



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

**For the Three and Nine Months Ended September 30, 2022**

**Dated November 9, 2022**

## **Baylin Technologies Inc.**

### **Management's Discussion and Analysis of Financial Condition and Results of Operations For the Three and Nine Months Ended September 30, 2022**

This management's discussion and analysis ("MD&A") of financial condition and results of operations of Baylin Technologies Inc. ("Baylin", the "Company", "we" or "us") was prepared by management as at November 9, 2022. This MD&A should be read in conjunction with the audited consolidated financial statements of Baylin and related notes thereto for the year ended December 31, 2021 (the "Annual Financial Statements") and the unaudited interim condensed consolidated financial statements of Baylin and related notes thereto for the three and nine months ended September 30, 2022 (the "Interim Financial Statements" and, together with the Annual Financial Statements, the "Financial Statements"). The Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). In preparing this MD&A, management has taken into account information available to it up to November 9, 2022, unless otherwise stated.

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

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

#### **FORWARD-LOOKING 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.sedar.com](http://www.sedar.com). All the forward-looking statements in this MD&A are qualified by these cautionary statements and other cautionary statements or factors in this MD&A. There can be no assurance that the actual results or developments will be realized or, even if substantially realized, will have the expected consequences to, or effects on, the Company. Unless required by applicable law, the Company does not intend and does not assume any obligation to update any forward-looking statements.

## NON-IFRS MEASURES

This MD&A includes a number of measures that are not prescribed by IFRS and as such may not be comparable to similar measures presented by other companies. Management believes that these measures are commonly employed to measure performance in our industry and are used by analysts, investors, lenders and interested parties to evaluate financial performance and the Company's ability to incur and service debt to support business activities. The measures we use are specifically defined where they are first used.

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

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

- i. "Net 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 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, Advantech Wireless and Alga Microwave. The Company's operations are conducted through subsidiaries.

## Galtronics

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

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

- a) The Asia Pacific business line works with original equipment manufacturer ("OEM") customers to design and produce antennas for mobile phones, smartphones and tablets. Asia Pacific volumes are produced at the Company's plant in Vietnam, taking advantage of a lower cost structure.
- b) The Embedded Antenna business line works with OEM customers to design and produce antennas for home networking devices (such as Wi-Fi routers and gateways), set-top boxes, 5G products and land mobile radio products. Embedded Antenna volumes are produced at the Company's plant in China.
- c) The Wireless Infrastructure business line works with network carrier customers and other businesses to design and produce small cell system antennas, DAS and BSA that support wireless coverage and mobile data capacity requirements. Wireless Infrastructure volumes are produced at the Company's plant in China.

## 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.

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

- a) The Advantech Wireless product line designs and manufactures customizable satellite RF and microwave products for highly specialized wireless communications markets, including:
  - *RF Components:* (i) GaN-based power amplifiers (solid state power amplifiers, solid state power blocks and block up converters); (ii) Gallium arsenide-based power amplifiers; (iii) indoor-frequency converters; (iv) outdoor-frequency converters; and, (v) transceivers.
  - *Microwave Components:* (i) point-to-point microwave radios; and, (ii) network management software.
  - *Antennas and Controllers:* (i) fixed antennas; (ii) mobile antennas; and, (iii) antenna controllers.

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

- b) The Alga Microwave product line supplies RF and microwave solid state power amplifiers, pulsed amplifiers for radar applications, transmitter and transceiver products as well as RF passive components and systems.

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

The combined product offering covers all major frequency standards, including:

- *Active Components:* L, S, C, X, Ku and Ka 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.

