MANAGEMENT'S DISCUSSION & ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the Three Months Ended March 31, 2022

Dated May 11, 2022

Baylin Technologies Inc.
Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three Months Ended March 31, 2022

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 May 11, 2022. 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, 2021 (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, 2022 (the "Interim Financial Statements" and, together with the Annual Financial Statements, 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 May 11, 2022, 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 INFORMATION AND STATEMENTS

This MD&A includes forward-looking information and forward-looking statements (together, "forward-looking statements") within the meaning of applicable securities laws. Forward-looking statements are not statements of historical fact. Rather, they are disclosure regarding conditions, developments, events or financial performance that we expect or anticipate may or will occur in the future, including, among other things, information or statements concerning our objectives and strategies to achieve those objectives, statements with respect to management's beliefs, estimates, intentions and plans, and statements concerning anticipated future circumstances, events, expectations, operations, performance or results. Forward-looking statements can be identified generally by the use of forward looking terminology, such as "anticipate", "believe", "could", "should", "would", "estimate", "expect", "forecast", "indicate", "intend", "likely", "may", "outlook", "plan", "potential", "project", "seek", "target", "trend" or "will" or the negative or other variations of these words or other comparable words or phrases and is intended to identify forward-looking statements, although not all forward-looking statements contain these words.

The forward-looking statements in this MD&A include statements regarding the outlook for our business, our financial condition and results of operations, as well as available liquidity. Forward-looking statements are based on various assumptions and estimates made by us in light of the experience and perception of historical trends, current conditions, expected future developments, including projected growth in sales of passive and active radio frequency products, satellite communications products, and supporting services, and other factors we believe are appropriate and reasonable in the circumstances, but there can be no assurance that such assumptions and estimates will prove to be correct.

Many factors could cause our actual results, level of activity, performance or achievements or future events or developments to differ materially from those expressed or implied by the forward-looking statements, including the risk factors discussed in the Company's most recent Annual Information Form, which is available under the Company's profile on SEDAR at www.sedar.com. All the forward-looking statements in this MD&A are qualified by these cautionary statements and other cautionary statements or factors in this MD&A. There can be no assurance that the actual results or developments will be realized or, even if substantially realized, will have the expected consequences to, or effects on, the Company. Unless required by applicable law, the Company does not intend and does not assume any obligation to update any forward-looking statements.

NON-IFRS MEASURES

This MD&A includes a number of measures that are not prescribed by IFRS and as such may not be comparable to similar measures presented by other companies. Management believes that these measures are commonly employed to measure performance in our 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 business activities. The measures we use are specifically defined where they are first used.

While management believes that non-IFRS measures provide 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 IFRS.

The non-IFRS measures presented in this MD&A are as follows:

i. "Net cash", which refers to cash and cash equivalents less revolving bank indebtedness;
ii. "Working capital", which refers to current assets less accounts payable and accrued liabilities;
iii. "Non-cash working capital", which refers to working capital less net cash;
iv. "Cash conversion cycle", which refers to the following in the most recently completed 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;
    b) Fair value step-up of inventory acquired as part of an acquisition;
    c) Expenses for litigation relating to acquisition agreements;
    d) Expenses relating to planned restructuring following an acquisition;
    e) Impairment of fixed and intangible assets (including goodwill) following an acquisition;
    f) Expenses to permanently close or relocate a facility, shut down a line of business, eliminate positions;
    g) Expenses relating to corporate re-organization; and,
    h) 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-IFRS measure to assist in evaluating productivity, efficiency, return on capital and forecasting operating performance.
viii. "Backlog", which refers to the value of unfulfilled purchase orders placed by customers.

    Management believes that backlog provides useful information to investors as a forward-looking indicator of anticipated revenue to be recognized upon fulfilment of the purchase orders. Backlog may be subject to change as a result of project accelerations, cancellations or delays due to various factors, any of which could cause revenue to be realized in periods and at levels different from originally anticipated. Additionally, the Company's method of calculating backlog may be different from methods used by other companies and, accordingly, may not be comparable to similar measures used by other companies.

OVERVIEW

Background

Baylin is a diversified global wireless technology company focused on research, design, development, manufacture and sale of passive and active radio frequency ("RF") products, satellite communications products, and supporting services. The Company's products are marketed and sold under the brand names of Galtronics, Advantech Wireless and Alga Microwave, and the Company's operations are conducted through subsidiaries.

The Galtronics line of business, established in 1978, designs and manufactures innovative wireless antenna solutions for customers' mobile, embedded, and infrastructure products, including distributed antenna systems ("DAS"), base station antennas ("BSA") and small cell needs.

The Satcom 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.

First Quarter Summary

- Revenue of $31.0 million in the first quarter of 2022, an increase of $7.5 million or 32.0% compared to the first quarter of 2021. The increase was mainly due to stronger sales across all the business lines despite chipset shortages and supply chain issues which continue to affect the Company. Revenue in the prior year period was negatively impacted by the COVID-19 pandemic, supply chain disruptions, and chipset shortages.

- Gross profit of $8.1 million in the first quarter of 2022, an increase of $4.5 million or 124.0% compared to the first quarter of 2021. Gross margin was 26.0% in the first quarter of 2022 compared to 15.3% in first quarter of 2021. Gross margin was mainly impacted by improved product mix attributable to both changes in pricing strategy and a data driven focus on contribution margin at the business line level. The increase in gross margin in the first quarter of 2022 included improved gross margins generated by: (i) the Asia Pacific business line including positive gross margin earned on the consumer facing product, which had earned a negative margin in the prior year period; (ii) the Satcom business line due to strong revenue recovery compared to the prior year period; and, (iii) growth in the Embedded Antenna business line.

