



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

For the Three and Nine Months Ended September 30, 2020

Dated November 11, 2020

Baylin Technologies Inc.

Management’s Discussion and Analysis of Financial Condition and Results of Operations For the Three and Nine Months Ended September 30, 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 November 11, 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 and nine months ended September 30, 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 November 11, 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. 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. 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:
 - 1) days sales outstanding, plus;
 - 2) days of inventory outstanding, less;
 - 3) 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 September 30, 2020 include the following:

- Second consecutive quarter over quarter improvement in revenue, gross profit, EBITDA and Adjusted EBITDA.
- The decrease in gross margin in the third quarter of 2020 compared to the second quarter of 2020 was due to product mix.

	(in \$000's)		
	Three Months Ended		
	September 30, 2020	June 30, 2020	March 31, 2020
	\$	\$	\$
Revenue	36,577	30,629	26,942
<i>% Increase</i>	<i>19.4%</i>	<i>13.7%</i>	
Gross profit	10,399	9,678	8,599
<i>% of Revenue</i>	<i>28.4%</i>	<i>31.6%</i>	<i>31.9%</i>
EBITDA ⁽¹⁾	2,278	1,905	(195)
Adjusted EBITDA ⁽²⁾	3,582	2,658	555

- Continued reduction in operating expenses. Operating expenses in the third quarter of 2020 decreased by \$3.3 million compared to the third quarter of 2019.
- Net cash as at September 30, 2020 decreased from December 31, 2019 due to ongoing capital expenditures to complete the new facility in Vietnam, debt servicing and cash taxes, offset by a decrease in non-cash working capital (see “Non-GAAP Measures” on page 2 of this MD&A).

Recent Developments

Revenue and EBITDA have increased quarter-over-quarter in 2020. We have continued to feel the impact of the coronavirus (COVID-19) pandemic in our margins and sales mix. In particular, Infrastructure and Satcom sales volumes in the third quarter of 2020 were softer than expected with Asia Pacific revenue surpassing the third quarter expectations. COVID-19 impacted Infrastructure revenue with the delays in small cell site approvals due to municipality shutdowns and slower than expected services. Additionally, the 5G C-band spectrum auction delay impacted both Infrastructure and Satcom revenue. We continue to experience delays in the completion of the Massive MIMO (MMU) factory in Vietnam, but recently we have the chamber specialist scheduled to go to the facility in the first quarter of 2021 to finish the final calibration.

Management is continuing to focus on securing new long-term contracts and reducing costs in order to drive profitability. The cost reduction initiatives implemented over the last year have resulted in reduced expenses of approximately \$10 million. In the third quarter of 2020, operating expenses were \$3.3 million lower than the third quarter of 2019. Management expects to implement further operating expense reductions over the next four quarters which should show improvements in financial performance in the fourth quarter of 2020 and through 2021.

OUTLOOK

The Embedded Antenna business line is expected to continue to perform well with gross margin expected to improve in the first quarter of 2021 due to a capital investment which will automate a portion of the manufacturing process of one of its highest volume products. The increase in consumer demand for Wi-Fi 6 products coupled with recent large platform wins in this market have this division expecting growth for 2021. Furthermore, we have moved into the automotive antenna market, resulting in two long-term automotive contracts that are expected to start in mid-2021.

The Satcom business line has seen a significant increase in military proposals and contract wins to new and existing customers for large opportunities that are expected to commence shipments in early 2021. The launch of our new Summit Series II has achieved early success and our first system is expected to be delivered in the first quarter of 2021 with other awards to be delivered afterwards.

The Company has seen continuing financial improvements across its business lines, however, there remains uncertainty due to the COVID-19 pandemic. The Asia Pacific business line had a very strong third quarter of 2020, however, the COVID-19 lockdowns in Europe in the fourth quarter of 2020 have impacted cellular stores, resulting in a decline in the order book for this quarter.

Although COVID-19 is continuing to have an impact on financial results in the fourth quarter of 2020 which will likely result in a softer quarter than the third quarter of 2020, we nevertheless expect the financial performance in the second half of 2020 to be better than the first half.