## 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,			
	2022	2021	Change	Change	2022	2021	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
<b>Profit and Loss</b>								
Revenue	29,967	30,216	(249)	(0.8%)	91,075	75,298	15,777	21.0%
Gross profit	7,902	6,282	1,620	25.8%	24,973	6,330	18,643	> 100.0%
Gross margin	26.4%	20.8%	5.6%	N/A	27.4%	8.4%	19.0%	N/A
Net loss	(4,861)	(4,898)	37	(0.8%)	(12,242)	(47,295)	35,053	(74.1%)
Basic and diluted net loss per share	(\$0.06)	(\$0.07)	\$0.01	(14.3%)	(\$0.15)	(\$0.84)	\$0.69	(82.1%)
EBITDA*	(679)	(1,222)	543	(44.4%)	(1,471)	(33,825)	32,354	(95.7%)
Adjusted EBITDA*	92	(682)	774	N/A	639	(15,660)	16,299	N/A
	As at	As at			As at	As at		
	September 30, 2022	September 30, 2021	Change	Change	September 30, 2022	December 31, 2021	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
<b>Balance Sheet and Other</b>								
Current assets	54,744	57,104	(2,360)	(4.1%)	54,744	61,086	(6,342)	(10.4%)
Total assets	80,811	110,166	(29,355)	(26.6%)	80,811	93,033	(12,222)	(13.1%)
Current liabilities	62,857	45,745	17,112	37.4%	62,857	61,852	1,005	1.6%
Non-current liabilities	17,305	36,903	(19,598)	(53.1%)	17,305	19,400	(2,095)	(10.8%)
Total liabilities	80,162	82,648	(2,486)	(3.0%)	80,162	81,252	(1,090)	(1.3%)
Net debt*	21,513	15,243	6,270	41.1%	21,513	12,295	9,218	75.0%
Backlog*	37,406	29,393	8,013	27.3%	37,406	36,444	962	2.6%

\* 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 \$30.0 million in the third quarter of 2022, a decrease of \$0.2 million or 0.8% compared to the third quarter of 2021. The decrease was primarily due to weaker sales in the Asia Pacific business line, which was adversely affected by production volume reductions at the Asia Pacific's largest customer. The decrease was partially offset by stronger sales in the Embedded Antenna business line, which was attributable to increased demand from new customers for home networking products.
- Gross profit of \$7.9 million in the third quarter of 2022, an increase of \$1.6 million or 25.8% compared to the third quarter of 2021. Gross margin (see "Non-IFRS Measures" on page 3 of this MD&A) was 26.4% in the third quarter of 2022 compared to 20.8% in the third quarter of 2021. The improved gross margin resulted from a balanced product mix due to both changes in pricing strategy and a data driven focus on contribution margin at the business line level, which in the third quarter of 2022 was mainly generated by: (i) operating and financial efficiencies in the Asia Pacific business line; and, (ii) consistent growth in the Embedded Antenna business line.
- Adjusted EBITDA (see "Non-IFRS Measures" on page 3 of this MD&A) of \$0.1 million in the third quarter of 2022, the fourth consecutive quarter of positive Adjusted EBITDA. Adjusted EBITDA was \$0.8 million higher compared to negative \$0.7 million in the third quarter of 2021. The increase in Adjusted EBITDA was mainly due to the increase in gross profit discussed above, partially offset by an increase in operating expenses compared to the prior year period.
- Backlog (see "Non-IFRS Measures" on page 3 of this MD&A) was \$37.4 million as at September 30, 2022, mainly attributable to a higher level of backlog in the Satcom and Asia Pacific business lines compared to the backlog level at December 31, 2021. Backlog at September 30, 2022 was an increase of \$8.0 million or 27.3% compared to the backlog at September 30, 2021 as a result of improved marketing, business development and sales activities.

- Net loss of \$4.9 million in the third quarter of 2022, which was comparable to the net loss in the third quarter of 2021. Net loss in the third quarter of 2022 was primarily due to an operating loss of \$3.4 million, interest expenses as well as income tax expenses. On a per share basis, a net loss of \$0.06 per share in the third quarter of 2022 compared to a net loss of \$0.07 per share in the third quarter of 2021.
- Net debt (see “Non-IFRS Measures” on page 3 of this MD&A) was \$21.5 million as at September 30, 2022, an increase of \$9.2 million from December 31, 2021, mainly due to an increase in non-cash working capital (see “Non-IFRS Measures” on page 3 of this MD&A), capital expenditures and interest payments.

