



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

For the Three and Six Months Ended June 30, 2021

Dated August 11, 2021

Baylin Technologies Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three and Six Months Ended June 30, 2021

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 August 11, 2021. 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, 2020 (the "Annual Financial Statements") and the unaudited interim condensed consolidated financial statements of Baylin and related notes thereto for the three and six months ended June 30, 2021 (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 August 11, 2021, unless otherwise stated.

Additional information relating to the Company, including the most recent Annual Information Form, may be found under the Company's profile on SEDAR at www.sedar.com. Unless otherwise stated, all amounts shown in this MD&A are in Canadian dollars.

This MD&A contains commentary from the Company's management regarding the Company's strategy, operating results, financial position and outlook. Management is responsible for the accuracy, integrity, and objectivity of this MD&A. Accordingly, management develops, maintains and supports necessary systems and controls to provide reasonable assurance as to the accuracy of the comments contained herein.

FORWARD-LOOKING STATEMENTS

This MD&A includes forward-looking information and forward-looking statements (together, "forward-looking statements") within the meaning of applicable securities laws. They 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 and terrestrial microwave products and 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 Annual Information Form dated March 10, 2021, 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 the 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 these forward-looking statements.

NON-GAAP MEASURES

This MD&A includes a number of measures that are not prescribed by Canadian generally accepted accounting principles ("GAAP") and as such may not be comparable to similar measures presented by other companies. Management believes these measures are commonly employed to measure performance in its industry and are used by

analysts, investors, lenders and interested parties to evaluate financial performance and the Company's ability to incur and service debt to support its business activities. The measures used are specifically defined where they are first used in this report.

While management believes that non-GAAP measures are helpful supplemental information, they should not be considered in isolation as an alternative to net income, cash flows generated by operating, investing or financing activities, or other financial statement data presented in accordance with GAAP.

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

- i. "Net cash", which refers to cash and cash equivalents minus revolving bank indebtedness;
- ii. "Working capital", which refers to current assets minus accounts payable and accrued liabilities;
- iii. "Non-cash working capital", which refers to working capital minus net cash;
- iv. "Cash conversion cycle", which refers to the following in the prior quarter:
 - 1) days sales outstanding, plus;
 - 2) days of inventory outstanding, less;
 - 3) days payables outstanding;
- v. "Gross margin", which refers to gross profit divided by revenue;
- vi. "EBITDA", which refers to operating income (loss) plus depreciation and amortization;
- vii. "Adjusted EBITDA", which refers to EBITDA plus the sum of the following:
 - a) Acquisition expenses, fair value step up of inventory acquired as part of an acquisition, expenses for litigation relating to acquisition agreements, expenses relating to planned restructuring post an acquisition, impairment on fixed and intangible assets (including goodwill) post an acquisition;
 - b) Expenses to permanently close/relocate a facility, shut down a line of business, eliminate positions;
 - c) Expenses relating to corporate re-organization; and,
 - d) Non-cash compensation.

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

OVERVIEW

Background

Baylin is a leading diversified global wireless technology company. Baylin focuses on research, design, development, manufacturing and sales of passive and active radio frequency ("RF") products, terrestrial microwave products, and services. The Company's products are marketed and sold under the brand names Galtronics, Advantech Wireless, Alga Microwave and Mitec VSAT, and 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, distributed antenna systems ("DAS"), base station ("BSA") and small cell needs.

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

The Alga Microwave line of business (including Mitec VSAT), acquired by Baylin in July 2018, supplies RF and microwave solid state power amplifiers, pulsed amplifiers for radar applications, transmitter and transceiver products as well as RF passive components and systems.

Second Quarter Summary

- Announced industry veteran Leighton Carroll as the new Chief Executive Officer.
- Launched the Summit II advanced solid state power amplifier product line for high power applications for the satellite industry.
- Received technical approval for two macro tower antennas for use by a major US wireless carrier – a first for the Company.

- Revenue was \$21.6 million in the second quarter of 2021, a decrease of \$9.0 million or 29.4% compared to the second quarter of 2020.
- Wrote down to zero the remaining goodwill of \$15.9 million related to the Company's 2018 acquisitions.
- Wrote off \$5.5 million in unusable inventory related to the Company's 2018 acquisitions.
- Net cash (see "Non-GAAP Measures" on page 2 of this MD&A) as at June 30, 2021 decreased by \$3.0 million from December 31, 2020 primarily due to operating losses and principal and interest payments, offset by proceeds from the exercise of common share purchase warrants issued in December 2020, drawdown of the Vietnam Loan (see "Credit from banks and loans" on page 13 of this MD&A) and a decrease in non-cash working capital (see "Non-GAAP Measures" on page 2 of this MD&A).
- Conversion of 70% of the outstanding Debentures (see "Convertible debentures" on page 14 of this MD&A) reduced debt by \$12.1 million and annual interest burden by \$0.8 million.

Recent Developments

Private Placement

The Company has entered into an agreement dated August 11, 2021 with Paradigm Capital Inc., as lead agent, on behalf of a syndicate of agents (collectively, the "Agents"), in connection with a proposed best efforts private placement financing (the "Offering") of 11,112,000 common shares of the Company at a price of \$0.90 per common share for total proceeds of approximately \$10 million. The Company has granted the Agents an option to sell up to an additional 15% of the common shares at the same price per common share to cover over-allotments. As part of the Offering, the Company entered into a separate agreement with 2385796 Ontario Inc. (the "Insider"), the Company's largest shareholder, under which the Insider has agreed to support the Offering by agreeing to purchase common shares of the Company with a purchase price equal to the lesser of: (i) \$10 million (subject to increase by the amount (if any) of the over-allotment option); and, (ii) the difference between the full amount of the Offering and the aggregate purchase price paid by all other investors (if any) in the Offering. Accordingly, the Company is assured of receiving at least \$10 million in proceeds from the Offering, subject to receipt of applicable regulatory approvals and satisfaction of other customary closing conditions, including listing of the common shares on the Toronto Stock Exchange (the "TSX"). Jeffrey C. Royer, Chairman of the Board of Directors of the Company, exercises control and direction over investment decisions of the Insider. The Company is relying on the "financial hardship" exemption available to it under the rules of the TSX to permit the Insider to purchase more than 10% of the 62,447,014 common shares of the Company currently outstanding without the Company having to obtain disinterested shareholder approval. The Offering is expected to close on or about September 1, 2021.

