



MANAGEMENT'S DISCUSSION & ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
For the Three and Nine Months Ended September 30, 2023
Dated November 8, 2023

Baylin Technologies Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three and Nine Months Ended September 30, 2023

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 8, 2023. 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, 2022 (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, 2023 (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 November 8, 2023, 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.sedarplus.ca. 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, which 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.sedarplus.ca. 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 debt", which refers to total bank indebtedness less cash and cash equivalents;
- 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 cash and cash equivalents;
- 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 and Description of Operations

Baylin is a diversified global wireless technology company focused on the 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 Galtronics and Advantech Wireless. The Company’s operations are conducted through subsidiaries. Effective January 1, 2023, the Company changed the name of its Asia Pacific business line to Mobile and Network (“M&N”) business line to better represent its business and products.

Galtronics

The Galtronics line of business, established in 1978, designs and manufactures innovative wireless antenna solutions for customers’ embedded, infrastructure, mobile, and network enabled products.

The Galtronics line of business is comprised of three business lines: (a) Embedded Antenna; (b) Wireless Infrastructure; and, (c) Mobile and Network.

- a) The Embedded Antenna business line works with original equipment manufacturer (“OEM”) customers to custom engineer and produce antennas for home networking devices (such as Wi-Fi routers, gateways and set-top boxes), 5G products and land mobile radio products. Embedded Antenna volumes are produced at the Company’s plants in China and Vietnam.
- b) The Wireless Infrastructure business line works with network carrier customers and other businesses to design and produce small cell and macro system antennas, stadium and venue antennas, distributed antenna systems (“DAS”) and multibeam antennas that support wireless coverage and mobile data capacity requirements. Wireless Infrastructure volumes are produced at the Company’s plant in China.
- c) The Mobile and Network business line works with OEM customers to design and produce antennas for mobile phones, personal computers, tablets, IOT, and wirelessly connected devices. M&N is led from its offices in South Korea with production at the Company’s plant in Vietnam, taking advantage of a lower cost structure.

Satcom

The Satcom line of business designs and manufactures RF and microwave products for wireless communications markets and for commercial, critical infrastructure, government and military clients.

Satcom 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, pulsed amplifiers for radar applications, and solid state power block 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;
- *Active Components:* L, S, C, X, Ku and Ka bands, 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.

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. Satcom products are manufactured at the company’s facilities in Canada and the USA.

SELECTED FINANCIAL INFORMATION

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

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023	2022	Change	Change	2023	2022	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Profit and Loss								
Revenue	23,526	29,967	(6,441)	(21.5%)	73,924	91,075	(17,151)	(18.8%)
Gross profit	7,337	7,902	(565)	(7.2%)	23,208	24,973	(1,765)	(7.1%)
Gross margin	31.2%	26.4%	4.8%	N/A	31.4%	27.4%	4.0%	N/A
Net loss	(3,364)	(4,861)	1,497	(30.8%)	(5,773)	(12,242)	6,469	(52.8%)
Basic and diluted net loss per share	(\$0.04)	(\$0.06)	\$0.02	(33.3%)	(\$0.07)	(\$0.15)	\$0.08	(53.3%)
EBITDA*	(1,444)	(679)	(765)	> 100.0%	1,287	(1,471)	2,758	N/A
Adjusted EBITDA*	(789)	92	(881)	N/A	170	639	(469)	(73.4%)
	As at	As at			As at	As at		
	September	September	Change	Change	September	December	Change	Change
	30, 2023	30, 2022			30, 2023	31, 2022		
	\$	\$	\$	%	\$	\$	\$	%
Balance Sheet and Other								
Current assets	48,695	54,744	(6,049)	(11.0%)	48,695	50,453	(1,758)	(3.5%)
Total assets	68,959	80,811	(11,852)	(14.7%)	68,959	74,384	(5,425)	(7.3%)
Current liabilities	64,976	62,857	2,119	3.4%	64,976	65,505	(529)	(0.8%)
Non-current liabilities	8,874	17,305	(8,431)	(48.7%)	8,874	12,139	(3,265)	(26.9%)
Total liabilities	73,850	80,162	(6,312)	(7.9%)	73,850	77,644	(3,794)	(4.9%)
Net debt*	26,419	21,513	4,906	22.8%	26,419	21,437	4,982	23.2%
Backlog*	32,408	37,406	(4,998)	(13.4%)	32,408	38,067	(5,659)	(14.9%)

* EBITDA, Adjusted EBITDA, Net debt and Backlog are non-IFRS measures that management uses to assess the Company's operating performance, liquidity and business dynamics (see "Non-IFRS Measures" on page 3 of this MD&A).