## **RECENT DEVELOPMENTS**

### ***Product Development***

In September 2022, Galtronics announced that it had expanded its multibeam antenna portfolio with the addition of three new products. The new products cover multiple spectrum bands, enabling Galtronics to sell to all major US and Canadian wireless carriers. These products build on its first multibeam antenna, which has been successfully deployed by a Tier 1 US carrier throughout the United States over the past 18 months. The new products all use patent pending beam-tracking stability technology, which makes them ideal solution for stadium, venue, and special event deployments.

Also in September 2022, Advantech Wireless announced the release of Genesis, a new solid-state power amplifier platform (“SSPA”) for satellite communications. The Genesis family of SSPAs provides high-end features that are unique to this product line, including a modular platform, streamlined manufacturability, and ease of serviceability. The platform runs on proprietary internal communication architecture, amplifiers can be linked together enabling them to operate more powerfully without the need for an outboard logic controller.

### ***Board of Directors***

In August 2022, Bejoy Pankajakshan was appointed to Baylin’s board of directors. Mr. Pankajakshan is currently Executive Vice President and Chief Technology and Strategy Officer at Mavenir Systems, Inc. In that role, he has developed significant expertise and insight into technological innovation, product development, strategic development and business growth.

### ***Credit Facility***

In September 2022, the Company and its lenders (Royal Bank of Canada and HSBC Bank Canada) agreed to further amendments to the Credit Agreement (see “Credit from banks and loans” on page 14 of this MD&A), among others, to extend the maturity date of the Company’s credit facilities for a further year from September 30, 2022 to September 29, 2023.

## **OUTLOOK**

Despite continuing supply chain constraints, the Company achieved a fourth consecutive quarter of positive Adjusted EBITDA and gross margins improved in the third quarter of 2022 compared to the third quarter of 2021. Nevertheless, challenges brought about by COVID lockdowns in China, material shortages and increased material costs due to supply chain disruptions, and chipset shortages have caused delays in both the production and the delivery of our products and are causing push-outs of some orders from our customers. We had expected that these disruptions would begin to ease over the second half of 2022, but now anticipate that they will continue at least until the end of 2022 and likely into the first quarter of 2023. The ongoing war in Ukraine and the risk of additional COVID lockdowns in China could continue to exacerbate the supply chain disruptions. As a result of these continuing challenges, we now expect the fourth quarter of 2022 to continue to see challenges in further revenue and Adjusted EBITDA growth.

### ***Asia Pacific Business Line***

Revenue in the third quarter of 2022 was adversely affected by across-the-board production volume reductions at Asia Pacific’s largest customer, due in part to worsening global economic conditions and softening in consumer spending. Management of the Asia Pacific business line was able to limit the effect of lower revenue by proactively managing operating costs. We are continuing to conduct reviews of Asia Pacific’s product portfolio to improve its product mix. The goal of these reviews is to improve the contribution margin of this business line, even if it means foregoing

additional revenue. We expect revenue and Adjusted EBITDA for the fourth quarter of 2022 will be comparable to the third quarter.

### ***Embedded Antenna Business Line***

The Embedded Antenna business line continued to show considerable strength in the third quarter of 2022, with growth in both revenue and volumes, due in part to demand from new customers for home networking products, as well as stronger Adjusted EBITDA and higher gross margins over the second quarter of 2022. This continues the improvement in financial performance of this business line over the past 12 months, despite intermittent COVID lockdowns in China and global chipset shortages which have impacted customers' build schedules and forecasts. We expect the fourth quarter of 2022 to be modestly lower than the third quarter in volumes and Adjusted EBITDA which is in line with the seasonality of the business, albeit with continuing profitability.

### ***Wireless Infrastructure Business Line***

The Wireless Infrastructure business line had a weaker third quarter of 2022 in both revenue and Adjusted EBITDA. Historically, sales in September and October tend to be lower than other parts of the year. We expect that DAS deployments will strengthen, particularly for use in stadiums and in in-building wireless in the remainder of the year and into 2023. We expect the new multibeam BSAs and innovative small cell antennas from Galtronics will open up new opportunities to drive sales with wireless carriers; however, we expect the fourth quarter of 2022 to be modestly lower than the third quarter before returning to more normal levels in the first quarter of 2023.