- Adjusted EBITDA (see “Non-IFRS Measures” on page 2 of this MD&A) of $0.2 million in the first quarter of 2022, the second consecutive quarter of positive Adjusted EBITDA. Adjusted EBITDA in the first quarter of 2022 was an increase of $2.5 million compared to the first quarter of 2021. The increase in Adjusted EBITDA was primarily due to the overall increase in revenue and gross profit discussed above, partially offset by higher operating expenses. $1.9 million in government COVID-19 stimulus was received in the first quarter of 2021 and was accounted for as a reduction to cost of sales and operating expenses in that quarter. No funds were received in the first quarter of 2022, thereby showing a higher level of expenses on a relative basis.

- Backlog (see “Non-IFRS Measures” on page 2 of this MD&A) was $39.0 million at April 30, 2022 and $38.2 million at March 31, 2022 attributable to higher levels of backlog in the Satcom and Infrastructure business lines. Backlog at March 31, 2022 increased by $17.7 million or 86.2% from March 31, 2021 as a result of improved marketing, business development and sales activities.

- Net loss of $3.1 million in the first quarter of 2022 compared to net loss of $8.5 million in the first quarter of 2021. The net loss in the first quarter of 2022 was mainly due to an operating loss partially offset by an income tax recovery. On a per share basis, there was a net loss of $0.04 per share in the first quarter of 2022 compared to a net loss of $0.17 per share in the first quarter of 2021.

- Net cash (see “Non-IFRS Measures” on page 2 of this MD&A) was $2.3 million as at March 31, 2022, a decrease of $6.6 million from December 31, 2021, primarily due to an increase in non-cash working capital (see “Non-IFRS Measures” on page 2 of this MD&A), an operating loss and principal and interest payments.

RECENT DEVELOPMENTS

Product Development

During 2022 to date, we have made the following important announcements.

<u>Galtronics USA</u>

- achieved full approval by a Tier 1 North American carrier to sell its DAS, in-building, stadium and venue infrastructure products throughout the United States; Galtronics USA is now fully approved by all three of the largest US carriers for in-building installations;
- received a substantial purchase order (over $0.7 million) from a US carrier for its macro antennas to be used in the carrier’s LTE upgrade; these antennas are a comparatively lightweight solution that can support growing capacity and throughput requirements; and,
- received the first in a series of expected orders from a Smart City Solutions Provider, which has partnered with a Tier 1 US carrier to deploy our small cell antennas on streetlights to help accelerate the carrier’s 5G roll-out across the United States.

<u>Satcom</u>

- awarded a multi-year contract to supply SSPA (Solid State Power Amplifiers) systems to a US-based sports video broadcast company, which will be integrated into a fleet of hundreds of mobile satellite communications trucks for the purpose of broadcasting live sporting events;

- awarded a multi-year contract from a major Latin American customer to supply SSPAs for a military RADAR system; and,
- received a substantial purchase order from a major telecom operator for more than 100 SSPA systems and more than 100 frequency converters for a network that provides communications links between schools, post offices and other US state government facilities, many of which are in the rural United States.

Credit Facility

In March 2022, the Company and its lenders (Royal Bank of Canada and HSBC Bank Canada) agreed to amend the Credit Agreement (see “Credit from banks and loans” on page 13 of this MD&A) to extend the maturity date of the credit facilities from March 29, 2022 to September 30, 2022. This will provide the Company with additional time either to renew the existing credit facilities when they mature or to find alternative credit facilities. The Company is currently in discussions with several prospective lenders and advisors for that purpose.

MMU Facility

In March 2022, we announced that, as a result of the assessment of the long-term options for our massive multiple input multiple output product (“MMU”) facility in Vietnam, we determined to liquidate the assets of the facility and apply the sales proceeds in repayment of the Vietnam Loan (see “Credit from banks and loans” on page 13 of this MD&A). We are continuing to seek buyers for the equipment and tenants for the facility.

SELECTED FINANCIAL INFORMATION

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

(in $000's except per share amounts)

	Three Months Ended March 31,			
	2022	**2021**	**Change**	**Change**
	$	**$**	**$**	**%**
Revenue	30,974	23,460	7,514	32.0%
Gross profit	8,056	3,597	4,459	124.0%
Loss before income taxes	(3,877)	(8,444)	4,567	(54.1%)
Income tax expense (recovery)	(804)	18	(822)	(4566.7%)
Net loss	(3,073)	(8,462)	5,389	(63.7%)
Basic and diluted net loss per share	($0.04)	($0.17)	$0.13	(76.5%)
EBITDA*	(246)	(2,716)	2,470	(90.9%)
Adjusted EBITDA*	224	(2,257)	2,481	(109.9%)
Current assets	60,713	61,261	(548)	(0.9%)
Total assets	89,993	133,629	(43,636)	(32.7%)
Current liabilities	63,225	55,647	7,578	13.6%
Non-current liabilities	17,921	34,346	(16,425)	(47.8%)
Total liabilities	81,146	89,993	(8,847)	(9.8%)
Backlog*	38,216	20,529	17,687	86.2%

** EBITDA, Adjusted EBITDA and Backlog are non-IFRS measures that management uses to assess the Company’s business dynamics and operating performance (see “Non-IFRS Measures” on page 2 of this MD&A).*

OUTLOOK

Despite our improved financial performance in the first quarter of 2022, the Company’s business continues to face challenges brought about by the COVID-19 pandemic, in particular material shortages and increased material costs due to supply chain disruptions, which are causing delays in both productions and deliveries of our products as well as push-outs of orders from our customers. Although we expect these disruptions will begin to ease over the second half of 2022, the possibility remains that the ongoing war in Ukraine and COVID-related lockdowns in China could exacerbate supply chain disruptions in the near term. Despite these continuing challenges, we continue to expect that 2022 will show improvements in both revenue and Adjusted EBITDA over 2021.