Credit Agreement

The Company and its Lenders have agreed to further amendments to the Credit Agreement (see "Credit from banks and loans" on page 13 of this MD&A). These amendments include a waiver of compliance with the Fixed Charge Coverage Ratio (as defined in the Credit Agreement) as at June 30, 2021, change to the manner in which the Fixed Charge Coverage Ratio is calculated for the fiscal quarters ending September 30 and December 31, 2021 so that the twelve month calculation period commences July 1, 2021 on a cumulative basis, removal of the minimum EBITDA covenant (as defined in the Credit Agreement) and increase in the minimum Liquidity covenant (as defined in the Credit Agreement) from \$7 million to \$10 million. The Lenders have also agreed to waive the obligation to apply the net proceeds from the Offering to repay debt provided that the proceeds are deposited in an account with one of the Lenders not later than September 1, 2021.

Asia Pacific Group

In late 2020, the Asia Pacific business line was contracted by a major customer to produce an antenna and its housing for use in a consumer product. This represented an opportunity to diversify into a new product category. However, the product suffered from significant production quality issues, resulting in low yields and high customer returns, and we reported a loss of \$2.0 million in the first quarter of 2021. At that time, we announced that we would cease further production and ship a small number of remaining antennas over the next few months. While there were declining production volumes in the second quarter of 2021, there was a further loss of \$2.0 million, principally related to return shipments from the first quarter of 2021 and quality issues in inventory as at the end of the second quarter. Since our earlier announcement, our customer has asked us to continue production until the program ends later in 2021, albeit at lower volumes than in the first quarter. We are continuing discussions with our customer to minimize the impact while securing other profitable businesses in 2021, and importantly in 2022. The Asia Pacific business line was also affected during the second quarter of 2021 by lower gross margin (see "Non-GAAP Measures" on page 2 of this MD&A),

which was primarily due to lower production of higher-margin LDS (laser direct structuring) and higher production of lower-margin MFA (multi-functional) antennas.

New Chief Executive Officer

On June 7, 2021, the Company announced the appointment of Leighton Carroll as the new President and Chief Executive Officer. Mr. Carroll brings 25 years of experience in wireless networks, holding progressively senior positions within AT&T, including as leader of significant business units within AT&T and as Merger & Integration Executive. As Chief Executive Officer of Wireless Maritime Services (a joint venture of AT&T), he grew a small operation of US\$3.7 million in revenue into one of the world's leading technology enabled service providers with revenue of US\$106 million and strong EBITDA levels, all in 3½ years, and expanded the business into Europe and Asia. In his role as Merger & Integration Executive, he led the acquisitions of Cricket Wireless and the divested properties of Alltel from Verizon, substantially increasing growth of each business beyond target levels. As former CEO of Squan, he transformed a New York metro wireless construction firm into a wireless and transport engineering and delivery company with 11 offices in 10 states. Most recently, he was the former President of QuadGen, a global network and engineering services company, which during his tenure grew substantially through increased revenue and customer diversification. In these previous positions, Mr. Carroll has demonstrated strong corporate leadership and the ability to achieve significant revenue and customer growth, increasing value for stakeholders.

SELECTED FINANCIAL INFORMATION

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

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

	Three Months Ended June 30,		Six Months Ended June 30,		Year Ended December 31,
	2021	2020	2021	2020	2020
	\$	\$	\$	\$	\$
Revenue	21,622	30,629	45,082	57,571	119,739
Gross profit (loss)	(3,549)	9,678	48	18,277	35,401
Loss before income taxes	(33,981)	(4,090)	(42,425)	(7,360)	(17,811)
Income tax expense (recovery)	(46)	617	(28)	(192)	(887)
Net loss	(33,935)	(4,707)	(42,397)	(7,168)	(16,924)
Basic and diluted net loss per share	(\$0.64)	(\$0.12)	(\$0.83)	(\$0.18)	(\$0.42)
EBITDA	(29,887)	1,905	(32,603)	1,710	-
Adjusted EBITDA	(12,721)	2,658	(14,978)	3,213	6,350
Current assets	48,087	68,535	48,087	68,535	58,021
Total assets	102,127	152,011	102,127	152,011	133,473
Current liabilities	57,794	45,307	57,794	45,307	36,470
Non-current liabilities	22,544	52,189	22,544	52,189	48,140
Total liabilities	80,338	97,496	80,338	97,496	84,610

OUTLOOK

The Company's business continues to face challenges brought about by the COVID-19 pandemic and expects that these will continue for the balance of 2021. However, we expect second-half revenue and Adjusted EBITDA to show an improvement over the first half. Travel restrictions are continuing to hamper some business development activities.

MMU Facility

Our MMU facility in Vietnam continues to experience delays in the final commissioning and approval of the facility, in part due to the effect of COVID-19 related travel restrictions, which has prevented engineers from outside Vietnam travelling to Vietnam to complete the installation and inspection of testing equipment. Over the course of 18-month plus delay, our customer's sales of their MMU product have softened significantly. This has led to lower forecast through mid-year 2022 as well as a redesign of the product by our customer to reduce complexity and their cost structure. We now do not expect the facility to be production-ready until some time in 2022, and in light of market conditions and changes to the product design, we will be assessing the long-term strategic options for this facility over the next two quarters.

Satcom Group

The commercial side of the Satcom business line, which represents a majority of its business, continues to feel the effects of the downturn due to the impact of COVID-19. Although there are clear signs of recovery, we expect capital spending by our commercial customers will remain constrained for the remainder of 2021 until a more sustained recovery becomes evident. Similarly, the recently completed C-band spectrum auction in the United States will eventually open up opportunities with the satellite operators once they receive incentive payments and once their C-band spectrum has been cleared. However, those payments will not be made until the blocks of spectrum are allocated to the successful bidders in the auction. For that reason, any benefit to the Satcom business line from the build-out of the related infrastructure is not expected to begin to be realized at the earliest until the beginning of 2022.

