.

In connection with the Advantech Acquisition, the Company entered into a consulting agreement with the Advantech Vendor pursuant to which the Advantech Vendor agreed to provide the services of its principals (David and Stella Gelerman) for two years following the closing. In consideration for these services, the Advantech Vendor was entitled to receive a fee of \$2.5 million, payable in cash and common shares. \$0.2 million was recognized in G&A expenses for the three months ended March 31, 2019.

During the three months ended March 31, 2020, the Advantech Vendor and certain of its affiliates acted as agent for the Company making less than \$0.1 million in cash payments on its behalf. As at March 31, 2020, \$2.5 million due to the Company was included in trade receivables and \$1.5 million due to the agent was included in account payables and accrued liabilities.

The Company did not provide services to SpaceBridge Inc. or its affiliates during the three months ended March 31, 2020 and provided \$0.4 million during the three months ended March 31, 2019. As of March 31, 2020 and December 31, 2019, \$0.4 million was included within trade receivables.

### *Alga*

In connection with the acquisition of Alga Microwave, Michael Perelshtein, an Alga Microwave employee, 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 2019 and 2020. The revenue target was not met in 2019.

For the three months ended March 31, 2020 and the three months ended March 31, 2019, less than \$0.1 million was recognized in revenue for premises leased to a company partly owned by Michael Perelshtein.

#### *Executive officer remuneration*

Short-term benefits, pension and post-retirement benefits of the executive officers of the Company amounted to \$1.6 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.

#### *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 three months ended March 31, 2020, the Company paid \$25,000 to Mr. Royer under this agreement. In March 2020, Mr. Royer agreed to forego the fee for an unspecified period.

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 a 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 was made, the Advantech Vendor filed an application for relief from forfeiture to have the payment 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 claiming damages against the Advantech Vendor for various breaches of the asset purchase agreement for 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. It 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 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 director and the set-off shares must be released. The Company has appealed the ruling.

In the first quarter of 2020, the Advantech Vendor filed a statement of claim claiming damages against the Company for various breaches of the asset purchase and other agreements related to the Advantech Acquisition. These claims include the multiple indemnity claims previously made by the Advantech Vendor as well as additional claims for breach of an agreement governing transitional services following the Advantech Acquisition.

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 \$1,000 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. Accordingly, no provision has been recorded in respect of the claim.

## **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 30% and 39% of revenue, directly and indirectly, from the Company's largest customer and its subcontractors for the three months ended March 31, 2020 and March 31, 2019, 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 the 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 1,942,500 common shares were outstanding and options to purchase up to an additional 2,083,390 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 March 31, 2020.

No significant changes in the Company's internal controls over financial reporting occurred during the three months ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

### **Disclosure Controls and Procedures**

Management is also responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's President and Chief Executive Officer and Chief Financial Officer have each evaluated the design of the Company's disclosure controls and procedures as at March 31, 2020 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 under the Company's profile on SEDAR at [www.sedar.com](http://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 under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com).