We continue to monitor the war in Ukraine and its effect on our business. Although our direct exposure to customers in Russia and Ukraine is minimal, the conflict there may indirectly impact our business given the sanctions imposed on Russia, particularly in terms of supply chain and commodity prices. While it is difficult to definitively quantify the impact these sanctions will have on our business, thus far the impacts have been manageable.

Asia Pacific Business Line

We are continuing with our plan to conduct a review of Asia Pacific's product portfolio with a view to right-sizing its product mix. This product rationalization is intended to improve the contribution margin of this business line, even if it is at the expense of foregoing additional revenue. Nevertheless, we do expect stronger revenue growth over 2021.

Embedded Antenna Business Line

We expect the Embedded Antenna business line will continue to show considerable strength into the third quarter of 2022, with growth in both revenue and volume, due in part to demand from new customers for home networking products. This continues the increase in revenue and volume from the second half of 2021 and the first quarter of 2022, despite the significant global chipset shortage which impacted customers' build schedules and forecasts. The Embedded Antenna business line continues to demonstrate a strong order book despite supply chain challenges, although some of the strength may reflect pre-purchases by customers to build a supply of stock.

Wireless Infrastructure Business Line

The Wireless Infrastructure business line has achieved a historically high level of backlog as at April 30, 2022, which is expected to contribute to higher revenue in the first half of 2022 compared to the first half of 2021. We expect that DAS deployments will strengthen, particularly for use in stadiums and as people return to working in offices, throughout 2022. New Multibeam BSAs and new innovative small cell antennas from Galtronics will come to market in the second half of 2022, opening new opportunities to drive sales with wireless carriers.

Satcom Business Line

The commercial side of the Satcom business line has shown clear signs of recovery with capital spending by our commercial customers continuing the momentum seen in the fourth quarter of 2021. The C-band spectrum auction in the United States is starting to open up opportunities with satellite operators as they receive first incentive payments tied to the clearing of C-Band spectrum. Given the capital build cycles of these operators and others in the Satcom ecosystem, we continue to expect the benefit to the Satcom business line from the build-out of the related C-band infrastructure to begin in the second half of 2022.

We expect sales for military and other government-related uses, which represents the balance of Satcom business, to continue and potentially increase in late 2022 as many western countries have dramatically increased defense spending. Moreover, we expect to launch multiple technology upgrades within our product portfolio over the course of the year.

Overall, we expect revenue of the Satcom business line to be stronger in 2022 as certain industries make investments in technology upgrades needed for enhancing remote broadband capabilities. The Satcom business line continues to show a strong and growing order book but continues to face supply chain constraints, chipset shortages, and component delays.

DISCUSSION OF OPERATIONS

Description of Operations

<u>Galtronics</u>

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

a) The Asia Pacific business line 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 business line works with OEM customers to design and produce antennas for home networking devices (such as Wi-Fi routers and gateways), set-top boxes, 5G products and land mobile radio products. Embedded Antenna volumes are produced at the Company's plant in China.

c) The Wireless Infrastructure business line works with network carrier customers and other businesses to design and produce small cell system antennas, DAS and BSA that support wireless coverage and mobile data capacity requirements. Wireless Infrastructure volumes are produced at the Company's plant in China.

<u>*Satcom*</u>

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

a) The Advantech Wireless product line designs and manufactures customizable satellite RF and microwave products for highly specialized wireless communications markets, including:

- *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 and 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 product line 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.

At the end of the third quarter of 2021, we successfully integrated the Alga Microwave product line into the Advantech Wireless product line, although Alga Microwave branded products will remain in production to satisfy specific customer segments.

The combined 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 80 GHz passive RF components which include filters, diplexers and combiners/dividers.

Revenue and Gross Profit

(in $000's)

	Three Months Ended March 31,			
	2022	**2021**	**Change**	**Change**
	$	**$**	**$**	**%**
Revenue	**30,974**	**23,460**	**7,514**	**32.0%**
Cost of sales	22,918	19,863	3,055	15.4%
Gross profit	**8,056**	**3,597**	**4,459**	**124.0%**
Gross margin	26.0%	15.3%		

a) Factors affecting Revenue and Gross Profit

The Company's revenue is derived from the sale of wireless and satellite 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 satellite radio frequency and microwave products, such as amplifiers, converters, filters 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.

The Company's 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 2022 compared to First Quarter of 2021

The Company's revenue was $31.0 million in the first quarter of 2022 compared to $23.5 million in the first quarter of 2021, representing an increase of $7.5 million or 32.0%. The increase was primarily due to stronger sales across all the business lines despite chipset shortages and supply chain issues which continue to affect the Company. Revenue in the first quarter of 2021 was negatively impacted by the COVID-19 pandemic, supply chain disruptions and chipset shortages.