We expect sales for military and other government-related uses, which represents the balance of Satcom's business, will remain firm during the third quarter and to the end of 2021. Although we experienced a delay in the launch of our new Ultra High-Power Summit II solid state power amplifiers, with the first deliveries in June 2021, the launch of the Summit II has demonstrated this product's unique competitive differentiation. We believe there is no other platform in the market that can deliver the capabilities of our Summit II and that over time it will open up significant opportunities. Overall, we expect revenue of the Satcom business line to be stronger in the second half of 2021 as certain industries start to invest as the world comes out of the COVID-19 pandemic.

Wireless Infrastructure Group

The Wireless Infrastructure business line has been adversely affected by the delayed timing of in-building and small cell deployments due to the COVID-19 impact and increases in freight costs due to supply chain constraints. We expect these constraints will lessen over the second half of 2021 as economies, particularly in the United States, continue to open up, and be reflected in higher revenue.

Embedded Antenna Group

The Embedded Antenna business line was a stable performer in the first half of 2021. Despite a significant chipset shortage, which impacted its customers' build schedules and forecasts, resulting in lower volumes and revenue, this business line is expected to improve in the second half of 2021 based on increased availability of global chipsets.

DISCUSSION OF OPERATIONS

Description of Operations

Galtronics

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

- a) The Asia Pacific Group works with original equipment manufacturer ("OEM") customers to design and produce antennas for mobile phones, smartphones and tablets. Asia Pacific volumes are produced at the Company's plant in Vietnam, taking advantage of a lower cost structure.
- b) The Embedded Antenna Group works with OEM customers to design and produce antennas for Wi-Fi routers, set-top boxes, home networking devices and land mobile radio products. Embedded Antenna volumes are produced at the Company's plant in China.
- c) The Wireless Infrastructure Group works with network carrier customers and other businesses to design and produce small cell system antennas, DAS and BSA that support wireless coverage and mobile data capacity requirements. Wireless Infrastructure volumes are produced at the Company's plant in China.

Satcom

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

- a) The Advantech Wireless line of business represents over 25 years of significant innovations, including pioneering the use of Gallium Nitride ("GaN") technology to create smaller, lighter, and more powerful products. Advantech Wireless designs and manufactures customizable radio frequency and terrestrial microwave products for highly specialized wireless communications markets, including the following:

- *RF Components:* (i) GaN-based power amplifiers (solid state power amplifiers, solid state power blocks and block up converters); (ii) Gallium arsenide based power amplifiers; (iii) indoor-frequency converters; (iv) outdoor-frequency converters; and, (v) transceivers.
- *Microwave Components:* (i) point-to-point microwave radios; and, (ii) network management software.
- *Antennas & Controllers:* (i) fixed antennas; (ii) mobile antennas; and, (iii) antenna controllers.

Products are designed and produced for customers in the following verticals: (i) broadcast; (ii) maritime and cruise ships; (iii) government and military; (iv) homeland security; (v) direct-to-home satellite; (vi) oil and gas; and, (vii) wireless communications.

- b) The Alga Microwave line of business supplies RF and microwave solid state power amplifiers, pulsed amplifiers for radar applications, transmitter and transceiver products as well as RF passive components and systems. The current product offering covers all major frequency standards, including:
- *Active Components:* L, S, C, X, Ku and Ka with frequencies that range from 2.0 to 31.0 GHz and within power spectrum of 5 to 12,000 watts; and,
 - *Passive Components:* 500 MHz to 100 GHz. Passive RF components include filters, diplexers, combiners/dividers – aluminum, copper, invar, that are complementary to Alga Microwave’s active components and offer significant synergy when integrated within a subassembly or a subsystem.

Revenue and Gross Profit (Loss)

(in \$000's)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Change	2021	2020	Change
	\$	\$	%	\$	\$	%
Revenue	21,622	30,629	(29.4%)	45,082	57,571	(21.7%)
Cost of sales	25,171	20,951	20.1%	45,034	39,294	14.6%
Gross profit (loss)	(3,549)	9,678	(136.7%)	48	18,277	(99.7%)
Gross margin	-16.4%	31.6%		0.1%	31.7%	

a) Factors affecting Revenue and Gross Profit (Loss)

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

b) Fiscal 2021 compared to Fiscal 2020

The Company’s revenue was \$21.6 million in the second quarter of 2021 compared to \$30.6 million in the second quarter of 2020, representing a decrease of \$9.0 million or 29.4%. The decrease was due to softer sales across all business lines in the second quarter of 2021 under the combined impact of the COVID-19 pandemic and global chipset shortage.

The Company’s revenue for the six months ended June 30, 2021 was \$45.1 million compared to \$57.6 million for the six months ended June 30, 2020, representing a decrease of \$12.5 million or 21.7%. The decrease was due to the reasons noted above.

The Company’s gross loss in the second quarter of 2021 was \$3.5 million compared to the gross profit of \$9.7 million in the second quarter of 2020. Gross margin was -16.4% in the second quarter of 2021 compared to 31.6% in the second quarter of 2020. The gross loss in the second quarter of 2021 was mainly attributable to a further write-down of \$5.6 million against inventory in the Satcom business line and an additional \$2.0 million

loss on a consumer product in the Asia Pacific business line. Gross margin was further negatively impacted in the second quarter of 2021 by product mix – Asia Pacific revenue as a percentage of total revenue was higher than anticipated and its products generated lower gross margins than the other business lines.

The Company's gross profit for the six months ended June 30, 2021 was close to nil (0.1% of revenue) compared to \$18.3 million (31.7% of revenue) for the six months ended June 30, 2020. The decrease was due to the reasons noted above.