Year to date, the Wireless Infrastructure business line has been impacted from COVID-19. While activity with customers has been steadily improving, with a lot of planning for 2021 taking place, it is causing some delays in product deliveries in the fourth quarter of 2020. The outlook for 2021 with this business line has improved significantly for three major reasons:

- 1) The new 5G spectrum auction will be concluded by the U.S. Federal Communications Commission in December 2020;
- 2) 2020 projects that were delayed but are now scheduled for 2021; and,
- 3) The new carrier supplier status win for small cells for which revenue is expected to commence in the first quarter of 2021.

The recent development of the chamber specialist scheduled to start the final commissioning at the new Vietnam factory in the first quarter of 2021 could put us on track to commence operations in the second quarter of 2021. Although MMU industry volumes were affected by COVID-19 and the delayed C-band auction in the U.S., it is expected that volumes will recover to historic highs starting in the second half of 2021.

To summarize, while the impact of the COVID-19 pandemic is expected to create near-term volatility in our business, particularly the fourth quarter of 2020, the long-term outlook for Baylin is robust:

- **Wi-Fi 6** | Next generation Wi-Fi 6 brings new technology, and therefore has expanded our opportunities with existing and new customers. Additionally, we have secured automotive contracts with two key OEMs and we expect these long-life programs to begin volume production in the second half of 2021. Combined, these wins should accelerate organic growth of our Embedded Antenna products.
- **5G and C-Band** | The reallocation of C-band from satellite operators to telecom providers towards 5G spectrum is driving an unprecedented product refresh across both Satcom (C-band filters) and Infrastructure (small cell, base station and distributed antenna systems).
- **Small Cell** | While small cell deployments stalled in the U.S. due to COVID-19, this industry is expected to trend steadily upward beginning in 2021 through to 2025. Now, having secured a second large carrier, we expect our Infrastructure products to enjoy more robust growth and less volatility in deployments.
- **Base Station** | After years of investment and an expanding product portfolio, our base station product group continues to gain significant traction with customers.
- **Satcom** | Our Summit II Solid State Power Amplifier (SSPA) system continues to drive new opportunities:
 - A previously announced 5G backhaul program is expected to move into volume production beginning in 2021;
 - A recently announced multi-year agreement to supply a major system integrator is likewise expected to move into volume production beginning in 2021;
 - Finally, new low-earth orbit (LEO) constellations are being deployed by several large global players. These constellations will require a significant investment in new technologically advanced ground infrastructure, for which our Summit II SSPA is well suited.
- **MMU** | Due to COVID-19, many field operations for MMU deployments were shut down completely by many governments in 2020. A recent study from Allied Market Research forecasts a robust 35% CAGR from US\$1.9 billion in 2020 to US\$15.8 billion in 2027.

SELECTED FINANCIAL INFORMATION

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

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

	Three Months Ended		Nine Months Ended		Year Ended
	2020	2019	2020	2019	2019
	\$	\$	\$	\$	\$
Revenue	36,577	36,430	94,148	123,294	153,323
Gross profit	10,399	12,212	28,676	44,187	54,939
Loss before income taxes	(2,169)	(567)	(9,529)	(4,379)	(18,601)
Income tax expense (recovery)	(1,804)	151	(1,996)	586	1,013
Net loss	(365)	(718)	(7,533)	(4,965)	(19,614)
Basic and diluted net loss per share	(\$0.01)	(\$0.02)	(\$0.18)	(\$0.12)	(\$0.49)
EBITDA	2,278	824	3,988	8,829	(3,853)
Adjusted EBITDA (2019: revised to include non-cash compensation)	3,582	1,442	6,795	11,661	13,801
Current assets	67,860	77,786	67,860	77,786	64,293
Total assets	151,292	173,457	151,292	173,457	147,557
Current liabilities	48,110	50,838	48,110	50,838	36,848
Non-current liabilities	49,146	49,300	49,146	49,300	51,828
Total liabilities	97,256	100,138	97,256	100,138	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, solid state power blocks and block up converters); (ii) Gallium arsenide 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)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
	\$	\$	%	\$	\$	%
Revenue	36,577	36,430	0.4%	94,148	123,294	(23.6%)
Cost of sales	26,178	24,218	8.1%	65,472	79,107	(17.2%)
Gross profit	10,399	12,212	(14.8%)	28,676	44,187	(35.1%)
Gross margin	28.4%	33.5%		30.5%	35.8%	

a) Factors Affecting Revenue and Gross Profit

Revenue is derived from the sale of wireless communications 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) Fiscal 2020 compared to Fiscal 2019