The Company's gross profit was $8.1 million in the first quarter of 2022, an increase of $4.5 million or 124.0% compared to the first quarter of 2021. Gross margin was 26.0% in the first quarter of 2022 compared to 15.3% in the first quarter of 2021. Gross margin was mainly impacted by improved product mix attributable to both changes in pricing strategy and a data driven focus on contribution margin at the business line level. The increase in gross margin in the first quarter of 2022 included improved gross margins generated by: (i) the Asia Pacific business line including positive gross margin earned on the consumer facing product, which had earned a negative margin in the prior year period; (ii) the Satcom business line due to strong revenue recovery compared to the prior year period; and, (iii) growth in the Embedded Antenna business line.

Selling and Marketing Expenses

(in $000's)

	Three Months Ended March 31,			
	2022	**2021**	**Change**	**Change**
	$	**$**	**$**	**%**
Payroll	1,270	1,596	(326)	(20.4%)
Other	569	497	72	14.5%
Total	**1,839**	**2,093**	**(254)**	**(12.1%)**
As a percentage of revenue	5.9%	8.9%		

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 2022 compared to First Quarter of 2021

The Company's selling and marketing expenses in the first quarter of 2022 were $1.8 million (5.9% of revenue) compared to $2.1 million (8.9% of revenue) in the first quarter of 2021. The decrease was primarily due to lower salary and benefits expenses as a result of lower headcount of salespeople, partially offset by higher sales commissions as a result of higher revenue in the first quarter of 2022.

Research and Development Expenses

(in $000's)

	Three Months Ended March 31,			
	2022	**2021**	**Change**	**Change**
	$	**$**	**$**	**%**
Development costs	3,066	2,986	80	2.7%
Depreciation	60	97	(37)	(38.1%)
Total	**3,126**	**3,083**	**43**	**1.4%**
As a percentage of revenue	10.1%	13.1%		

a) Factors affecting Research and Development Expenses

The Company's research and development ("R&D") expenses consist primarily of salaries, patent fees, product development costs and other related engineering expenses. The Company's technological design centres are located in South Korea, United States and Canada. The Company often incurs significant expenditures in the development of a new product without any assurance that its customers' system designers will ultimately select 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 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 2022 compared to First Quarter of 2021*

The Company's R&D expenses in the first quarter of 2022 were $3.1 million (10.1% of revenue) compared to $3.1 million (13.1% of revenue) in the first quarter of 2021. Development costs in the first quarter of 2022 remained largely consistent with the prior year period.

General and Administrative Expenses

(in $000's)

	Three Months Ended March 31,			
	2022	***2021**	**Change**	**Change**
	$	**$**	**$**	**%**
Payroll	1,917	1,907	10	0.5%
Other	2,246	280	1,966	702.1%
Depreciation	560	537	23	4.3%
Amortization	1,255	1,272	(17)	(1.3%)
Total	**5,978**	**3,996**	**1,982**	**49.6%**
As a percentage of revenue	19.3%	17.0%		

** The classifications within G&A expenses for the first quarter of 2021 have been revised to be comparable to the current year period.*

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 2022 compared to First Quarter of 2021*

The Company's G&A expenses in the first quarter of 2022 were $6.0 million (19.3% of revenue) compared to $4.0 million (17.0% of revenue) in the prior year period. The increase in G&A expenses was due primarily to $1.9 million of government stimulus received in the first quarter of 2021 relating to COVID-19 relief (see "Government Assistance Programs" on page 9 of this MD&A), a portion of which was recorded as a reduction of Other G&A expenses. The increase in Other G&A expenses was also due to increased fees for consulting, legal and other professional fees related to Credit Agreement extension.

Government Assistance Programs

(in $000's)

		Three Months Ended March 31,			
		2022	**2021**	**Change**	**Change**
		$	**$**	**$**	**%**
Canada Emergency Wage / Rent Subsidy	Canada	-	921	(921)	(100.0%)
Paycheck Protection Program	USA	-	938	(938)	(100.0%)
Total		**-**	**1,859**	**(1,859)**	**(100.0%)**

- *First Quarter of 2022 compared to First Quarter of 2021*

  The Company did not receive any government stimulus in the first quarter of 2022 relating to COVID-19 relief compared to $1.9 million received in the first quarter of 2021. All government stimulus received relating to COVID-19 relief were recorded as a reduction of cost of sales and operating expenses, respectively.

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA are non-IFRS measures that management uses to assess the Company's operating performance (see "Non-IFRS 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 March 31,			
	2022	**2021**	**Change**	**Change**
	$	**$**	**$**	**%**
Operating loss	**(2,887)**	**(5,575)**	**2,688**	**(48.2%)**
Depreciation and amortization	2,641	2,859	(218)	(7.6%)
EBITDA	**(246)**	**(2,716)**	**2,470**	**(90.9%)**
Adjustments to EBITDA	470	459	11	2.4%
Adjusted EBITDA	**224**	**(2,257)**	**2,481**	**(109.9%)**

Adjustments to EBITDA

(in $000's)

	Three Months Ended March 31,			
	2022	**2021**	**Change**	**Change**
	$	**$**	**$**	**%**
Expenses for litigation relating to acquisition agreements	94	138	(44)	(31.9%)
Expenses relating to planned restructuring following an acquisition	83	40	43	107.5%
Expenses to permanently close/relocate a facility, shut down a line of business, eliminate positions	45	111	(66)	(59.5%)
Corporate re-organization expenses	1	9	(8)	(88.9%)
Non-cash compensation	247	161	86	53.4%
Total	**470**	**459**	**11**	**2.4%**

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

   The Company's 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) *First Quarter of 2022 compared to First Quarter of 2021*

   The Company's operating loss in the first quarter of 2022 was $2.9 million compared to an operating loss of $5.6 million in the first quarter of 2021. The decrease in operating loss was mainly attributable to stronger revenue and gross margin, partially offset by higher operating expenses in the first quarter of 2022 compared to the prior year period. This is mainly because the Company did not receive any government stimulus in the first quarter of 2022 relating to COVID-19 relief compared to $1.9 million received in the first quarter of 2021, which were recorded as a reduction of cost of sales and operating expenses.