Selling and Marketing Expenses

(in \$000's)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Change	2021	2020	Change
	\$	\$	%	\$	\$	%
Payroll	1,556	1,588	(2.0%)	3,152	3,449	(8.6%)
Other	558	735	(24.1%)	1,055	1,560	(32.4%)
Total	2,114	2,323	(9.0%)	4,207	5,009	(16.0%)
As a percentage of revenue	9.8%	7.6%		9.3%	8.7%	

a) Factors affecting Selling and Marketing Expenses

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

b) Fiscal 2021 compared to Fiscal 2020

The Company's selling and marketing expenses in the second quarter of 2021 were \$2.1 million (9.8% of revenue) compared to \$2.3 million (7.6% of revenue) in the second quarter of 2020. The decrease was primarily due to lower sales commissions in the second quarter of 2021 as a result of the lower revenue compared to the prior year period, the impact of cost reduction measures, as well as government stimulus received relating to COVID-19 relief including wage and rent subsidies in Canada under the Canada Emergency Wage Subsidy and the Canada Emergency Rent Subsidy.

The Company's selling and marketing expenses for the six months ended June 30, 2021 were \$4.2 million compared to \$5.0 million for the six months ended June 30, 2020. The decrease was due to the reasons noted above.

Research and Development Expenses

(in \$000's)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Change	2021	2020	Change
	\$	\$	%	\$	\$	%
Development costs	4,929	2,578	91.2%	7,915	5,927	33.5%
Depreciation	90	100	(10.0%)	187	179	4.5%
Total	5,019	2,678	87.4%	8,102	6,106	32.7%
As a percentage of revenue	23.2%	8.7%		18.0%	10.6%	

a) Factors affecting Research and Development Expenses

The Company's research and development ("R&D") expenses consist primarily of salaries, patent fees, product development costs and other related engineering expenses. The Company's technological design centres are located in South Korea, United States and Canada. The Company often incurs significant expenditures in the development of a new product without any assurance that its customers' system designers will ultimately select the product for use in their applications. Management is often required to anticipate which product designs will generate demand in advance of its customers expressly indicating a need for that

particular design. Even if the Company's customers' system designers ultimately select our products, a substantial period of time may elapse before the Company generates revenue relative to the possibly significant expenses it has initially incurred.

b) Fiscal 2021 compared to Fiscal 2020

The Company's R&D expenses in the second quarter of 2021 were \$5.0 million (23.2% of revenue) compared to \$2.7 million (8.7% of revenue) in the second quarter of 2020. The increase was mainly attributable to a one-time adjustment for lower Scientific Research and Experimental Development tax incentives in Satcom, and we ceased the capitalization of Asia Pacific engineering development costs starting in the second quarter of 2021.

The Company's R&D expenses for the six months ended June 30, 2021 were \$8.1 million compared to \$6.1 million for the six months ended June 30, 2020. The increase was due to the reasons noted above, somewhat offset by the impact of cost reduction measures as well as government stimulus received relating to COVID-19 relief.

General and Administrative Expenses

(in \$000's)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Change	2021	2020	Change
	\$	\$	%	\$	\$	%
Payroll	2,620	2,060	27.2%	3,749	4,614	(18.7%)
Other	1,581	1,841	(14.1%)	2,639	3,033	(13.0%)
Depreciation	532	679	(21.6%)	1,069	1,325	(19.3%)
Amortization	1,259	1,301	(3.2%)	2,531	2,609	(3.0%)
Total	5,992	5,881	1.9%	9,988	11,581	(13.8%)
As a percentage of revenue	27.7%	19.2%		22.2%	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) Fiscal 2021 compared to Fiscal 2020

The Company's G&A expenses in the second quarter of 2021 were \$6.0 million (27.7% of revenue) compared to \$5.9 million (19.2% of revenue) in the second quarter of 2020. G&A expenses for the three months ended June 30, 2021 include severance amounts for senior executives.

The Company's G&A expenses for the six months ended June 30, 2021 were \$10.0 million compared to \$11.6 million for the six months ended June 30, 2020. The decrease was primarily attributable to lower headcount, the impact of cost reduction measures, as well as government stimulus received relating to COVID-19 relief, somewhat offset by the increase in severance cost noted above.

EBITDA and Adjusted EBITDA

EBITDA and Adjusted EBITDA are non-IFRS measures that management uses to assess the Company's operating performance (see "Non-GAAP Measures" on page 2 of this MD&A). EBITDA and Adjusted EBITDA are reconciled as follows:

Reconciliation to Operating Loss

(in \$000's)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Change	2021	2020	Change
	\$	\$	%	\$	\$	%
Operating loss	(32,582)	(1,204)	2606.1%	(38,157)	(4,419)	763.5%
Depreciation and amortization	2,695	3,109	(13.3%)	5,554	6,129	(9.4%)
EBITDA	(29,887)	1,905	(1668.9%)	(32,603)	1,710	(2006.6%)
Adjustments to EBITDA	17,166	753	2179.7%	17,625	1,503	1072.7%
Adjusted EBITDA	(12,721)	2,658	(578.6%)	(14,978)	3,213	(566.2%)

Adjustments to EBITDA

(in \$000's)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Change	2021	2020	Change
	\$	\$	%	\$	\$	%
Acquisition expenses, fair value step up of inventory acquired as part of an acquisition, expenses for litigation relating to acquisition agreements, expenses relating to planned restructuring post an acquisition; impairment on fixed and intangible assets (including goodwill) post an acquisition	16,146	129	12416.3%	16,324	419	3795.9%
Expenses to permanently close/relocate a facility, shut down a line of business, eliminate positions	775	315	146.0%	886	424	109.0%
Corporate re-organization expenses	3	88	(96.6%)	12	98	(87.8%)
Non-cash compensation	242	221	9.5%	403	562	(28.3%)
Total	17,166	753	2179.7%	17,625	1,503	1072.7%

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) *Fiscal 2021 compared to Fiscal 2020*

The company's operating loss in the second quarter of 2021 was \$32.6 million compared to the operating loss of \$1.2 million in the second quarter of 2020. In the second quarter of 2021, the Company wrote down to zero the remaining goodwill for the Satcom business line by recording an impairment charge of \$15.9 million within operating expenses. Excluding the impact of goodwill impairment, the increase in operating loss in the second quarter of 2021 was mainly due to the lower revenue and gross margin along with the slightly higher operating expenses compared to the prior year period.