Revenue was \$36.6 million in the third quarter of 2020 compared to \$36.4 million in the third quarter of 2019, representing an increase of \$0.2 million or 0.4%. Asia Pacific revenue saw a significant increase in the third quarter of 2020, which was primarily due to the overall recovery in global smartphone sales as a result of commercial cellular stores re-openings across North America and Europe starting in May 2020.

Revenue for the nine months ended September 30, 2020 was \$94.1 million compared to \$123.3 million for the nine months ended September 30, 2019, representing a decrease of \$29.2 million or 23.6%. In the first and second quarters of 2019, Asia Pacific was awarded several "one-time" platforms from a major customer that were not expected to be repeated in 2020. Taking that into consideration, the vast majority of the remaining revenue shortfall in the nine months ended September 30, 2020 was due to the COVID-19 pandemic.

Gross profit was \$10.4 million in the third quarter of 2020, a decrease of \$1.8 million or 14.8% compared to the third quarter of 2019. Gross margin was 28.4% in the third quarter of 2020 compared to 33.5% in the third quarter of 2019. Gross margin was negatively impacted in the third quarter of 2020 by sales mix – Asia Pacific revenue as a percentage of total revenue was higher than anticipated and its products generate lower gross margin than the other product lines.

Gross profit was \$28.7 million, or 30.5% of revenue, for the nine months ended September 30, 2020 compared to \$44.2 million, or 35.8% of revenue, for the nine months ended September 30, 2019. Gross margin in the nine months ended September 30, 2020 was impacted by the overall decrease of sales volumes across the Company's business lines and the product mix factor noted above.

Selling and Marketing Expenses

(in \$000's)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
	\$	\$	%	\$	\$	%
Payrolls	1,854	2,259	(17.9%)	5,303	6,776	(21.7%)
Other	633	1,439	(56.0%)	2,193	4,340	(49.5%)
Total	2,487	3,698	(32.7%)	7,496	11,116	(32.6%)
As a percentage of revenue	6.8%	10.2%		8.0%	9.0%	

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 2020 compared to Fiscal 2019

The Company's selling and marketing expenses in the third quarter of 2020 were \$2.5 million (6.8% of revenue) compared to \$3.7 million (10.2% of revenue) in the third quarter of 2019. The decrease was primarily due to lower travel expenditures incurred in the third quarter of 2020 as a result of the Company's imposed travel restrictions, lower sales commissions, as well as the impact of the cost reduction measures implemented in the third and fourth quarters of 2019 and the first half of 2020.

The Company's selling and marketing expenses for the nine months ended September 30, 2020 were \$7.5 million compared to \$11.1 million for the nine months ended September 30, 2019. The decrease was due to the reasons noted above, as well as government stimulus received relating 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.

Research and Development Expenses

(in \$000's)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
	\$	\$	%	\$	\$	%
Development costs	2,949	4,318	(31.7%)	8,876	12,865	(31.0%)
Depreciation	98	79	24.1%	277	306	(9.5%)
Total	3,047	4,397	(30.7%)	9,153	13,171	(30.5%)
As a percentage of revenue	8.3%	12.1%		9.7%	10.7%	

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 2020 compared to Fiscal 2019

The Company's R&D expenses in the third quarter of 2020 were \$3.0 million (8.3% of revenue), a decrease of \$1.4 million from the third quarter of 2019 which reported R&D expenses of \$4.4 million (12.1% of revenue).

The decrease was mainly attributable to the impact of the cost reduction measures implemented in the third and fourth quarters of 2019 and the first half of 2020.

The Company's R&D expenses for the nine months ended September 30, 2020 were \$9.2 million compared to \$13.2 million for the nine months ended September 30, 2019. The decrease was due to the reasons noted above, as well as government stimulus received relating to COVID-19 relief.