The Company's Adjusted EBITDA in the first quarter of 2022 was $0.2 million compared to ($2.3) million in the first quarter of 2021. Adjustments to EBITDA amounting to $0.5 million in the first quarter of 2022 are detailed in the chart above.

Net Loss

(in $000's except per share amounts)

	Three Months Ended March 31,			
	2022	**2021**	**Change**	**Change**
	$	**$**	**$**	**%**
Loss before income taxes	(3,877)	(8,444)	4,567	(54.1%)
Income tax expense (recovery)	(804)	18	(822)	(4566.7%)
Net loss	**(3,073)**	**(8,462)**	**5,389**	**(63.7%)**
Basic and diluted net loss per share	($0.04)	($0.17)		

a) *Factors affecting Net Loss*

The Company's net loss is influenced by the factors noted above for operating loss and EBITDA.

b) *First Quarter of 2022 compared to First Quarter of 2021*

The Company's net loss in the first quarter of 2022 was $3.1 million compared to a net loss of $8.5 million in the first quarter of 2021. The net loss in the first quarter of 2022 was primarily due to the operating loss discussed above, partially offset by an income tax recovery. On a per share basis, the first quarter of 2022 produced a net loss of $0.04 per share compared to a net loss of $0.17 per share in the first quarter of 2021.

SUMMARY OF QUARTERLY RESULTS

(in $000's except per share amounts)

	2022	**2021**				**2020**		
	Q1	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
	$	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Revenue	**30,974**	27,196	30,216	21,622	23,460	25,591	36,577	30,629
Gross profit (loss)	**8,056**	8,782	6,282	(3,549)	3,597	6,725	10,399	9,678
Loss before income taxes	**(3,877)**	(13,288)	(5,036)	(33,981)	(8,444)	(8,282)	(2,169)	(4,090)
Income tax expense (recovery)	**(804)**	6,837	(138)	(46)	18	1,109	(1,804)	617
Net loss	**(3,073)**	(20,125)	(4,898)	(33,935)	(8,462)	(9,391)	(365)	(4,707)
Basic and diluted net loss per share	**($0.04)**	($0.26)	($0.07)	($0.64)	($0.17)	($0.23)	($0.01)	($0.12)
EBITDA*	**(246)**	(10,050)	(1,222)	(29,887)	(2,716)	(3,988)	2,278	1,905
Adjusted EBITDA*	**224**	864	(682)	(12,721)	(2,257)	(445)	3,582	2,658
Current assets	**60,713**	61,086	57,104	48,087	61,261	58,021	67,860	68,535
Total assets	**89,993**	93,033	110,166	102,127	133,629	133,473	151,292	152,011
Current liabilities	**63,225**	61,852	45,745	57,794	55,647	36,470	48,110	45,307
Non-current liabilities	**17,921**	19,400	36,903	22,544	34,346	48,140	49,146	52,189
Total liabilities	**81,146**	81,252	82,648	80,338	89,993	84,610	97,256	97,496
Backlog*	**38,216**	36,444	29,393	24,961	20,529	17,117	18,411	18,359

** EBITDA, Adjusted EBITDA and Backlog are non-IFRS measures that management uses to assess the Company's business dynamics and operating performance (see "Non-IFRS Measures" on page 2 of this MD&A).*

The Company's backlog was $38.2 million at March 31, 2022 compared to $36.4 million at December 31, 2021. The increase was attributable to higher levels of backlog in the Satcom and Infrastructure business lines.

CAPITAL RESOURCES AND LIQUIDITY

The Company's capital resources are in part used to fund working capital (see "Non-IFRS Measures" on page 2 of this MD&A) associated with product launches, to invest in design proposals for customers, and for capital investments required to sustain and expand business and manufacturing capabilities in order to meet customer demands.

Liquidity

Management's approach is to ensure, to the extent reasonably 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-IFRS 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, 2022**	**As at December 31, 2021**
	$	**$**
Cash and cash equivalents	12,742	19,674
Less: Credit from banks	(10,486)	(10,787)
Net Cash	**2,256**	**8,887**

The Company had net cash as at March 31, 2022 and December 31, 2021 of $2.3 million and $8.9 million, respectively. The decrease was primarily due to a $3.3 million increase in non-cash working capital, operating loss of $2.9 million discussed above and principal and interest payments of $1.9 million.

The Company had approximately $12.7 million in cash and cash equivalents as at March 31, 2022, with additional available liquidity through existing credit facilities of approximately $7.5 million. The Company expects that it will have sufficient cash to pay ongoing expenses, including debt service costs, to December 31, 2022.

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 March 31, 2022, the Company's CCC was 51 days compared to 47 days as at December 31, 2021. The increase was primarily due to shorter days payable outstanding in an effort to catch up payments to suppliers.