Third Quarter Summary

- Revenue of \$23.5 million in the third quarter of 2023, a decrease of \$6.5 million or 21.5% compared to the third quarter of 2022. The decrease was primarily due to production volume reductions in the M&N, Embedded Antenna and Wireless Infrastructure business lines, partially offset by stronger sales in the Satcom business line.
- Gross margin (see "Non-IFRS Measures" on page 3 of this MD&A) was 31.2% in the third quarter of 2023 compared to 26.4% in the third quarter of 2022, despite gross profit of \$7.3 million being \$0.6 million less than the third quarter of 2022. The improved gross margin resulted from a balanced product mix due to sales from newly launched products, changes in pricing strategy, and a data driven focus on contribution margin at the business line level. In the third quarter of 2023, the improvement was mainly generated by: (i) stronger revenue recovery in the Satcom business line; (ii) favourable product mix, including new multibeam and innovative antenna portfolio in the Wireless Infrastructure business line; and, (iii) consistent operational efficiency in the Embedded Antenna business line.
- Adjusted EBITDA (see "Non-IFRS Measures" on page 3 of this MD&A) of -\$0.8 million in the third quarter of 2023, a decrease of \$0.9 million compared to the third quarter of 2022. The decrease in Adjusted EBITDA was primarily due to the decrease in gross profit as a result of lower revenue, partially offset by the decrease in operating expenses compared to the prior year period.
- Net loss of \$3.4 million in the third quarter of 2023 compared to a net loss of \$4.9 million in the third quarter of 2022. The net loss in the third quarter of 2023 was mainly attributable to an operating loss of \$2.8 million. On a per share basis, a net loss of \$0.04 per share in the third quarter of 2023 compared to a net loss of \$0.06 per share in the third quarter of 2022.
- Net debt (see "Non-IFRS Measures" on page 3 of this MD&A) was \$26.4 million as at September 30, 2023, an increase of \$5.0 million from December 31, 2022, primarily due to an increase in non-cash working capital (see "Non-IFRS Measures" on page 3 of this MD&A), debt interest payments and lease payments.

- Backlog (see “Non-IFRS Measures” on page 3 of this MD&A) was \$32.4 million at September 30, 2023 compared to \$38.1 million at December 31, 2022 and \$37.4 million at September 30, 2022. The decrease was primarily due to a lower level of backlog in all the business lines, particularly in the M&N business line as a result of across-the-board production volume reductions at its principal customer.

RECENT DEVELOPMENTS

Products

Multibeam Antennas

The Company, through its principal US subsidiary, Galtronics USA, Inc., continued to market and sell its patented multibeam antennas, building on its earlier successes in North America by placing antennas with wireless carriers and systems integrators across Europe. The antennas are uniquely able to handle large scale events and venues in a cost-effective manner for wireless carriers. Additionally, they offer comparable performance to lens-type technology at a more economical price point and provide beam stability across frequency bands to ensure a better user experience.

Artemis Lunar Space Mission

The Company’s principal Canadian subsidiary, Advantech Wireless Technologies Inc. (“Advantech”), delivered Solid State Power Amplifiers (“SSPA”) for use by the United States NASA space agency Artemis lunar mission. These amplifiers will be used to communicate from NASA’s earth star ports to the lunar modules as they are traveling in deep space to the moon.

Ka-Band Solid State Power Amplifiers

Advantech launched a new Ka-band SSPA product line based on the Genesis platform. This is not only the first major new product led by engineering in Kirkland, Quebec, but it also filled a gap within Advantech’s product line for SSPAs. We believe this opens up new opportunities in markets where Advantech was previously unable to bid or compete.

Credit Facilities

In August 2023, the Company’s Vietnamese subsidiary, Galtronics Vietnam Dai Dong Company Limited (“GTD”), completed the full repayment of its secured loan from HSBC Vietnam. The loan originated in October 2020 and established a credit facility in favour of GTD in Vietnamese Dong currency equivalent (the “Vietnam Loan”) to partially fund a factory which ultimately never went into production. The Vietnam Loan, established for \$3.2 million, was fully repaid at maturity on August 18, 2023, and thereby eliminates any further credit obligations in Vietnam (see “Credit from banks and loans” on page 14 of this MD&A).

In September 2023, the Company agreed with its lenders, Royal Bank of Canada and HSBC Bank Canada, to further amendments to the Credit Agreement governing our Credit Facilities, including an extension to the maturity date of the Term Loan from September 29, 2023 to December 31, 2023 and the maturity date of the Revolving Facility from September 29, 2023 to March 31, 2024 (see “Credit from banks and loans” on page 14 of this MD&A).

OUTLOOK

The business challenges facing the Company during the second quarter continued in the third quarter of 2023, resulting in lower revenue, gross margin and Adjusted EBITDA compared to the second quarter and interrupting the Company’s run of seven consecutive quarters of positive Adjusted EBITDA. We expect the remainder of the year will be similarly challenging. While our overall performance continues to be significantly negatively affected by the results of our M&N business line, we are also experiencing softness in our Embedded Antenna and Wireless Infrastructure business lines. Satcom’s performance remains in line with expectations.

We continue to prioritize product mix, emphasizing products that generate higher margins and gross profit, with a view to maintaining and growing Adjusted EBITDA, even at the expense of higher revenue. The macroeconomic environment, increased material costs due to inflationary pressures and the effect of high interest rates remain an issue for our business. These factors are expected to affect our volume of orders and revenue as well as causing pushouts of orders from customers. We expect these conditions will continue for the remainder of 2023. As a result of these continuing challenges, particularly in our M&N business line, we expect that our principal performance measures of revenue and Adjusted EBITDA for 2023 will be below the corresponding amounts for 2022 offset by an improvement in gross margin.

Embedded Antenna Business Line

The Embedded Antenna business line is currently being impacted by lower volumes driven by the macroeconomic environment, as well as lower margins caused by changes in product mix. We expect the Embedded Antenna business line will continue to perform reasonably well in 2023 but at reduced levels from 2022, which was an exceptionally strong year. Its performance depends on the ability of the home networking, public safety and automotive markets to remain resilient in the face of the economic slowdown and inflationary pressures. The number of active bids for 2024 projects is, however, at a record level for the business.