The company's operating loss for the six months ended June 30, 2021 was \$38.2 million compared to the operating loss of \$4.4 million for the six months ended June 30, 2020. The increase in operating loss in the six months ended June 30, 2021 was primarily due to the impairment to goodwill and lower revenue and gross margin, somewhat offset by lower operating expenses compared to the prior year period.

The company's Adjusted EBITDA in the second quarter of 2021 was -\$12.7 million compared to \$2.7 million in the second quarter of 2020. Adjustments to EBITDA amounting to \$17.2 million in the second quarter of 2021 are detailed in the chart above.

The company's Adjusted EBITDA for the six months ended June 30, 2021 was -\$15.0 million compared to \$3.2 million for the six months ended June 30, 2020. Adjustments to EBITDA amounting to \$17.6 million in the six months ended June 30, 2021 are detailed in the chart above.

Net Loss

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Change	2021	2020	Change
	\$	\$	%	\$	\$	%
Loss before income taxes	(33,981)	(4,090)	730.8%	(42,425)	(7,360)	476.4%
Income tax expense (recovery)	(46)	617	(107.5%)	(28)	(192)	(85.4%)
Net loss	(33,935)	(4,707)	620.9%	(42,397)	(7,168)	491.5%
Basic and diluted net loss per share	(\$0.64)	(\$0.12)		(\$0.83)	(\$0.18)	

a) Factors affecting Net Loss

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

b) Fiscal 2021 compared to Fiscal 2020

The Company's net loss in the second quarter of 2021 was \$33.9 million compared to the net loss of \$4.7 million in the second quarter of 2020. The net loss in the second quarter of 2021 was primarily due to the operating loss which included the goodwill impairment charge of \$15.9 million and adjustments to EBITDA noted above, as well as a fair value adjustment to the Debentures. On a per share basis, the second quarter of 2021 produced a net loss of \$0.64 per share compared to a net loss of \$0.12 per share in the second quarter of 2020.

The Company's net loss for the six months ended June 30, 2021 was \$42.4 million compared to the net loss of \$7.2 million for the six months ended June 30, 2020. On a per share basis, the six months ended June 30, 2021 generated a net loss of \$0.83 per share compared to a net loss of \$0.18 per share for the six months ended June 30, 2020.

SUMMARY OF QUARTERLY RESULTS

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

	Three Months Ended			
	September 30, 2020	December 31, 2020	March 31, 2021	June 30, 2021
	\$	\$	\$	\$
Revenue	36,577	25,591	23,460	21,622
Gross profit (loss)	10,399	6,725	3,597	(3,549)
EBITDA	2,278	(3,988)	(2,716)	(29,887)
Adjusted EBITDA	3,582	(445)	(2,257)	(12,721)
Net loss	(365)	(9,391)	(8,462)	(33,935)
Basic and diluted net loss per share	(\$0.01)	(\$0.23)	(\$0.17)	(\$0.64)
Current assets	67,860	58,021	61,261	48,087
Total assets	151,292	133,473	133,629	102,127
Current liabilities	48,110	36,470	55,647	57,794
Total liabilities	97,256	84,610	89,993	80,338

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

	Three Months Ended			
	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020
	\$	\$	\$	\$
Revenue	36,430	30,029	26,942	30,629
Gross profit	12,212	10,752	8,599	9,678
EBITDA	824	(12,682)	(195)	1,905
Adjusted EBITDA (2019: revised to include non-cash compensation)	1,442	2,140	555	2,658
Net loss	(718)	(14,649)	(2,461)	(4,707)
Basic and diluted net loss per share	(\$0.02)	(\$0.36)	(\$0.06)	(\$0.12)
Current assets	77,786	64,293	64,963	68,535
Total assets	173,457	147,557	151,996	152,011
Current liabilities	50,838	36,848	63,732	45,307
Total liabilities	100,138	88,676	92,500	97,496

CAPITAL RESOURCES AND LIQUIDITY

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

Liquidity

Management's approach is to ensure, to the extent possible, that sufficient liquidity exists to meet liabilities as they become due. We do so by monitoring cash flows, actual revenue and expenses compared to budgeted amounts. Cash flow is monitored on a weekly basis while other metrics such as the cash conversion cycle ("CCC") are monitored monthly (see "Non-GAAP Measures" on page 2 of this MD&A). Management looks to these key indicators to ensure the Company is generating sufficient cash to maintain capacity and meet planned growth. For example, a low CCC implies a more efficient use of working capital employed.

(in \$000's)

	As at June 30, 2021	As at December 31, 2020
	\$	\$
Cash and cash equivalents	8,582	11,205
Less: Credit from banks	(10,482)	(10,129)
Net Cash	(1,900)	1,076

The Company had net cash at June 30, 2021 and December 31, 2020 of -\$1.9 million and \$1.1 million, respectively. The decrease was primarily due to operating losses and principal and interest payments, offset by proceeds from the exercise of common share purchase warrants issued in December 2020, drawdown of the Vietnam Loan and a decrease in non-cash working capital.

Working capital requirements

Working capital requirements are mainly for materials, production, sales and marketing, R&D, operations and G&A expenses. Working capital requirements could increase due to increased revenue, customer payment delays, increased inventory levels to meet additional demand, and/or paying suppliers more quickly. These changes increase the CCC, which in turn reduces the overall liquidity in the business. As at June 30, 2021, the Company's CCC was 60 days compared to 95 days as at December 31, 2020. The decrease was primarily due to the provision on inventories.

During the six months ended June 30, 2021, non-cash working capital decreased by \$5.4 million. Management considers that the decrease was primarily due to the following factors:

- a) Trade payables and accrued liabilities as at June 30, 2021 were \$26.0 million compared to \$21.2 million as at December 31, 2020. The increase was mainly attributable to extensions in days payable outstanding in the latter part of the second quarter of 2021.
- b) Trade receivables as at June 30, 2021 were \$17.2 million compared to \$20.3 million as at December 31, 2020. The decrease was primarily due to lower sales volumes of Asia Pacific products throughout the second quarter of 2021.
- c) Inventories as at June 30, 2021 were \$15.1 million compared to \$19.7 million as at December 31, 2020. The decrease was mainly due to the provision on inventories.