During the three months ended March 31, 2022, working capital increased by $3.3 million. The increase was primarily due to the following factors:

a) Inventories as at March 31, 2022 were $17.7 million compared to $15.8 million as at December 31, 2021. The increase was primarily due to higher inventory levels at Satcom in the latter part of the first quarter of 2022 related to increased backlog, the majority of which will be produced and shipped in the balance of 2022.

b) Net trade receivables as at March 31, 2022 were $23.1 million compared to $20.2 million as at December 31, 2021. The increase was mainly attributable to higher revenue across all the business lines throughout the first quarter of 2022.

c) Trade payables and accrued liabilities as at March 31, 2022 were $31.8 million compared to $28.6 million as at December 31, 2021. The increase was primarily due to higher production volumes in response to meeting stronger sales demand throughout the first quarter of 2022.

Commitment for capital expenditures

As at March 31, 2022, the Company had an aggregate commitment for capital expenditures of approximately $0.7 million.

Credit from banks and loans

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 in favour of the Company: a revolving credit facility (the “Revolving Facility”) for up to $15.0 million; and, a term credit facility (“Term Loan”) for up to $26.2 million (together, the “Credit Facilities”). The Credit Facilities are guaranteed by the Company’s principal operating subsidiaries (other than those in Vietnam) and are secured by substantially all the assets of the Company and the guarantors. The Credit Agreement includes financial covenants, including a Senior Debt to Equity Ratio and a Fixed Charge Coverage Ratio (each as defined in the Credit Agreement), minimum EBITDA (as defined in the Credit Agreement) and minimum Liquidity (as defined in the Credit Agreement). The Credit Agreement also includes other customary positive and negative covenants (including limitations on dispositions, additional debt, investments, distributions, capital expenditures, changes to the business and financial assistance), and events of default.

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. Interest is payable monthly in arrears.

The Company may draw on its available revolving credit facilities under the Revolving Facility as well as the revolving credit facilities with banks domiciled in China and South Korea, as needed. As at March 31, 2022, the Company’s aggregate revolving credit facilities were $18.9 million, of which $10.5 million was drawn and utilized. As at March 31, 2022, $7.0 million was outstanding under the Revolving Facility.

The principal amount under the Term Loan was fully advanced in US dollars and was used to repay existing indebtedness. Quarterly principal repayments in the amount of $0.9 million commenced on June 30, 2019, with the scheduled principal repayments for June 30 and September 30, 2020 being deferred with the consent of the Lenders.

Effective March 7, 2022, the Company and its lenders (Royal Bank of Canada and HSBC Bank Canada) agreed to amend the Credit Agreement to extend the maturity date of the Credit Facilities from March 29 to September 30, 2022. During the extension period, the Senior Debt to EBITDA Ratio and the minimum EBITDA covenant will not apply, the Fixed Charge Coverage Ratio of 1.15:1.00 will remain in effect, as will the requirement to maintain minimum Liquidity of $10 million.

Commencing March 29, 2022, the banks will neither make nor maintain, and the Company will no longer be entitled to have, any borrowings with an interest rate based on the LIBO Rate. Instead, the interest rate on the Credit Facilities will be based on the US Base Rate (as defined in the Credit Agreement). The US Base Rate is essentially the rate of interest (as determined by Royal Bank of Canada) as the reference rate of interest for any loans in US dollars by Royal Bank of Canada to its Canadian borrowers. The Credit Facilities are currently advanced in US dollars. With effect from March 29, 2022, the US Base Rate applies to the Credit Facilities, with the interest rate being 6.50% as at March 31, 2022 (including the applicable margin of 2.50%).

On October 14, 2020, Galtronics Vietnam Dai Dong Company Limited (“GTD”), one of the Company’s subsidiaries in Vietnam, entered into a credit agreement (the “Vietnam Credit Agreement”) with HSBC Bank Vietnam Ltd. (“HSBC Vietnam”) pursuant to which HSBC Vietnam established a credit facility in favour of GTD for up to $3.2 million in Vietnamese Dong currency equivalent (the “Vietnam Loan”). As at March 31, 2022, $2.8 million was outstanding under the Vietnam Loan. The interest rate on the Vietnam Loan is determined based on the base lending rate in Vietnam plus a margin of up to 2%, and the interest is payable semi-annually in arrears. Galtronics Vietnam Company Limited (“GTV”), the Company’s other Vietnamese subsidiary, is a guarantor of the Vietnam Loan. The Vietnam Loan is secured by certain equipment of GTD and GTV’s guarantee is secured by certain equipment of GTV. The Vietnam Loan required GTD and GTV to meet certain financial covenants.

Effective March 11, 2022, Vietnam Credit Agreement was amended (i) to change the maturity date of the Vietnam Loan from February 18, 2024 to August 18, 2022; (ii) to waive the financial covenants; and, (iii) to permit GTD to sell the equipment in the MMU facility and apply the sales proceeds in repayment of the Vietnam Loan. Separately, Baylin has provided an unsecured guarantee for the remaining balance of the Vietnam Loan in favour of HSBC Vietnam. As part of the guarantee, HSBC Vietnam has agreed not to take steps to call the guarantee until September 30, 2022.

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 semi-annually in arrears on June 30 and December 31 of each year and mature on July 10, 2023 (the “Maturity Date”).

The Debentures are convertible at the holder's option into common shares at any time prior to the close of business on the earlier of: (i) the last business day before the Maturity Date; or, (ii) if called for redemption, the business day immediately preceding the date specified by the Company for redemption, at a conversion price of $3.85 per common share (the "Conversion Price"), being a ratio of approximately 260 common shares per $1,000 principal amount of Debentures, subject to adjustment in certain events in accordance with the convertible debenture indenture dated July 10, 2018 (the "Indenture").

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 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 (as defined in the Indenture). 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.