General and Administrative Expenses

(in \$000's)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
	\$	\$	%	\$	\$	%
Payrolls	2,186	2,872	(23.9%)	6,800	9,354	(27.3%)
Other	1,481	1,154	28.3%	4,467	4,664	(4.2%)
Depreciation	631	618	2.1%	1,956	1,775	10.2%
Amortization	1,301	1,373	(5.2%)	3,910	4,172	(6.3%)
Total	5,599	6,017	(6.9%)	17,133	19,965	(14.2%)
As a percentage of revenue	15.3%	16.5%		18.2%	16.2%	

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) Fiscal 2020 compared to Fiscal 2019

The Company's G&A expenses in the third quarter of 2020 were \$5.6 million (15.3% of revenue) compared to \$6.0 million (16.5% of revenue) in the third quarter of 2019. The decrease was primarily attributable to lower travel expenditures in the third 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 and the first half of 2020.

The Company's G&A expenses for the nine months ended September 30, 2020 were \$17.1 million compared to \$20.0 million for the nine months ended September 30, 2019. The decrease was due to the reasons noted above, as well as government stimulus received relating to COVID-19 relief.

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)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
	\$	\$	%	\$	\$	%
Operating loss	(758)	(2,259)	(66.4%)	(5,177)	(604)	757.1%
Depreciation and amortization	3,036	3,083	(1.5%)	9,165	9,433	(2.8%)
EBITDA	2,278	824	176.5%	3,988	8,829	(54.8%)
Adjustments to EBITDA	1,304	618	111.0%	2,807	2,832	(0.9%)
Adjusted EBITDA (2019: revised to include non-cash compensation)	3,582	1,442	148.4%	6,795	11,661	(41.7%)

Adjustments to EBITDA

(in \$000's)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	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	159	324	(50.9%)	578	1,039	(44.4%)
Expenses to permanently close/relocate a facility, shut down a line of business, eliminate positions	662	5	13140.0%	1,086	451	140.8%
Corporate re-organization expenses	22	70	(68.6%)	120	156	(23.1%)
Non-cash compensation	461	219	110.5%	1,023	1,186	(13.7%)
Total	1,304	618	111.0%	2,807	2,832	(0.9%)

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

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

b) *Fiscal 2020 compared to Fiscal 2019*

The Company's operating loss in the third quarter of 2020 was \$0.8 million compared to the operating loss of \$2.3 million in the third quarter of 2019.

Adjusted EBITDA in the third quarter of 2020 was \$3.6 million compared to \$1.4 million in the third quarter of 2019. Adjustments to EBITDA amounting to \$1.3 million in the third quarter of 2020 are detailed in the chart above.

The Company's operating loss for the nine months ended September 30, 2020 was \$5.2 million compared to the operating loss of \$0.6 million for the nine months ended September 30, 2019. The operating loss in the nine months ended September 30, 2020 was primarily due to lower revenue and gross margin somewhat offset by lower operating expenses.

Adjusted EBITDA for the nine months ended September 30, 2020 was \$6.8 million compared to \$11.7 million for the nine months ended September 30, 2019. Adjustments to EBITDA amounting to \$2.8 million in the nine months ended September 30, 2020 are detailed in the chart above.

Net Loss

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
	\$	\$	%	\$	\$	%
Loss before income taxes	(2,169)	(567)	282.5%	(9,529)	(4,379)	117.6%
Income tax expense (recovery)	(1,804)	151	(1294.7%)	(1,996)	586	(440.6%)
Net loss	(365)	(718)	(49.2%)	(7,533)	(4,965)	51.7%
Basic and diluted net loss per share	(\$0.01)	(\$0.02)		(\$0.18)	(\$0.12)	

a) *Factors Affecting Net Loss*

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

b) *Fiscal 2020 compared to Fiscal 2019*

The Company's net loss in the third quarter of 2020 was \$0.4 million compared to the net loss of \$0.7 million in the third quarter of 2019. On a per share basis, the third quarter of 2020 produced a net loss of \$0.01 per share compared to a net loss of \$0.02 per share in the third quarter of 2019.