Wireless Infrastructure Business Line

We expect the Wireless Infrastructure business line will continue its performance for the remainder of 2023 with materially higher improvements in gross margin but on lower revenue compared to 2022. This reflects the sales success of our higher margin multibeam and innovative small cell antennas as well as the strong pace of stadium deployments. We expect that our new higher margin multibeam and innovative small cell antennas will open up new global opportunities to drive sales with wireless carriers and third-party operators who operate wireless mobile networks for their customers. We are seeing some pull-back on spending by wireless carriers and infrastructure customers broadly but have managed to grow and take market share by focusing on our unique competitive advantages. We do expect to see carriers begin spending on small cells by 2024, which will drive further volumes for the business.

Satcom Business Line

The Satcom business line continues to demonstrate consistent demand with capital spending by our customers continuing the momentum seen at the end of 2022.

Given the capital build cycles of satellite operators and others in the Satcom ecosystem, this has been of benefit to the business in 2023 and we expect it will continue into 2024. We further expect that our new Genesis line of solid-state power amplifiers will generate significant interest from commercial clients, particularly those in the aviation and maritime industries. Importantly, the Genesis line are consistent in architecture, meaning they will allow the business to simplify supply chain over time and thereby improve efficiencies in manufacturing. However, there are indications that satellite internet access through low earth orbit satellites provided by satellite installation constellations is having a disruptive effect on some services provided by our customers, particularly in the cruise and maritime industries. In addition, the interest rate environment is having an impact on expenditures by some commercial satcom companies.

We continue to see opportunities for growth in sales for military and other government-related uses, which represents the balance of this business line, as many western countries continue to maintain high levels of defence and scientific spending. We have recently completed multiple technology upgrades within our product portfolio, which are expected to generate additional sales.

Overall, we expect revenue and Adjusted EBITDA in 2023 will be stronger than 2022. The Satcom business line continues to demonstrate a strong order book with improving margins. In the meantime, we continue to take steps to improve production efficiencies in our facilities in order to address the backlog and improve overall revenue attainment. In order to alleviate some of the production backlog in our Kirkland, Quebec facility, we have begun production of high-power amplifiers in our State College, Pennsylvania facility.

Mobile and Network (formerly, Asia Pacific) Business Line

The M&N business line continues to face significant challenges due to continuing large production volume reductions at its principal customer. Those reductions reflect a contraction in the customer's smartphone market, due in part to the global economic slowdown and continuing inflation, which has made consumers in major markets such as North America hesitant to upgrade their devices, as well as competitive pressures faced by the customer. Global shipments of smartphones are expected to experience a year-over-year decline in 2023 and to be the lowest in many years. The customer is also facing weaker demand for its other products such as tablets, smart watches, and other wirelessly connected devices.

Management has been taking steps to limit the adverse effect this has had on the M&N business. We have hired a new President and we continue to focus on reducing or eliminating operating and other costs. We have also been working to diversify its revenue base, but other potential revenue-generating projects have been hampered by the adverse economic environment, and any resulting benefit is not likely to be seen until 2024. Finally, the M&N's business largest customer for mobile devices has publicly stated that they expect to see improving demand in 2024.

Given these ongoing challenges, management is continuing to evaluate its various options for the business, including whether it should remain part of the Company's core long-term strategy.

DISCUSSION OF OPERATIONS

Revenue and Gross Profit

(in \$000's)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023	2022	Change	Change	2023	2022	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Revenue	23,526	29,967	(6,441)	(21.5%)	73,924	91,075	(17,151)	(18.8%)
Cost of sales	16,189	22,065	(5,876)	(26.6%)	50,716	66,102	(15,386)	(23.3%)
Gross profit	7,337	7,902	(565)	(7.2%)	23,208	24,973	(1,765)	(7.1%)
Gross margin	31.2%	26.4%			31.4%	27.4%		

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. The Company's revenue is impacted by the timing of customers' product launches, their project deployment plans, and network expansion investment levels by telecom 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) Third Quarter of 2023 compared to Third Quarter of 2022

The Company's revenue was \$23.5 million in the third quarter of 2023 compared to \$30.0 million in the third quarter of 2022, representing a decrease of \$6.5 million or 21.5%. The decrease was primarily due to production volume reductions in the M&N, Embedded Antenna and Wireless Infrastructure business lines, partially offset by stronger sales in the Satcom business line.

The Company's gross profit was \$7.3 million in the third quarter of 2023, a decrease of \$0.6 million compared to the third quarter of 2022. Gross margin was 31.2% in the third quarter of 2023 compared to 26.4% in the third quarter of 2022. The improved gross margin resulted from a balanced product mix due to sales from newly launched products, changes in pricing strategy, and a data driven focus on contribution margin at the business line level. In the third quarter of 2023, the improvement was mainly generated by: (i) stronger revenue recovery in the Satcom business line; (ii) favourable product mix including new multibeam and innovative antenna portfolio in the Wireless Infrastructure business line; and, (iii) consistent operational efficiency in the Embedded Antenna business line.

c) Nine Months Ended September 30, 2023 compared to Nine Months Ended September 30, 2022

The Company's revenue for the nine months ended September 30, 2023 was \$73.9 million compared to \$91.1 million for the nine months ended September 30, 2022, representing a decrease of \$17.2 million or 18.8%. The decrease was due to the reasons noted above.