Following approval of the holders of Debentures on April 8, 2021 and of the shareholders of the Company on May 11, 2021, the Indenture was amended (the "Amendment") to reduce, for a period of 30 days, the Conversion Price from $3.85 to $1.11, the current market price of the common shares at the time the Amendment became effective on May 19, 2021 determined in accordance with the Amendment (the "New Conversion Price"). The terms of the Debentures otherwise remained unchanged. As a result of the Amendment, holders of $12.135 million principal amount of the Debentures converted their Debentures into 10,932,429 common shares of the Company at the New Conversion Price, leaving $5.115 million of the Debentures outstanding. The 30-day period during which the New Conversion Price remained in effect ended on June 18, 2021, following which the Conversion Price reverted to $3.85.

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

Omnibus Equity Incentive Plan

On August 13, 2020, the shareholders of the Company approved a new Omnibus Equity Incentive Plan (the "Omnibus Plan"). The Omnibus Plan permits the board of directors to grant a wide range of long-term incentive awards to participants. The awards include deferred share units ("DSUs"), which are for directors only, performance share units ("PSUs"), restricted share units ("RSUs") and stock options. The Omnibus Plan replaced the separate Deferred Share Unit Plan ("DSU Plan"), Stock Option Plan and Employee Share Compensation Plan ("ESCP"). Awards granted after August 13, 2020 are governed by the Omnibus Plan. Awards granted before that date will continue to be governed by the plan under which they were granted. The number of common shares issuable under the Omnibus Plan, and any other security-based compensation arrangements, including the DSU Plan, Stock Option Plan and ESCP, may not exceed 10% of the number of common shares outstanding from time to time. However, the Omnibus Plan is an "evergreen plan", meaning that any awards that are exercised or settled or terminated without being exercised or settled are available for subsequent grant and do not reduce the number of common shares available to be granted. There are also limitations on the number of common shares that may be issued to insiders.

The Company may settle DSUs, PSUs and RSUs in (i) common shares issued from treasury, (ii) common shares purchased in the market, (iii) 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 the Company, through a cashless exercise or by receiving a cash payment in lieu of shares.

In the case of DSUs, unless otherwise approved by the board of directors, eligible directors must elect to receive at least 50% and up to 100% of their annual retainers in DSUs. The DSUs are issued on a monthly basis while the director serves as a board member and vest immediately. The DSUs are settled after the member ceases to be a director.

The following table lists the number of DSUs outstanding as at March 31, 2022 and March 31, 2021:

	Number of DSUs	Weighted Average Price
DSUs outstanding as at January 1, 2022	923,315	$1.45
DSUs granted during 2022 up to March 31, 2022	77,843	$0.89
DSUs outstanding as at March 31, 2022	1,001,158	$1.40

	Number of DSUs	Weighted Average Price
DSUs outstanding as at January 1, 2021	583,106	$1.96
DSUs granted during 2021 up to March 31, 2021	28,922	$1.53
DSUs outstanding as at March 31, 2021	612,028	$1.81

The Company recognized a DSU expense of $0.1 million during the three months ended March 31, 2022, which was included in G&A expenses.

Stock Option Grants

Stock options may be granted by the board of directors to directors, officers, employees and consultants of the Company (or its subsidiaries or investee entities) as performance incentives. At the time of granting a stock option, the board of directors will determine: (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 stock option grants as at March 31, 2022:

Options grant date	Options granted	Exercise price	Options expiry date	Options vested as at March 31, 2022	Options vested as at December 31, 2021	Options exercised, surrendered, expired or cancelled as at March 31, 2022	Options net outstanding as at March 31, 2022
Mar. 30, 2017	685,000	$1.98	Mar. 30, 2022	-	456,666	685,000	-
Aug. 8, 2017	500,000	$2.00	Aug. 8, 2022	500,000	500,000	200,000	300,000
Mar. 10, 2018	30,000	$3.51	Mar. 10, 2023	-	20,000	30,000	-
May 17, 2018	275,000	$3.34	May 17, 2023	-	181,666	275,000	-
May 22, 2018	25,000	$3.34	May 22, 2023	-	5,000	25,000	-
Jul. 11, 2018	197,500	$3.50	Jul. 11, 2023	81,200	81,200	185,000	12,500
Nov. 9, 2018	250,000	$3.84	Nov. 9, 2023	250,000	250,000	-	250,000
Mar. 25, 2019	325,000	$3.89	Mar. 25, 2024	-	70,000	325,000	-
May 21, 2019	270,000	$3.57	May 21, 2024	180,000	180,000	20,000	250,000
Aug. 16, 2019	60,000	$3.18	Aug. 16, 2024	-	40,000	60,000	-
Nov. 23, 2020	150,000	$0.87	Nov. 23, 2025	50,000	50,000	-	150,000
Jun. 21, 2021	900,000	$1.05	Jun. 21, 2026	-	-	-	900,000
Aug. 23, 2021	75,000	$0.78	Aug. 23, 2026	-	-	-	75,000
Jan. 4, 2022	400,000	$0.86	Jan. 4, 2027	-	-	-	400,000
Mar. 21, 2022	2,285,000	$0.79	Mar. 21, 2027	-	-	-	2,285,000
	6,427,500			1,061,200	1,834,532	1,805,000	4,622,500

The Company recognized a stock option expense of $0.2 million during the three months ended March 31, 2022, which was included in G&A expenses.

OFF-BALANCE SHEET ARRANGEMENTS

Off-balance sheet arrangements consist of the Credit Facilities disclosed in "Credit from banks and loans" section of this MD&A.