### ***Satcom Business Line***

The commercial side of the Satcom business line continues to demonstrate consistent demand with capital spending by our customers continuing the momentum seen in the first quarter of 2022. Given the capital build cycles of satellite operators and others in the Satcom ecosystem, we continue to expect the benefit to this business line for the remainder of the year. We expect our new Genesis line of solid-state power amplifiers will generate significant interest from commercial clients, particularly those in the aviation and maritime industries.

Sales for military and other government-related uses, which represents the balance of the Satcom business line, will continue and potentially increase in the fourth quarter of 2022, as many western countries have dramatically increased their defense 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 of the Satcom business line to improve in the fourth quarter of 2022 compared to each of the first three quarters of the year. The Satcom business line continues to demonstrate a strong order book but continues to face supply chain constraints, chipset shortages and component delays. We continue to take steps to improve production efficiencies in our facilities in order to address the backlog and improve overall revenue attainment.

## **DISCUSSION OF OPERATIONS**

### ***Revenue and Gross Profit***

(in \$000's)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	Change	Change	2022	2021	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
<b>Revenue</b>	<b>29,967</b>	<b>30,216</b>	<b>(249)</b>	<b>(0.8%)</b>	<b>91,075</b>	<b>75,298</b>	<b>15,777</b>	<b>21.0%</b>
Cost of sales	22,065	23,934	(1,869)	(7.8%)	66,102	68,968	(2,866)	(4.2%)
<b>Gross profit</b>	<b>7,902</b>	<b>6,282</b>	<b>1,620</b>	<b>25.8%</b>	<b>24,973</b>	<b>6,330</b>	<b>18,643</b>	<b>&gt; 100.0%</b>
Gross margin	26.4%	20.8%			27.4%	8.4%		

#### *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. Revenue is impacted by the timing of customers' product launches, their project deployment plans, and network expansion investment levels by carriers and independent providers.

The Company's gross profit is impacted by selling prices, sales volumes, product mix and variable costs of goods sold (being direct materials and direct labour).

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

The Company's revenue was \$30.0 million in the third quarter of 2022 compared to \$30.2 million in the third quarter of 2021, representing a decrease of \$0.2 million or 0.8%. The decrease was primarily due to weaker sales in the Asia Pacific business line in the third quarter of 2022 which was adversely affected by production volume reductions at the Asia Pacific's largest customer, partially offset by stronger sales in the Embedded Antenna business line which was attributable to increased demand from new customers for home networking products.

The Company's gross profit was \$7.9 million in the third quarter of 2022, an increase of \$1.6 million compared to \$6.3 million in the third quarter of 2021. Gross margin was 26.4% in the third quarter of 2022 compared to 20.8% in the third quarter of 2021. The improvement in gross margin resulted from a balanced product mix due to changes in pricing strategy and a data driven focus on contribution margin at the business line level, which in the third quarter of 2022 was mainly generated by: (i) operating and financial efficiencies in the Asia Pacific business line; and, (ii) consistent growth in the Embedded Antenna business line.

*c) Nine Months Ended September 30, 2022 compared to Nine Months Ended September 30, 2021*

The Company's revenue for the nine months ended September 30, 2022 was \$91.1 million compared to \$75.3 million for the nine months ended September 30, 2021, representing an increase of \$15.8 million or 21.0%. The increase was primarily due to stronger sales across all the business lines despite continuing supply chain disruptions, chipset shortages and the COVID-19 pandemic in the nine months ended September 30, 2022.

The Company's gross profit for the nine months ended September 30, 2022 was \$25.0 million (27.4% of revenue) compared to \$6.3 million (8.4% of revenue) for the nine months ended September 30, 2021. The increase was due to the reasons noted above.