The Company's gross profit for the nine months ended September 30, 2023 was \$23.2 million (gross margin: 31.4%) compared to \$25.0 million (gross margin: 27.4%) for the nine months ended September 30, 2022. The improvement in gross margin was due to the reasons noted above.

Selling and Marketing Expenses

(in \$000's)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023	2022	Change	Change	2023	2022	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Payroll	1,211	1,289	(78)	(6.1%)	3,793	3,854	(61)	(1.6%)
Other	715	760	(45)	(5.9%)	2,180	2,213	(33)	(1.5%)
Total	1,926	2,049	(123)	(6.0%)	5,973	6,067	(94)	(1.5%)
As a percentage of revenue	8.2%	6.8%			8.1%	6.7%		

a) Factors affecting Selling and Marketing Expenses

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

b) Third Quarter of 2023 compared to Third Quarter of 2022

The Company's selling and marketing expenses in the third quarter of 2023 were \$1.9 million (8.2% of revenue) compared to \$2.0 million (6.8% of revenue) in the third quarter of 2022. The decrease was mainly due to lower sales commissions in the third quarter of 2023 as a result of lower revenue compared to the prior year period.

c) Nine Months Ended September 30, 2023 compared to Nine Months Ended September 30, 2022

The Company's selling and marketing expenses for the nine months ended September 30, 2023 were \$6.0 million (8.1% of revenue) compared to \$6.1 million (6.7% of revenue) for the nine months ended September 30, 2022. Selling and marketing expenses in the nine months ended September 30, 2023 remained largely consistent with the prior year period.

Research and Development Expenses

(in \$000's)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023	2022	Change	Change	2023	2022	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Development costs	3,452	3,022	430	14.2%	9,717	9,801	(84)	(0.9%)
Depreciation	116	91	25	27.5%	348	241	107	44.4%
Total	3,568	3,113	455	14.6%	10,065	10,042	23	0.2%
As a percentage of revenue	15.2%	10.4%			13.6%	11.0%		

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 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) Third Quarter of 2023 compared to Third Quarter of 2022

The Company's R&D expenses in the third quarter of 2023 were \$3.6 million (15.2% of revenue) compared to \$3.1 million (10.4% of revenue) in the third quarter of 2022. The increase was mainly due to higher engineering expenses incurred for new products development in the third quarter of 2023 compared to the prior year period.

c) *Nine Months Ended September 30, 2023 compared to Nine Months Ended September 30, 2022*

The Company's R&D expenses for the nine months ended September 30, 2023 were \$10.1 million (13.6% of revenue) compared to \$10.0 million (11.0% of revenue) for the nine months ended September 30, 2022. R&D expenses in the nine months ended September 30, 2023 remained largely consistent with the prior year period.

General and Administrative Expenses

(in \$000's)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023	2022	Change	Change	2023	2022	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Payroll	1,897	2,058	(161)	(7.8%)	5,987	5,910	77	1.3%
Other	2,659	2,205	454	20.6%	6,042	6,935	(893)	(12.9%)
Depreciation	358	636	(278)	(43.7%)	988	1,755	(767)	(43.7%)
Amortization	126	1,235	(1,109)	(89.8%)	1,251	3,745	(2,494)	(66.6%)
Total	5,040	6,134	(1,094)	(17.8%)	14,268	18,345	(4,077)	(22.2%)
As a percentage of revenue	21.4%	20.5%			19.3%	20.1%		

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) *Third Quarter of 2023 compared to Third Quarter of 2022*

The Company's G&A expenses in the third quarter of 2023 were \$5.0 million (21.4% of revenue) compared to \$6.1 million (20.5% of revenue) in the third quarter of 2022. The decrease was primarily due to lower depreciation and amortization expenses which resulted from the completion of lease transfer of the MMU facility in Vietnam and the full amortization of customer relations intangible assets in the first quarter of 2023.

c) *Nine Months Ended September 30, 2023 compared to Nine Months Ended September 30, 2022*

The Company's G&A expenses for the nine months ended September 30, 2023 were \$14.3 million (19.3% of revenue) compared to \$18.3 million (20.1% of revenue) for the nine months ended September 30, 2022. The decrease was in part due to the recognition of US Employee Retention Tax Credit (see "Government Assistance Programs" on page 10 of this MD&A) in the nine months ended September 30, 2023, as well as lower depreciation and amortization expenses noted above.

Government Assistance Programs

(in \$000's)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023	2022	Change	Change	2023	2022	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Employee Retention Tax Credit Program (USA)	-	-	-	N/A	1,200	-	1,200	N/A
Total	-	-	-	N/A	1,200	-	1,200	N/A

The Company recognized government stimulus of \$1.2 million relating to the US Employee Retention Tax Credit Program in the nine months ended September 30, 2023, which was recorded as a reduction of cost of sales and operating expenses, respectively. The cash benefit of this tax credit is not expected to be realized until 2024.