TRANSACTIONS WITH RELATED PARTIES

Private Placements

On June 30, 2020, certain directors and management purchased 267,566 Common Shares by way of private placement. The Common Shares were 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.

On December 15, 2020, the Company issued by way of private placement 6,666,700 Units at $0.75 each for proceeds of $5 million, each Unit comprising one Common Share and one-half of a common share purchase warrant. Each whole warrant (of which there were 3,333,350) entitled the holder to acquire one Common Share at an exercise price of $1.05 per Common Share. 2385796 Ontario Inc. (the "Principal Shareholder"), a company over which Mr. Jeffrey C. Royer, the Company's Chairman of the Board of Directors, exercises investment control, and another insider purchased a total of 1,416,600 Units. In March 2021, the Principal Shareholder and the other insider exercised their warrants to acquire 708,300 Common Shares.

On June 17, 2021, the Principal Shareholder exercised its right as a holder of Convertible Debentures to convert $8,692,000 principal amount of the Convertible Debentures (representing its entire holding) into 7,830,630 Common Shares at a conversion price of $1.11.

In August 2021, the Company announced a private placement of a minimum of 11,765,000 Common Shares and up to a maximum of 17,648,000 Common Shares. On September 1, 2021, the Company completed the first tranche of the private placement, issuing 11,765,000 Common Shares at a price of $0.85 per Common Share for proceeds of $10 million, all of which were purchased by the Principal Shareholder. On October 21, 2021, the Company completed the second tranche of the private placement, issuing 5,883,000 Common Shares at a price of $0.85 per Common Share for proceeds of $5 million, of which the Principal Shareholder purchased 5,460,192 Common Shares and other insiders of the Company purchased the remaining 422,808 Common Shares. The Company relied on the "financial hardship" exemption available to it under the rules of the Toronto Stock Exchange to permit the Principal Shareholder and other insiders to purchase more than 10% of the number of Common Shares then outstanding without having to obtain disinterested shareholder approval.

Advantech Wireless Inc.

In January 2018, the Company acquired the Advantech Wireless 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.

The Advantech Vendor and certain of its affiliates acted as agent for the Company. As at March 31, 2022, no balance was included in trades receivable or accounts payables and accrued liabilities related to the agent.

During the three months ended March 31, 2022, the Company did not recognize any amount related to the sale of goods to the Advantech Vendor and certain of its affiliates.

During the three months ended March 31, 2022, the Company did not provide services to the Advantech Vendor or its affiliates.

Executive officer remuneration

Short-term benefits, pension and post-retirement benefits of the executive officers of the Company amounted to $1.3 million for the three months ended March 31, 2022 compared to $1.2 million for the three months ended March 31, 2021. 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 $75,000 either in cash or securities of the Company as mutually agreed between the Company and Mr. Royer. For the three months ended March 31, 2022, the Company paid $31,000 in cash to Mr. Royer under this agreement.

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 interest rate on the Credit Facilities is based on the US Base Rate, which is a variable rate of interest (see "Credit from banks and loans" on page 13 of this MD&A). As such, the US Base Rate is sensitive to fluctuations in market interest rates, which are affected in turn by central bank policies aimed at controlling inflationary pressures within an economy. As interest rates rise, the Company's cost of borrowing will increase, requiring it to fund the additional interest cost from its cash resources. Each 1% increase in the interest rate applicable to the Credit Facilities will result in additional interest cost of approximately $0.2 million.

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 39% and 42% of revenue, directly and indirectly, from the Company's largest customer and its subcontractors for the three months ended March 31, 2022 and March 31, 2021, 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 their 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 expected credit losses based on the factors that affect the credit risk of certain customers, past experience and other information, including the impact of the COVID-19 pandemic. The Company also assesses expected credit losses based on whether customers would be unable or would delay payments due to COVID-19 and determined that additional credit losses were not expected. The Company mitigates the credit risk by purchasing credit insurance provided by Export Development Canada.

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 its Chinese subsidiary by other subsidiaries to ensure compliance with China's State of Administration of Foreign Exchange ("SAFE") requirements. The Company also assessed the impact of the COVID-19 pandemic and determined whether there would be sales volume or project deployment delays which would adversely affect future cash flows and liquidity.

OUTSTANDING SHARE DATA

As at the date of this MD&A, there were issued and outstanding:

- 80,127,407 common shares;
- $5.115 million principal amount of Debentures; and,
- warrants to purchase up to an aggregate of 882,501 common shares.

The number of common shares issuable under the Omnibus Plan and any other security-based compensation arrangements of the Company may not exceed 10% of the number of common shares outstanding from time to time, being as at the date of this MD&A 8,012,740 common shares. As at the date of this MD&A, 2,362,136 common shares are available to be issued under the Omnibus Plan.

Of the outstanding warrants, 682,500 were issued on January 17, 2018, each one of which entitles its holder to acquire one common share of the Company at an exercise price of $3.37 per share until January 17, 2023, and 200,001 were issued on December 15, 2020, each one of which entitles its holder to acquire one common share of the Company at an exercise price of $0.87 per share until December 15, 2022.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the design and operating effectiveness of disclosure controls and procedures and internal control over financial reporting.

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation and include controls and procedures designed to ensure that information required to be disclosed in those filings and reports is accumulated and communicated to management (including the Chief Executive Officer and Chief Financial Officer, as appropriate) to allow timely decisions regarding required disclosure.

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of its financial statements in accordance with IFRS.

There were no changes in our internal control over financial reporting during the three months ended March 31, 2022 that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

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 9, 2022, which is available under the Company's profile on SEDAR at www.sedar.com.