### ***Selling and Marketing Expenses***

(in \$000's)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	Change	Change	2022	2021	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Payroll	1,289	1,495	(206)	(13.8%)	3,854	4,647	(793)	(17.1%)
Other	760	43	717	> 100.0%	2,213	1,098	1,115	> 100.0%
<b>Total</b>	<b>2,049</b>	<b>1,538</b>	<b>511</b>	<b>33.2%</b>	<b>6,067</b>	<b>5,745</b>	<b>322</b>	<b>5.6%</b>
As a percentage of revenue	6.8%	5.1%			6.7%	7.6%		

*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 2022 compared to Third Quarter of 2021*

The Company's selling and marketing expenses in the third quarter of 2022 were \$2.0 million (6.8% of revenue) compared to \$1.5 million (5.1% of revenue) in the third quarter of 2021. The increase was mainly due to higher travel and marketing expenses incurred to acquire new business and execute on the Company's go to market strategy.

c) *Nine Months Ended September 30, 2022 compared to Nine Months Ended September 30, 2021*

The Company's selling and marketing expenses for the nine months ended September 30, 2022 were \$6.1 million (6.7% of revenue) compared to \$5.7 million (7.6% of revenue) for the nine months ended September 30, 2021. The increase was primarily due to higher sales commissions as a result of stronger sales and higher travel and marketing expenditures in the nine months ended September 30, 2022, partially offset by lower salary and benefits expenses as a result of lower headcount of salespeople.

**Research and Development Expenses**

(in \$000's)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	Change	Change	2022	2021	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Development costs	3,022	2,477	545	22.0%	9,801	10,392	(591)	(5.7%)
Depreciation	91	81	10	12.3%	241	268	(27)	(10.1%)
<b>Total</b>	<b>3,113</b>	<b>2,558</b>	<b>555</b>	<b>21.7%</b>	<b>10,042</b>	<b>10,660</b>	<b>(618)</b>	<b>(5.8%)</b>
As a percentage of revenue	10.4%	8.5%			11.0%	14.2%		

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 2022 compared to Third Quarter of 2021*

The Company's R&D expenses in the third quarter of 2022 were \$3.1 million (10.4% of revenue) compared to \$2.6 million (8.5% of revenue) in the third quarter of 2021. The increase was mainly due to higher expenses incurred for the development of new antenna products in the third quarter of 2022, while lower development costs such as consulting fee incurred in the third quarter of 2021 as a result of cost reduction measures.

c) *Nine Months Ended September 30, 2022 compared to Nine Months Ended September 30, 2021*

The Company's R&D expenses for the nine months ended September 30, 2022 were \$10.0 million (11.0% of revenue) compared to \$10.7 million (14.2% of revenue) for the nine months ended September 30, 2021. R&D expenses in the nine months ended September 30, 2021 included a one-time adjustment for lower Scientific Research and Experimental Development tax incentives for the Satcom business line, as well as cessation of the capitalization of Asia Pacific engineering development costs.

**General and Administrative Expenses**

(in \$000's)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	Change	Change	2022	2021	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Payroll	2,058	1,832	226	12.3%	5,910	5,581	329	5.9%
Other	2,205	2,461	(256)	(10.4%)	6,935	5,100	1,835	36.0%
Depreciation	636	550	86	15.6%	1,755	1,619	136	8.4%
Amortization	1,235	1,229	6	0.5%	3,745	3,760	(15)	(0.4%)
<b>Total</b>	<b>6,134</b>	<b>6,072</b>	<b>62</b>	<b>1.0%</b>	<b>18,345</b>	<b>16,060</b>	<b>2,285</b>	<b>14.2%</b>
As a percentage of revenue	20.5%	20.1%			20.1%	21.3%		

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 2022 compared to Third Quarter of 2021*

The Company's G&A expenses in the third quarter of 2022 were \$6.1 million (20.5% of revenue) compared to \$6.1 million (20.1% of revenue) in the third quarter of 2021. G&A expenses in the third quarter of 2022 remained largely consistent with the prior year period.

c) *Nine Months Ended September 30, 2022 compared to Nine Months Ended September 30, 2021*

The Company's G&A expenses for the nine months ended September 30, 2022 were \$18.3 million (20.1% of revenue) compared to \$16.1 million (21.3% of revenue) for the nine months ended September 30, 2021. The increase in G&A expenses was primarily due to the expiration of government stimulus programs relating to COVID-19 relief for which \$3.1 million was received in the nine months ended September 30, 2021 (see "Government Assistance Programs" on page 10 of this MD&A). A portion of the funds received was recorded as a reduction of Other G&A expenses. The increase in Other G&A expenses was also due to increased fees for consulting, legal and other professional fees relating to the Credit Agreement extension.