Commitments for capital expenditures

As at June 30, 2021, the Company had previously made commitments to purchase approximately \$1.2 million of equipment for the Massive MIMO factory in Vietnam, and approximately \$0.6 million of equipment for all the other subsidiaries.

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 \$20.0 million; and, a term credit facility (“Term Loan”) for up to \$26.0 million.

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 (as defined in the Credit Agreement) and is payable monthly in arrears, as set out in the Credit Agreement. As at June 30, 2021, the interest rate on the Revolving Facility was 6.25% on United States Dollar advances, 4.95% on Canadian Dollar advances and 3.60% on LIBO Rate advances. As at June 30, 2021, the standby fee on the undrawn portion of the Revolving Facility was 0.70%. As at June 30, 2021, the interest rate on the Term Loan was 3.70%.

The Company may draw on its available revolving credit facilities under the Revolving Facility as well as the revolving credit facilities with the banks domiciled in China and South Korea, as needed. As at June 30, 2021, the Company’s aggregate revolving credit facilities were \$18.9 million of which \$10.5 million was drawn and utilized. As at June 30, 2021, \$6.9 million was outstanding under the Revolving Facility.

The principal amount under the Term Loan was fully advanced in United States Dollars and was used to repay existing indebtedness. Quarterly principal repayments in the amount of \$0.9 million commenced on June 30, 2019. The interest rate on the Term Loan is determined based on the LIBO Rate (as defined in the Credit Agreement), the applicable margin and the Company’s Senior Debt to EBITDA ratio (as defined in the Credit Agreement) and is payable quarterly in arrears.

Commencing July 26, 2019, the Company entered into an interest rate swap arrangement where the LIBO Rate portion of the interest rate on the Term Loan was fixed at 2% until maturity. The Revolving Facility and Term Loan (together, the “Credit Facilities”) mature on March 29, 2022.

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 certain financial covenants, including a Senior Debt to Equity Ratio and Fixed Charge Coverage Ratio (as defined in the Credit Agreement), calculated on a quarterly basis, 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, financial assistance, distributions, capital expenditures and changes to the business), and events of default.

The Credit Agreement has previously been amended, most recently as of May 10, 2021. The effect of these amendments is that:

- a) for the period from June 30 to December 31, 2021, there is no Senior Debt to EBITDA Ratio covenant, and for the quarters ending March 31, 2022 and following, the Senior Debt to EBITDA Ratio will be 3.00:1.00;
- b) there is a minimum EBITDA covenant for the trailing twelve months ending September 30 and December 31, 2021;

- c) the Company is required at all times to maintain a minimum Liquidity of \$7 million;
- d) the maximum availability under the Revolving Facility has been reduced to \$15 million;
- e) the rate of interest that would otherwise apply at any time the Senior Debt to EBITDA Ratio is equal to or more than 2.75:1.00 has been increased by 0.25%; and,
- f) the standby fee that would otherwise apply at any time the Senior Debt to EBITDA Ratio is equal to or more than 2.75:1.00 has been increased by 0.05%.

As contained in the previous amendments to the Credit Agreement, the Lenders waived compliance with the applicable financial covenants for the fiscal quarter ended March 31, 2020 and March 31, 2021, respectively. With the Lenders' consent, the Company deferred the scheduled principal repayments on the Term Loan on June 30, 2020 and September 30, 2020.

The Company and the Lenders have agreed to further amend the Credit Agreement (see "Recent Developments" on page 4 of this MD&A).

On October 14, 2020, one of the Company's subsidiaries in Vietnam ("GTD") 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 \$3.1 million in Vietnamese Dong currency equivalent (the "Vietnam Loan"). As at June 30, 2021, \$3.0 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 is payable semi-annually in arrears. The Vietnam Loan matures on February 18, 2024 and quarterly principal repayments commence on March 1, 2022. The Company's other Vietnamese subsidiary ("GTV") is a guarantor of the Vietnam Loan. The Vietnam Loan is secured by certain assets of GTD. The Vietnam Credit Agreement contains certain financial covenants, for both GTD and GTV, including a Debt Service Coverage Ratio and a Tangible Net Worth Ratio (each as defined in the Vietnam Credit Agreement). The Vietnam Credit Agreement also includes other customary covenants and events of default.

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 Company offered holders of the Debentures the option to receive common shares as an alternative to cash as payment of interest due for the interest payment date on June 30 and December 31, 2020. Holders who exercised the option received common shares at 85% of their current market price at the relevant interest payment date.

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

The Debentures are not redeemable by the Company prior to July 10, 2021 (except in certain limited circumstances following a Change of Control (as defined in the Indenture). On or after July 10, 2021, and prior to the Maturity Date, the Company may, at its option, subject to providing not more than 60 days' and not less than 30 days' prior notice, redeem the Debentures, in whole or, from time to time, in part, at par plus accrued and unpaid interest provided that the volume-weighted average trading price of the common shares on the Toronto Stock Exchange 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 become 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

Debtors converted their Debtors into 10,932,429 common shares of the Company at the New Conversion Price, leaving \$5.115 million of the Debtors 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 Debtors, at the option of the holder, in whole or in part, at a price equal to 101% of the principal amount of the Debtors outstanding, plus accrued interest.

The Debtors 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 Debtors 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 June 30, 2021 and June 30, 2020:

	Number of DSUs	Weighted Average Price
DSUs outstanding as at January 1, 2020	395,449	\$2.51
DSUs granted during 2020	88,836	\$1.42
DSUs redeemed during 2020	(52,759)	\$2.10
DSUs outstanding as at June 30, 2020	<u>431,526</u>	<u>\$2.34</u>
	Number of DSUs	Weighted Average Price
DSUs outstanding as at January 1, 2021	583,106	\$1.96
DSUs granted during 2021	152,090	\$1.25
DSUs redeemed during 2021	(24,936)	\$3.15
DSUs outstanding as at June 30, 2021	<u>710,260</u>	<u>\$1.65</u>

The Company recognized a DSU expense of \$0.2 million during the six months ended June 30, 2021, which was included in G&A expenses.