The Company's net loss for the nine months ended September 30, 2020 was \$7.5 million compared to the net loss of \$5.0 million for the nine months ended September 30, 2019. The net loss in the nine months ended September 30, 2020 was primarily due to the operating loss and adjustments to EBITDA noted above, offset by a recovery of income tax. On a per share basis, the nine months ended September 30, 2020 generated a net loss of \$0.18 per share compared to a net loss of \$0.12 per share for the nine months ended September 30, 2019.

SUMMARY OF QUARTERLY RESULTS

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

	Three Months Ended			
	December 31, 2019	March 31, 2020	June 30, 2020	September 30, 2020
	\$	\$	\$	\$
Revenue	30,029	26,942	30,629	36,577
Gross profit	10,752	8,599	9,678	10,399
EBITDA	(12,682)	(195)	1,905	2,278
Adjusted EBITDA (2019: revised to include non-cash compensation)	2,140	555	2,658	3,582
Net loss	(14,649)	(2,461)	(4,707)	(365)
Basic and diluted net loss per share	(\$0.36)	(\$0.06)	(\$0.12)	(\$0.01)
Current assets	64,293	64,963	68,535	67,860
Total assets	147,557	151,996	152,011	151,292
Current liabilities	36,848	63,732	45,307	48,110
Total liabilities	88,676	92,500	97,496	97,256

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

	Three Months Ended			
	December 31, 2018	March 31, 2019	June 30, 2019	September 30, 2019
	\$	\$	\$	\$
Revenue	36,009	39,033	47,831	36,430
Gross profit	11,063	14,331	17,644	12,212
EBITDA	(2,522)	3,029	4,976	824
Adjusted EBITDA (2018 & 2019: revised to include non-cash compensation)	4,297	4,098	6,121	1,442
Net income (loss)	670	(5,901)	1,654	(718)
Basic and diluted net income (loss) per share	\$0.02	(\$0.19)	\$0.04	(\$0.02)
Current assets	79,937	78,337	84,518	77,786
Total assets	170,517	171,595	179,103	173,457
Current liabilities	35,077	44,950	53,579	50,838
Total liabilities	88,690	95,446	105,091	100,138

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 September 30, 2020	As at December 31, 2019
	\$	\$
Cash and cash equivalents	14,855	13,974
Less: Credit from banks	(13,496)	(10,874)
Net Cash	1,359	3,101

The Company had net cash at September 30, 2020 and December 31, 2019 of \$1.4 million and \$3.1 million, respectively. The decrease was primarily due to capital expenditures, debt servicing and 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 could increase due to increased revenue, customer payment delays, increased inventory levels to meet additional demand, and/or paying suppliers more quickly. These changes increase the CCC, which in turn reduces the overall liquidity in the business. As at September 30, 2020, the Company’s CCC was 61 days, compared to 89 days at December 31, 2019.

During the nine months ended September 30, 2020, non-cash working capital decreased by \$5.3 million. Management considers that the decrease was primarily due to the following factors:

- a) Trade payables and accrued liabilities as at September 30, 2020 were \$29.0 million compared to \$20.3 million as at December 31, 2019. The increase was mainly attributable to higher production volumes in the third quarter of 2020.
- b) Other current assets as at September 30, 2020 were \$6.9 million compared to \$9.8 million as at December 31, 2019. The decrease was primarily due to lower due from government authorities and lower other receivables as at September 30, 2020.
- c) Trade receivables as at September 30, 2020 were \$25.7 million compared to \$19.4 million as at December 31, 2019. The increase was mainly due to higher sales volumes of Asia Pacific products in the latter portion of the third quarter of 2020.

Commitments for capital expenditures

As at September 30, 2020, the Company had made commitments to purchase approximately \$1.4 million of equipment for the Massive MIMO factory in Vietnam, and approximately \$1.0 million of equipment for all the other subsidiaries.

Credit facilities

As at September 30, 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 September 30, 2020, the Company’s aggregate Credit Facilities were \$21.5 million of which \$13.5 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 September 30, 2020, \$10.0 million was outstanding under the Revolving Facility. The availability of the Revolving Facility is based on the Company’s accounts receivables and inventory balances. The interest rate on the Revolving Facility is determined

based on the type of advance, the applicable margin and the Company's senior debt to EBITDA ratio and is payable monthly in arrears, as set out in the Credit Agreement. The Revolving Facility matures on March 29, 2022. 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 financial covenants including 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.