**Government Assistance Programs**

(in \$000's)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	Change	Change	2022	2021	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Canada Emergency Wage / Rent Subsidy (Canada)	-	267	(267)	(100.0%)	-	2,203	(2,203)	(100.0%)
Paycheck Protection Program (USA)	-	-	-	N/A	-	938	(938)	(100.0%)
<b>Total</b>	-	<b>267</b>	<b>(267)</b>	<b>(100.0%)</b>	-	<b>3,141</b>	<b>(3,141)</b>	<b>(100.0%)</b>

The Company did not receive any government stimulus in the nine months ended September 30, 2022 relating to COVID-19 relief compared to \$3.1 million received in the nine months ended September 30, 2021. All government stimulus received relating to COVID-19 relief were recorded as a reduction of cost of sales and operating expenses, respectively.

**EBITDA and Adjusted EBITDA**

EBITDA and Adjusted EBITDA are non-IFRS measures that management uses to assess the Company's operating performance (see "Non-IFRS Measures" on page 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,			
	2022	2021	Change	Change	2022	2021	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
<b>Operating loss</b>	<b>(3,394)</b>	<b>(3,886)</b>	<b>492</b>	<b>(12.7%)</b>	<b>(9,481)</b>	<b>(42,043)</b>	<b>32,562</b>	<b>(77.4%)</b>
Depreciation and amortization	2,715	2,664	51	1.9%	8,010	8,218	(208)	(2.5%)
<b>EBITDA</b>	<b>(679)</b>	<b>(1,222)</b>	<b>543</b>	<b>(44.4%)</b>	<b>(1,471)</b>	<b>(33,825)</b>	<b>32,354</b>	<b>(95.7%)</b>
Adjustments to EBITDA	771	540	231	42.8%	2,110	18,165	(16,055)	(88.4%)
<b>Adjusted EBITDA</b>	<b>92</b>	<b>(682)</b>	<b>774</b>	<b>N/A</b>	<b>639</b>	<b>(15,660)</b>	<b>16,299</b>	<b>N/A</b>

## Adjustments to EBITDA

(in \$000's)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	Change	Change	2022	2021	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Expenses for litigation relating to acquisition agreements	212	10	202	> 100.0%	411	367	44	12.0%
Expenses relating to planned restructuring following an acquisition	164	41	123	> 100.0%	524	100	424	> 100.0%
Impairment on fixed and intangible assets (including goodwill) following an acquisition	-	-	-	N/A	-	15,908	(15,908)	(100.0%)
Expenses to permanently close/relocate a facility, shut down a line of business, eliminate positions	-	216	(216)	(100.0%)	69	1,102	(1,033)	(93.7%)
Corporate re-organization expenses	37	-	37	N/A	90	12	78	> 100.0%
Non-cash compensation	358	273	85	31.1%	1,016	676	340	50.3%
<b>Total</b>	<b>771</b>	<b>540</b>	<b>231</b>	<b>42.8%</b>	<b>2,110</b>	<b>18,165</b>	<b>(16,055)</b>	<b>(88.4%)</b>

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) *Third Quarter of 2022 compared to Third Quarter of 2021*

The Company's operating loss in the third quarter of 2022 was \$3.4 million compared to \$3.9 million in the third quarter of 2021. The decrease was mainly attributable to higher gross profit in the third quarter of 2022, partially offset by higher operating expenses compared to the prior year period.

The Company's Adjusted EBITDA in the third quarter of 2022 was \$0.1 million compared to negative \$0.7 million in the third quarter of 2021. Adjustments to EBITDA amounting to \$0.8 million in the third quarter of 2022 are detailed in the chart above.

c) *Nine Months Ended September 30, 2022 compared to Nine Months Ended September 30, 2021*

The Company's operating loss for the nine months ended September 30, 2022 was \$9.5 million compared to \$42.0 million for the nine months ended September 30, 2021. The Company wrote off the goodwill balance for the Satcom business line associated with the acquisition of Advantech Wireless and Alga Microwave and recorded an impairment charge of \$15.9 million within operating expenses for the nine months ended September 30, 2021.