Stock Option Grants

Stock options may be granted the board of directors to directors, officers, employees and consultants of the Company (or its affiliates) 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 June 30, 2021:

Options grant date	Options granted	Exercise price	Options expiry date	Options vested as at		Options expired as at June 30, 2021	Options surrendered as at June 30, 2021	Outstanding options as at June 30, 2021
				June 30, 2021	December 31, 2020			
Mar. 30, 2017	685,000	\$1.98	Mar. 30, 2022	456,666	456,666	145,000	290,000	250,000
Aug. 8, 2017	500,000	\$2.00	Aug. 8, 2022	500,000	500,000	-	-	500,000
Mar. 10, 2018	30,000	\$3.51	Mar. 10, 2023	30,000	20,000	-	-	30,000
May 17, 2018	275,000	\$3.34	May 17, 2023	131,666	131,666	43,334	21,666	210,000
May 22, 2018	25,000	\$3.34	May 22, 2023	5,000	5,000	20,000	5,000	-
Jul. 11, 2018	197,500	\$3.50	Jul. 11, 2023	72,000	72,000	90,400	48,600	58,500
Nov. 9, 2018	250,000	\$3.84	Nov. 9, 2023	166,666	166,666	-	-	250,000
Mar. 25, 2019	325,000	\$3.89	Mar. 25, 2024	70,000	35,000	150,000	-	175,000
May 21, 2019	270,000	\$3.57	May 21, 2024	90,000	90,000	-	-	270,000
Aug. 16, 2019	60,000	\$3.18	Aug. 16, 2024	20,000	20,000	-	-	60,000
Nov. 23, 2020	150,000	\$0.87	Nov. 23, 2025	-	-	-	-	150,000
Jun. 21, 2021	900,000	\$1.05	Jun. 21, 2026	-	-	-	-	900,000
	<u>3,667,500</u>			<u>1,541,998</u>	<u>1,496,998</u>	<u>448,734</u>	<u>365,266</u>	<u>2,853,500</u>

The Company recognized a stock option expense of \$0.2 million during the six months ended June 30, 2021, which was included in G&A expenses.

Common Share Grants

In February 2018, the Company issued 49,738 restricted common shares, with 50% of the common shares to vest 12 months subsequent to the date of grant and 50% to vest 24 months subsequent to the date of the grant. The Company recognized less than \$0.1 million in G&A expenses for the six months ended June 30, 2020, and no amount was recognized for the six months ended June 30, 2021.

In March 2019, the Company issued an additional 64,263 restricted common shares, with 50% of the common shares to vest 12 months subsequent to the date of grant and 50% to vest 24 months subsequent to the date of grant. The Company recognized less than \$0.1 million in G&A expenses for the six months ended June 30, 2021 and June 30, 2020, respectively.

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

Private Placements

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

On December 15, 2020, the Company issued 6,666,700 Units at a price of \$0.75 per Unit, each Unit comprised of one common share and one-half of a common share purchase warrant. 2385796 Ontario Inc., a company over which Mr. Jeffrey C. Royer, the Company's Chairman of the Board of Directors, exercises investment control, and Mr. Randy Dewey, the Company's former President and CEO, purchased a total of 1,416,600 Units. On February 22, 2021, the Company exercised its right to accelerate the expiry date of the warrants to 30 days after delivery of the notice. As of the expiry date, 3,175,450 of the 3,333,350 warrants were exercised (including those held by the related parties) for proceeds of \$3.3 million.

Advantech Wireless Inc.

In January 2018, the Company acquired the Advantech Wireless line of business (the "Advantech Acquisition") from Advantech Wireless Inc. (now known as SpaceBridge Inc. (the "Advantech Vendor")), which is owned and controlled by David Geleman, 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 June 30, 2021, \$2.4 million due to the Company was included in trade receivables and \$1.5 million due to the agent was included in accounts payable and accrued liabilities.

During the six months ended June 30, 2021, the Company recognized revenue of \$0.1 million related to the sale of goods to the Advantech Vendor and certain of its affiliates.

The Company did not provide services to the Advantech Vendor or its affiliates during the six months ended June 30, 2021. As at June 30, 2021 and December 31, 2020, \$0.4 million was included within trade receivables related to these services.

Alga Microwave

For the six months ended June 30, 2021 and the six months ended June 30, 2020, \$0.1 million was recognized in revenue for premises leased to a company partly owned by Michael Perelshtein, an Alga Microwave employee until November 12, 2020.

Executive officer remuneration

Short-term benefits, pension and post-retirement benefits of the executive officers of the Company amounted to \$2.6 million for the six months ended June 30, 2021 compared to \$3.3 million for the six months ended June 30, 2020. These amounts comprise of executive officers' salary and benefits earned during the year, plus bonuses awarded for the year. The amounts also represent the estimated costs of providing defined benefit pensions and other post-retirement benefits to executive officers in respect of the current year of service.

Other

The Company retains the services of Mr. Jeffrey C. Royer, pursuant to a services agreement between Mr. Royer and the Company dated as of January 1, 2015, to fulfill the position of Chairman of the board of directors and to provide related strategic leadership and guidance to the board of directors and management of the Company. As consideration for the services provided under the agreement, the Company agreed to pay Mr. Royer an annual fee of \$150,000 either in cash or securities of the Company as mutually agreed between the Company and Mr. Royer. In March 2020, Mr. Royer agreed to forego the fee for an unspecified period. For the six months ended June 30, 2021, no amount was paid to Mr. Royer under this agreement.

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

LEGAL PROCEEDINGS

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

In October 2018, the Company received a payment from the escrow agent of approximately \$1.8 million as a result of an indemnity claim made by the Company against the portion of the cash purchase price being held in escrow pursuant to the terms of the Advantech Acquisition. The sum was released by the escrow agent because the Advantech Vendor failed to contest the indemnity claim within the prescribed time period. After the payment, the Advantech Vendor filed an application for relief from forfeiture to have the sum returned to the escrow agent. The Company is opposing the application. No date has been set to hear the application.