On June 8, 2020, the Company and the Lenders agreed to make certain amendments to the Credit Agreement including amendments to the fixed charge coverage ratio and senior debt to EBITDA ratio calculated at the end of each quarter, adding a minimum Adjusted EBITDA covenant for the trailing twelve months ending June 30, 2020, adding a minimum liquidity covenant until December 31, 2020, a reduction of \$2.0 million to the Revolving Facility, 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 and 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. The Lenders waived compliance with the financial covenants as at March 31, 2020.

As at September 30, 2020, the interest rate on the Revolving Facility was 6.00% on United States Dollar advances, 4.70% on Canadian Dollar advances and 3.40% on LIBO Rate advances. As at September 30, 2020, the standby fee on the undrawn portion of the Revolving Facility was 0.65% per annum.

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

On March 29, 2019, in connection with the Revolving Facility and pursuant to the Credit Agreement, the Lenders also established a term credit facility ("Term Loan") in favour of the Company for up to \$28.0 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 on 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. 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 financial covenants including 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.

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% until maturity on March 29, 2022.

On June 8, 2020, the Company and the Lenders agreed to make certain amendments to the Credit Agreement including amendments to the fixed charge coverage ratio and senior debt to EBITDA ratio calculated at the end of each quarter, adding a minimum Adjusted EBITDA covenant for the trailing twelve months ending June 30, 2020, adding a minimum liquidity covenant until December 31, 2020 and 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. As at September 30, 2020, the interest rate on the Term Loan was 3.47%. The Lenders waived compliance with the financial covenants as at March 31, 2020. The Lenders 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. The scheduled principal repayments on the Term Loan on June 30, 2020 and September 30, 2020 were deferred.

As at the date of this MD&A, the Company is in compliance with all of the covenants under the Credit Agreement.

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 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 exercised the option received common shares at 85% of their current market price on the June 30, 2020 interest payment 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.

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 September 30, 2020 and September 30, 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	137,545	\$1.24
DSUs redeemed during 2020	(52,759)	\$2.10
DSUs outstanding as at September 30, 2020	<u>480,235</u>	<u>\$2.20</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	43,506	\$3.51
DSUs outstanding as at September 30, 2019	<u>368,924</u>	<u>\$2.56</u>

The Company recognized a DSU expense of \$0.2 million during the nine months ended September 30, 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 September 30, 2020:

Options grant date	Options granted	Exercise price	Options expiry date	Options vested as at:		Options	Options	Options	Outstanding
				September 30, 2020	December 31, 2019	exercised as at: September 30, 2020	expired as at: September 30, 2020	surrendered as at: September 30, 2020	options as at: September 30, 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	500,000	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	110,000	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	65,000	39,500	-	35,000	-	162,500
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	90,000	-	-	-	-	270,000
Aug. 16, 2019	60,000	\$3.18	Aug. 16, 2024	20,000	-	-	-	-	60,000
	<u>2,617,500</u>			<u>1,458,333</u>	<u>1,009,498</u>	-	<u>398,334</u>	<u>311,666</u>	<u>1,907,500</u>

The Company recognized a stock option expense of \$0.5 million during the nine months ended September 30, 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 nine months ended September 30, 2020 and for the nine months ended September 30, 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 nine months ended September 30, 2020 and September 30, 2019, respectively.

In February 2019, the Company issued an additional 64,863 shares and recognized \$0.3 million in G&A expenses for the nine months ended September 30, 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 \$0.1 million in G&A expenses for the nine months ended September 30, 2020 and less than \$0.1 million for the nine months ended September 30, 2019.

Omnibus Equity Incentive Plan

On August 13, 2020, the shareholders of Baylin approved a new Omnibus Equity Incentive Plan (the “Omnibus Plan”). The Omnibus Plan is intended to provide additional flexibility to structure a wide variety of incentives to allow long-term compensation to be tied to performance-based vesting. The Omnibus Plan replaces the DSU Plan, Stock Option Plan and ESCP. The Omnibus Plan permits a variety of awards to be issued, including deferred share units (“DSUs”), performance share units (“PSUs”), restricted share units (“RSUs”) and stock options. Awards granted after August 13, 2020 will be governed by the Omnibus Plan. Existing awards will continue to be governed by the plan under which they were granted.