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 3 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,			
	2023	2022	Change	Change	2023	2022	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Operating loss	(2,797)	(3,394)	597	(17.6%)	(3,742)	(9,481)	5,739	(60.5%)
Depreciation and amortization	1,353	2,715	(1,362)	(50.2%)	5,029	8,010	(2,981)	(37.2%)
EBITDA	(1,444)	(679)	(765)	> 100.0%	1,287	(1,471)	2,758	N/A
Adjustments to EBITDA	655	771	(116)	(15.0%)	(1,117)	2,110	(3,227)	N/A
Adjusted EBITDA	(789)	92	(881)	N/A	170	639	(469)	(73.4%)

Adjustments to EBITDA

(in \$000's)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2023	2022	Change	Change	2023	2022	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Expenses for litigation relating to acquisition agreements	121	212	(91)	(42.9%)	87	411	(324)	(78.8%)
Expenses relating to planned restructuring following an acquisition	38	164	(126)	(76.8%)	198	524	(326)	(62.2%)
Expenses to permanently close/relocate a facility, shut down a line of business, eliminate positions	(332)	-	(332)	N/A	(3,275)	69	(3,344)	N/A
Corporate re-organization expenses	-	37	(37)	(100.0%)	23	90	(67)	(74.4%)
Non-cash compensation	828	358	470	> 100.0%	1,850	1,016	834	82.1%
Total	655	771	(116)	(15.0%)	(1,117)	2,110	(3,227)	N/A

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

The Company's operating income (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) *Third Quarter of 2023 compared to Third Quarter of 2022*

The Company's operating loss in the third quarter of 2023 was \$2.8 million compared to an operating loss of \$3.4 million in the third quarter of 2022. The improvement was mainly due to lower operating expenses in the third quarter of 2023, partially offset by lower gross profit compared to the prior year period.

The Company's Adjusted EBITDA in the third quarter of 2023 was -\$0.8 million compared to \$0.1 million in the third quarter of 2022. Adjustments to EBITDA amounting to \$0.7 million in the third quarter of 2023 are detailed in the chart above.

c) *Nine Months Ended September 30, 2023 compared to Nine Months Ended September 30, 2022*

The Company's operating loss for the nine months ended September 30, 2023 was \$3.7 million compared to an operating loss of \$9.5 million for the nine months ended September 30, 2022. The improvement was due to the reasons noted above, as well as a lease termination gain and impairment recovery of \$3.4 million as a result of completing the lease transfer of the MMU facility in Vietnam.

The Company's Adjusted EBITDA for the nine months ended September 30, 2023 was \$0.2 million compared to \$0.6 million for the nine months ended September 30, 2022. Adjustments to EBITDA amounting to -\$1.1 million for the nine months ended September 30, 2023 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,			
	2023	2022	Change	Change	2023	2022	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Loss before income taxes	(3,263)	(4,607)	1,344	(29.2%)	(5,335)	(12,555)	7,220	(57.5%)
Income tax expense (recovery)	101	254	(153)	(60.2%)	438	(313)	751	N/A
Net loss	(3,364)	(4,861)	1,497	(30.8%)	(5,773)	(12,242)	6,469	(52.8%)
Basic and diluted net loss per share	(\$0.04)	(\$0.06)	\$0.02	(33.3%)	(\$0.07)	(\$0.15)	\$0.08	(53.3%)

a) Factors affecting Net Loss

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

b) Third Quarter of 2023 compared to Third Quarter of 2022

The Company's net loss in the third quarter of 2023 was \$3.4 million compared to a net loss of \$4.9 million in the third quarter of 2022. The net loss in the third quarter of 2023 was mainly attributable to the operating loss discussed above. On a per share basis, the third quarter of 2023 produced a net loss of \$0.04 per share compared to a net loss of \$0.06 per share in the third quarter of 2022.

c) Nine Months Ended September 30, 2023 compared to Nine Months Ended September 30, 2022

The Company's net loss for the nine months ended September 30, 2023 was \$5.8 million compared to a net loss of \$12.2 million for the nine months ended September 30, 2022. The net loss in the nine months ended September 30, 2023 was primarily due to the reasons noted above as well as interest expenses and income tax expenses. On a per share basis, the nine months ended September 30, 2023 generated a net loss of \$0.07 per share compared to a net loss of \$0.15 per share for the nine months ended September 30, 2022.

SUMMARY OF QUARTERLY RESULTS

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

	2023			2022				2021	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	
	\$	\$	\$	\$	\$	\$	\$	\$	
Profit and Loss									
Revenue	23,526	25,271	25,127	29,785	29,967	30,134	30,974	27,196	
Gross profit	7,337	8,206	7,665	7,938	7,902	9,015	8,056	8,782	
Gross margin	31.2%	32.5%	30.5%	26.7%	26.4%	29.9%	26.0%	32.3%	
Net loss	(3,364)	(1,243)	(1,166)	(4,635)	(4,861)	(4,308)	(3,073)	(20,125)	
Basic and diluted net loss per share	(\$0.04)	(\$0.01)	(\$0.01)	(\$0.06)	(\$0.06)	(\$0.05)	(\$0.04)	(\$0.26)	
EBITDA*	(1,444)	410	2,321	(504)	(679)	(546)	(246)	(10,050)	
Adjusted EBITDA*	(789)	82	877	606	92	323	224	864	
Balance Sheet and Other									
Current assets	48,695	49,667	50,132	50,453	54,744	54,344	60,713	61,086	
Total assets	68,959	70,643	72,702	74,384	80,811	81,751	89,993	93,033	
Current liabilities	64,976	63,522	66,197	65,505	62,857	59,395	63,225	66,711	
Non-current liabilities	8,874	9,418	9,657	12,139	17,305	17,505	17,921	14,541	
Total liabilities	73,850	72,940	75,854	77,644	80,162	76,900	81,146	81,252	
Net debt*	26,419	23,551	22,589	21,437	21,513	21,354	17,373	12,295	
Backlog*	32,408	34,456	35,181	38,067	37,406	37,702	38,216	36,444	

* EBITDA, Adjusted EBITDA, Net debt and Backlog are non-IFRS measures that management uses to assess the Company's operating performance, liquidity and business dynamics (see "Non-IFRS Measures" on page 3 of this MD&A).