The Company has filed statements of claim for certain other indemnity obligations of the Advantech Vendor pursuant to the terms of the Advantech Acquisition. The claims, in the aggregate, total approximately \$5.6 million. The Advantech Vendor has filed statements of defence as well as statements of counterclaim. In July 2019, the Advantech Vendor delivered multiple indemnity claims pursuant to the terms of the Advantech Acquisition seeking to set off the amounts being claimed by the Company. The Company has contested the indemnity claims.

In June 2019, the Advantech Vendor filed an application asserting oppression for, among other things, unspecified amounts in relation to the 2018 earn out under the terms of the Advantech Acquisition and for shares in the Company for which set-off has been claimed by the Company. The Advantech Vendor alleges that Mr. Geleman was improperly denied from participating in the management of the Company resulting in a lower earn out. The Company will defend the allegations. No date has been set for the application related to claims for compensation. The issue of whether the Company is entitled to assert set-off on the common shares was the subject of an appeal by the Company from a lower court ruling. In February 2021, the Ontario Court of Appeal found in favour of the Company, overturning the lower court's ruling and confirming that the Company is entitled to a right of set-off on the shares. On July 29, 2021, the Supreme Court of Canada denied (with costs) the Advantech Vendor's application for leave to appeal the judgment of the Court of Appeal.

In January 2020, the Advantech Vendor filed a statement of claim claiming damages against the Company for various breaches of the asset purchase and other agreements related to the Advantech Acquisition. These claims include the multiple indemnity claims previously made by the Advantech Vendor as well as additional claims for breach of an agreement governing transitional services provided by the Company following the Advantech Acquisitions and the Consulting Agreement. The claims include loss of business opportunities, improper use of the Advantech Vendor's books and records, unpaid rent on premise subleased from the Advantech Vendor as part of the Advantech Acquisition, diminution in the value of Baylin common shares payable as part of the consulting fees under the Consulting Agreement and conversion of inventory after completion of the Advantech Acquisition. Where specified, the amount of damages claimed is at least \$7.2 million.

In the case of the Company's claims under the asset purchase agreement for breaches of representations related to working capital and closing inventory levels, documentary discovery is currently being conducted and oral discovery is expected to occur, once scheduled, later in 2021.

In the third quarter of 2019, the former shareholders of Alga Microwave filed an application asserting that an event occurred which triggered the payment of an earnout in the amount of \$1.0 million as detailed in the share purchase agreement. The Company does not agree that the payment has been triggered and has contested the application. No date has been set for the application.

In December 2020, a former employee of Alga Microwave filed an application asserting that he had been constructively dismissed and claiming damages of \$0.5 million. The Company is opposing the application and has cross-claimed against the former employee. Alga Microwave has made a separate claim against the former employee and others, claiming damages for approximately \$2 million, alleging, among other things, a conspiracy to damage Alga Microwave's business, wrongful interference with Alga Microwave's economic relations and breach of fiduciary duty. The defendants in the previous action have started a separate proceeding against Alga Microwave and others claiming the previous action is an abuse of procedure. These four actions have now been joined in one proceeding.

The Company is unable to determine at this time whether it will be entitled to recover or required to pay any amounts related to these legal proceedings.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's activities expose it to various financial risks such as foreign exchange risk, interest rate risk, customer concentration and credit risk, and liquidity risk. Our risk management focuses on activities that reduce to a minimum any adverse effects on our consolidated financial performance.

Foreign exchange risk

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

Interest rate risk

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

Credit risk

A significant portion of the Company's products are sold to a limited number of major customers located primarily in North America and Asia. The top three customers in any given year may not be the same top three customers in a previous or subsequent year. The loss of, or a significant reduction in, orders from one or more of our major customers would adversely affect the Company's business, results of operations and financial condition. The Company recognized an aggregate of 38% and 29% of revenue, directly and indirectly, from the Company's largest customer and its subcontractors for the six months ended June 30, 2021 and June 30, 2020, respectively. The Company's strategy in managing this risk is to diversify its customer base by expanding its product portfolio and enhancing its sales and marketing efforts.

The Company and its subsidiaries typically extend 30 to 90-day credit terms to its customers and regularly monitor the credit extended to such customers and their general financial condition but do not require collateral as security for these receivables. The Company provides an allowance for expected credit losses based on the factors that affect the credit risk of certain customers, past experience and other information including the impact of COVID-19 during the year. The Company also assessed 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.

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 and project deployment delays which would adversely affect future cash flows and liquidity.

Going concern risk

Management regularly reviews and makes an assessment of the Company's ability to continue as a going concern. This assessment relies on significant judgements and assumptions, taking into account known future information, including whether events or conditions create material uncertainties that may cast significant doubt on the ability to continue as a going concern. In assessing the Company's ability to continue as a going concern, management has a reasonable expectation that the Company will be able (i) to raise \$10 million in common share financing and that it will be adequate to fund operating and debt service requirements for the next twelve months, and (ii) to refinance the Revolving Facility and Term Loan (together, the "Credit Facilities") when they mature on March 29, 2022.

OUTSTANDING SHARE DATA

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

- 62,447,014 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 6,244,701 common shares. As at the date of this MD&A, 2,653,882 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 \$3.85 per common share, being a ratio of approximately 260 common shares per \$1,000 principal amount of Debentures, subject to adjustment in certain events in accordance with the Indenture.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for the design and operating effectiveness of internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with IFRS. Based on a review of the Company's internal control procedures, management believes its internal controls and procedures are appropriately designed and has certified the operating effectiveness of its internal controls as at June 30, 2021.

No significant changes in the Company's internal controls over financial reporting occurred during the three months ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting.

Disclosure Controls and Procedures

Management is also responsible for the design and effectiveness of disclosure controls and procedures to provide reasonable assurance that material information related to the Company, including its consolidated subsidiaries, is made known to the Company's certifying officers. The Company's President and Chief Executive Officer and acting Chief Financial Officer have each evaluated the design of the Company's disclosure controls and procedures as at June 30, 2021 and have concluded that these controls and procedures were appropriately designed.

ADDITIONAL INFORMATION

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

RISK FACTORS

For a detailed description of risk factors associated with the Company, refer to the "Risk Factors" section of the Company's Annual Information Form dated March 10, 2021, which is available under the Company's profile on SEDAR at www.sedar.com.