The Omnibus plan permits DSUs, PSUs and RSUs to be settled (i) in common shares issued from treasury; (ii) in common shares purchased in the market; (iii) in cash; or (iv) a combination of common shares and cash. Holders of stock options may exercise their options (i) by paying the option exercise price; or (ii) with the consent of Baylin, through a cashless exercise or by receiving a cash payment in lieu of shares. Vesting periods are determined in accordance with the Omnibus Plan at the time an award is granted.

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

Private Placement

On June 30, 2020, management and directors purchased 267,566 common shares through a private placement. The common shares were all issued at \$0.9259 per common share, representing 85% of the volume-weighted average price of the common shares on the Toronto Stock Exchange for the five trading days ended June 29, 2020. A portion of the proceeds were used by the Company to pay interest on the convertible debentures on the June 30, 2020 interest payment date. The remaining amount will be used to pay interest on the convertible debentures on the December 31, 2020 interest payment date.

Advantech Wireless Inc.

In January 2018, the Company acquired the Advantech Wireless line of business (the “Advantech Acquisition”) from Advantech Wireless Inc. (now known as SpaceBridge Inc. (the “Advantech Vendor”)), which is owned and controlled by David Gelerman, a director of the Company until April 3, 2020.

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. On June 1, 2020, the Advantech Vendor contested that the 2019 EBITDA targets were not met. The company is opposing the objection.

In connection with the Advantech Acquisition, the Advantech Vendor entered into a consulting agreement (the “Consulting Agreement”) with the Company payable in cash and common shares. \$0.5 million was recognized in G&A expenses for the nine months ended September 30, 2019.

During the nine months ended September 30, 2020, the Advantech Vendor and certain of its affiliates acted as agent for the Company. As at September 30, 2020, \$2.4 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.

The Company did not provide services to the Advantech Vendor or its affiliates during the nine months ended September 30, 2020 and September 30, 2019. As at September 30, 2020 and December 31, 2019, \$0.4 million was included within trade receivables.

Alga

For the nine months ended September 30, 2020 and September 30, 2019, \$0.1 million was recognized in revenue for premises leased to a company partly owned by Michael Perelshtein, an Alga Microwave employee.

Executive officer remuneration

Short-term benefits, pension and post-retirement benefits of the executive officers of the Company amounted to \$4.5 million. These amounts comprise of executive officers’ salary and benefits earned during the year, plus bonuses awarded for the year. The amounts also represent the estimated costs of providing defined benefit pensions and other post-retirement benefits to executive officers in respect of the current year of service.

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 nine months ended September 30, 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

The Company is both a plaintiff and defendant in various claims arising out of the Advantech Acquisition.

In October 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 \$5.6 million. The Advantech Vendor has filed statements of defence as well as statements of counterclaim totaling approximately \$1.6 million. In July 2019, the Advantech Vendor 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. The appeal is scheduled to be heard in December 2020.

In January 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 and the Consulting Agreement. The claims include loss of business opportunities, improper use of the Advantech Vendor's books and records, unpaid rent on premises subleased from the Advantech Vendor as part of the Advantech Acquisition, diminution in the value of Baylin common shares payable as part of the consulting fees under the Consulting Agreement and conversion of inventory after completion of the Advantech Acquisition. Where specified, the amount of damages claimed is at least \$7.2 million.

In the case of the Company's claims under the asset purchase agreement for breaches of representations related to working capital and closing inventory levels, documentary discovery is currently being conducted and oral discovery is expected to occur, once scheduled, in the first half of 2021. The Company is unable to determine at this time whether it will be entitled to recover or required to pay any amounts related to these legal proceedings.

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.

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 36% and 41% of revenue, directly and indirectly, from the Company's largest customer and its subcontractors for the nine months ended September 30, 2020 and September 30, 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, 40,882,313 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 1,907,500 common shares were outstanding and options to purchase up to an additional 2,180,731 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 September 30, 2020.

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

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.