The Company's backlog was \$32.4 million at September 30, 2023, a decrease of \$5.7 million compared to the backlog at December 31, 2022 and a decrease of \$5.0 million compared to the backlog at September 30, 2022. The decrease was primarily due to lower backlog in all the business lines, particularly in the M&N business line as a result of across-the-board production volume reductions at its principal customer.

CASH FLOWS

(in \$000's)

	Nine Months Ended September 30,			
	2023	2022	Change	Change
	\$	\$	\$	%
Cash flows (used in) generated from:				
Operating activities	(7,054)	(5,529)	(1,525)	27.6%
Investing activities	(56)	(1,518)	1,462	(96.3%)
Financing activities	4,105	(6,383)	10,488	N/A
Effect of foreign exchange differences	(96)	1,045	(1,141)	N/A
Net (decrease) increase in cash and cash equivalents	(3,101)	(12,385)	9,284	(75.0%)
Cash and cash equivalents at the beginning of period	7,379	19,674	(12,295)	(62.5%)
Cash and cash equivalents at the end of period	4,278	7,289	(3,011)	(41.3%)

Operating Activities

Cash used in operating activities was \$7.1 million during the nine months ended September 30, 2023, an increase of \$1.5 million or 27.6% compared to \$5.5 million during the nine months ended September 30, 2022. The increase was mainly due to an increase of cash paid for debt interest.

Investing Activities

Cash used in investing activities was \$0.1 million during the nine months ended September 30, 2023, a decrease of \$1.4 million or 96.3% compared to \$1.5 million during the nine months ended September 30, 2022. The decrease was mainly due to cash conservation measures particularly in the Satcom business line as well as proceeds from sale of assets in the M&N business line.

Financing Activities

Cash generated from financing activities was \$4.1 million during the nine months ended September 30, 2023, an increase of \$10.5 million compared to \$6.4 million used during the nine months ended September 30, 2022. The increase was primarily due to a private placement in May 2023 and an increase in borrowing by the Company's Chinese subsidiary, offset by debt principal repayments and lease payments.

NET DEBT, LIQUIDITY AND CAPITAL RESOURCES

The Company's capital resources are in part used to fund working capital (see "Non-IFRS Measures" on page 3 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.

Net Debt

(in \$000's)

	As at	As at
	September 30, 2023	December 31, 2022
	\$	\$
Total Debt	30,697	28,816
Less: Cash and cash equivalents	(4,278)	(7,379)
Net Debt	26,419	21,437

The Company had net debt as at September 30, 2023 and December 31, 2022 of \$26.4 million and \$21.4 million, respectively. The increase in net debt was mainly attributable to debt interest payments of \$2.7 million, an increase in non-cash working capital of \$2.6 million, as well as lease and tax payments during the nine months ended September 30, 2023.

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, revenue and expenses compared to their budgeted amounts. Cash flow

is reviewed with each business line management team on a weekly basis while other metrics such as the cash conversion cycle (“CCC”) are reviewed with each business line management team on a monthly basis (see “Non-IFRS Measures” on page 3 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.

Liquidity is impacted by the availability and maturity of the Company’s revolving credit facility and term credit facility (see “Credit from banks and loans” on page 14 of this MD&A).

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, 2023, the Company’s CCC was 51 days compared to 39 days* as at December 31, 2022. (*CCC as at December 31, 2022 has been restated to be comparable to current period, as customer prepayments were not included in the calculation of days payables outstanding until the first quarter of 2023.)

During the nine months ended September 30, 2023, working capital increased by \$2.6 million. The increase primarily resulted from the following factors:

- a) Other current assets as at September 30, 2023 were \$5.2 million compared to \$3.8 million as at December 31, 2022. The increase was mainly attributable to higher other receivables resulting from the completion of lease transfer of the MMU facility in Vietnam in the first quarter of 2023.
- b) Inventories as at September 30, 2023 were \$18.8 million compared to \$18.4 million as at December 31, 2022. The increase was primarily due to investment in inventory for the Satcom business line to mitigate supply chain risks and long lead times in order to support the increased backlog and demand.

Commitment for capital expenditures

As at September 30, 2023, the Company had an aggregate commitment for capital expenditures of approximately \$0.1 million, which are primarily for upgrades to the IT system and hardware maintenance.

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 million and a term credit facility (“Term Loan”) for up to \$28.4 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 originally included 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 revolving credit facilities with banks domiciled in China and South Korea, as needed. As at September 30, 2023, the Company’s aggregate revolving credit facilities were \$21.0 million, of which \$17.5 million was drawn and utilized. As at September 30, 2023, \$12.1 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 \$1.0 million commenced on June 30, 2019, with the scheduled principal repayments for June 30, 2020, September 30, 2020 and September 30, 2023 being deferred with the consent of the Lenders.

The Credit Agreement has previously been amended, most recently as of September 28, 2023. The effect of these amendments is that:

- the maturity date of the Term Loan was extended from September 29, 2023 to December 31, 2023 and the maturity date of the Revolving Facility was extended from September 29, 2023 to March 31, 2024;
- the Senior Debt to EBITDA Ratio and Fixed Charge Coverage Ratio does not apply during the remaining term of the Credit Facilities;
- the Company is required to maintain a minimum Liquidity of \$3 million from September 30, 2023 up to and including December 30, 2023, and \$4 million thereafter;
- the Company was required to maintain a minimum EBITDA for the twelve months ended September 30, 2023 and thereafter this covenant is not applicable;
- the maximum availability under the Revolving Facility is \$15 million; and,
- at any time the Senior Debt to EBITDA Ratio is equal to or more than 2.75:1.00, the margin on US Base Rate loans is 2.50% and the standby fee is 0.70%.

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 11.50% as at September 30, 2023 (including the applicable margin of 2.50%).

Galtronics Vietnam Dai Dong Company Limited (“GTD”), one of the Company’s subsidiaries in Vietnam, and HSBC Bank (Vietnam) Ltd. (“HSBC Vietnam”), were parties to a credit agreement dated October 14, 2020, as amended, pursuant to which HSBC Vietnam established a secured credit facility in favour of GTD for up to \$3.2 million in Vietnamese Dong currency equivalent (the “Vietnam Loan”). The remaining principal amount of the Vietnam Loan of \$0.3 million, together with accrued and unpaid interest, was fully repaid at maturity on August 18, 2023.

Convertible debentures

On July 10, 2018, the Company issued \$17.25 million principal amount of convertible unsecured debentures (the “Debentures”). The Debentures are governed by an indenture (the “Indenture”) dated July 10, 2018 between the Company and Computershare Trust Company of Canada, as trustee. The Debentures originally had an interest rate of 6.5% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, matured on July 10, 2023 and had a conversion price (the “Conversion Price”) of \$3.85 per common share.

On May 19, 2021, the Indenture was amended to reduce, for a period of 30 days, the Conversion Price from \$3.85 to \$1.11 (the “New Conversion Price”), the market price of the common shares at the time the amendment became effective. As a result of this amendment, holders of \$12.135 million principal amount of the Debentures converted their Debentures into 10,932,429 common shares at the New Conversion Price, leaving \$5.115 million principal amount 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.

On June 21, 2023, the Indenture was further amended to (i) extend the maturity date of the Debentures from July 10, 2023 to June 30, 2026 (the “Maturity Date”), (ii) increase the interest rate on the Debentures from 6.5% to 8.5%, effective June 30, 2023, (iii) reduce the Conversion Price from \$3.85 to \$1.00 per common share, and (iv) change the definition of “Change of Control” to permit the Company’s Chairman, Jeffrey C. Royer, and related parties, to acquire 66 2/3% or more of the common shares of the Company without it constituting a Change of Control.

The Debentures are convertible at the holder’s option into common shares of Baylin 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 \$1.00 per common share, subject to adjustment in certain events in accordance with the Indenture.

The Company may, at its option, subject to receipt of any required regulatory approvals, elect to satisfy its obligation to repay the principal amount of the Debentures 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 40 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 (which will be calculated based on the 20 consecutive trading days ending five trading days before the Maturity Date). Current Market Price means 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 applicable date.

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, as amended, filed under the Company’s profile on SEDAR+ at www.sedarplus.ca.

SHARE-BASED PAYMENTS

Omnibus Equity Incentive Plan

On August 13, 2020, the shareholders of the Company approved a new Omnibus Equity Incentive Plan (as amended and restated, 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”), stock options and common shares (with or without restrictions). 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 12% 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.

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 or restricted common shares of Baylin. The DSUs and restricted common shares 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 September 30, 2023 and September 30, 2022:

	<u>Number of DSUs</u>	<u>Weighted Average Price</u>
DSUs outstanding as at January 1, 2023	1,537,514	\$1.04
DSUs granted during 2023 up to September 30, 2023	553,995	\$0.38
DSUs outstanding as at September 30, 2023	<u>2,091,509</u>	<u>\$0.87</u>
	<u>Number of DSUs</u>	<u>Weighted Average Price</u>
DSUs outstanding as at January 1, 2022	923,315	\$1.45
DSUs granted during 2022 up to September 30, 2022	364,331	\$0.54
DSUs outstanding as at September 30, 2022	<u>1,287,646</u>	<u>\$1.19</u>

The Company recognized a DSU expense of \$0.2 million during the nine months ended September 30, 2023, which was included in G&A expenses.

Stock Option Grants

Stock options may be granted by the board of directors to 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 three 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 September 30, 2023:

Options grant date	Options granted	Exercise price	Options expiry date	Options vested as at		Options exercised, surrendered, expired or cancelled as at September 30, 2023	Options net outstanding as at September 30, 2023
				September 30, 2023	December 31, 2022		
Jul. 11, 2018	197,500	\$3.50	Jul. 11, 2023	81,200	81,200	197,500	-
Nov. 9, 2018	250,000	\$3.84	Nov. 9, 2023	250,000	250,000	-	250,000
May 21, 2019	270,000	\$3.57	May 21, 2024	250,000	250,000	20,000	250,000
Nov. 23, 2020	150,000	\$0.87	Nov. 23, 2025	-	100,000	150,000	-
Jun. 21, 2021	900,000	\$1.05	Jun. 21, 2026	300,000	300,000	900,000	-
Aug. 23, 2021	75,000	\$0.78	Aug. 23, 2026	25,000	25,000	75,000	-
Jan. 4, 2022	400,000	\$0.86	Jan. 4, 2027	133,333	-	400,000	-
Mar. 21, 2022	2,285,000	\$0.79	Mar. 21, 2027	53,333	-	2,125,000	160,000
May 23, 2022	150,000	\$0.59	May 23, 2027	41,681	24,996	95,818	54,182
Sep. 26, 2022	5,000	\$0.33	Sep. 26, 2027	1,667	-	-	5,000
Nov. 21, 2022	14,000	\$0.21	Nov. 21, 2027	-	-	-	14,000
May 23, 2023	3,000	\$0.33	May 23, 2028	-	-	-	3,000
Jun. 30, 2023	3,456,000	\$0.36	Jun. 30, 2028	-	-	-	3,456,000
	<u>8,155,500</u>			<u>1,136,214</u>	<u>1,031,196</u>	<u>3,963,318</u>	<u>4,192,182</u>

The Company recognized a stock option expense of \$0.9 million during the nine months ended September 30, 2023, which was included in G&A expenses. In March 2023, employees with outstanding out-of-the-money options were given the opportunity to have their options cancelled on a voluntary basis. As a result, effective March 29, 2023, 3,606,000 options were cancelled. Effective June 30, 2023, the board of directors approved the regranting of 3,456,000 options.

During the second quarter of 2023, 1,856,410 RSUs were issued with a value of \$0.7 million.

TRANSACTIONS WITH RELATED PARTIES

Executive Officer Remuneration

Short-term benefits, pension and post-retirement benefits of the Company's executive officers amounted to \$5.1 million for the nine months ended September 30, 2023 compared to \$4.2 million for the nine months ended September 30, 2022. 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 plans 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 Chairman of the board of directors, Mr. Royer is entitled to an annual fee of \$125,000. For the nine months ended September 30, 2023, the Company paid \$93,750 in cash to Mr. Royer.

SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

For a detailed review of critical accounting estimates associated with the Company, refer to the "Significant Accounting Judgments, Estimates And Assumptions" section of the Company's MD&A for the three and twelve months ended December 31, 2022, which is available under the Company's profile on SEDAR+ at www.sedarplus.ca.

There were no changes to our critical accounting estimates in financial reporting during the three months ended September 30, 2023.

CHANGES IN ACCOUNTING POLICIES

We adopted certain amended IFRS standards effective January 1, 2023. The adoption of those amendments has had no material impact on the Interim Financial Statements. For additional information, see Note 4 to the Interim Financial Statements.

RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The business of the Company is subject to various financial risks such as interest rate risk, foreign exchange risk, credit risk, and liquidity risk. Our risk management focuses on activities that reduce to a minimum any adverse effects on our consolidated financial performance.

With respect to 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 14 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 annually.

With respect to foreign exchange risk, the Company has implemented a program to reduce the impact of foreign exchange rate volatility on its net income. The Company utilizes derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange risk. Therefore, the Company may purchase foreign exchange forward contracts to hedge net US dollar cash flows. The Company does not utilize derivative financial instruments for trading or speculative purposes. The Company will consider whether to apply hedge accounting on a case-by-case basis and if the instrument is not designated as a hedge, the instrument is adjusted to fair value and marked to market each accounting period, with changes recorded in net income.

During the nine months ended September 30, 2023, the Company entered into foreign exchange forward contracts to sell US dollars in order to partially mitigate its foreign currency risk. As at September 30, 2023, the Company had forward contracts in place to sell an aggregate US\$7.25 million.

For further review of the other financial risks associated with the Company, refer to the “Risk Management and Financial Instruments” section of the Company’s MD&A for the three and twelve months ended December 31, 2022, which is available under the Company’s profile on SEDAR+ at www.sedarplus.ca.

Except as set forth in this MD&A and the notes to our unaudited interim condensed consolidated financial statements, there were no additional risks identified during the three months ended September 30, 2023, and there were no changes to our use of financial instruments during the three months ended September 30, 2023.

OUTSTANDING SHARE DATA

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

- 88,547,717 common shares; and,
- \$5.115 million principal amount of the Debentures.

The number of common shares issuable under the Omnibus Plan and any other security-based compensation arrangements of the Company may not exceed 12% of the number of common shares outstanding from time to time, being as at the date of this MD&A 10,625,726 common shares. As at the date of this MD&A, 2,392,293 common shares are available to be issued under the Omnibus Plan.

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 \$1.00 per common share, subject to adjustment in certain events in accordance with the Indenture.

The Company may, at its option, subject to receipt of any required regulatory approvals, elect to satisfy its obligation to repay the principal amount of the Debentures 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 40 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. Current Market Price means 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 applicable date.

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 September 30, 2023 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.sedarplus.ca.

RISK FACTORS

For a detailed description of risk factors associated with the Company, please refer to the "Risk Factors" section of the Company's Annual Information Form dated March 8, 2023, which is available under the Company's profile on SEDAR+ at www.sedarplus.ca.