The Company's Adjusted EBITDA for the nine months ended September 30, 2022 was \$0.6 million compared to negative \$15.7 million for the nine months ended September 30, 2021. Adjustments to EBITDA amounting to \$2.1 million in the nine months ended September 30, 2022 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,			
	2022	2021	Change	Change	2022	2021	Change	Change
	\$	\$	\$	%	\$	\$	\$	%
Loss before income taxes	(4,607)	(5,036)	429	(8.5%)	(12,555)	(47,461)	34,906	(73.5%)
Income tax expense (recovery)	254	(138)	392	N/A	(313)	(166)	(147)	88.6%
<b>Net loss</b>	<b>(4,861)</b>	<b>(4,898)</b>	<b>37</b>	<b>(0.8%)</b>	<b>(12,242)</b>	<b>(47,295)</b>	<b>35,053</b>	<b>(74.1%)</b>
Basic and diluted net loss per share	(\$0.06)	(\$0.07)	\$0.01	(14.3%)	(\$0.15)	(\$0.84)	\$0.69	(82.1%)

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 2022 compared to Third Quarter of 2021*

The Company's net loss in the third quarter of 2022 was \$4.9 million, which was comparable to the net loss of \$4.9 million in the third quarter of 2021. The net loss in the third quarter of 2022 was primarily due to the operating loss discussed above as well as interest expense and income tax expense. On a per share basis, the third quarter of 2022 produced a net loss of \$0.06 per share compared to a net loss of \$0.07 per share in the third quarter of 2021.

c) *Nine Months Ended September 30, 2022 compared to Nine Months Ended September 30, 2021*

The Company's net loss for the nine months ended September 30, 2022 was \$12.2 million compared to a net loss of \$47.3 million for the nine months ended September 30, 2021. On a per share basis, the nine months ended September 30, 2022 generated a net loss of \$0.15 per share compared to a net loss of \$0.84 per share for the nine months ended September 30, 2021.

## SUMMARY OF QUARTERLY RESULTS

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

	2022			2021			2020	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Profit and Loss</b>								
Revenue	29,967	30,134	30,974	27,196	30,216	21,622	23,460	25,591
Gross profit (loss)	7,902	9,015	8,056	8,782	6,282	(3,549)	3,597	6,725
Gross margin	26.4%	29.9%	26.0%	32.3%	20.8%	-16.4%	15.3%	26.3%
Net loss	(4,861)	(4,308)	(3,073)	(20,125)	(4,898)	(33,935)	(8,462)	(9,391)
Basic and diluted net loss per share	(\$0.06)	(\$0.05)	(\$0.04)	(\$0.26)	(\$0.07)	(\$0.64)	(\$0.17)	(\$0.23)
EBITDA*	(679)	(546)	(246)	(10,050)	(1,222)	(29,887)	(2,716)	(3,988)
Adjusted EBITDA*	92	323	224	864	(682)	(12,721)	(2,257)	(445)
<b>Balance Sheet and Other</b>								
Current assets	54,744	54,344	60,713	61,086	57,104	48,087	61,261	58,021
Total assets	80,811	81,751	89,993	93,033	110,166	102,127	133,629	133,473
Current liabilities	62,857	59,395	63,225	61,852	45,745	57,794	55,647	36,470
Non-current liabilities	17,305	17,505	17,921	19,400	36,903	22,544	34,346	48,140
Total liabilities	80,162	76,900	81,146	81,252	82,648	80,338	89,993	84,610
Net debt*	21,513	21,354	17,373	12,295	15,243	24,437	21,352	20,886
Backlog*	37,406	37,702	38,216	36,444	29,393	24,961	20,529	17,117

\* 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 \$37.4 million at September 30, 2022 compared to \$36.4 million at December 31, 2021. The increase was mainly attributable to a higher level of backlog in the Satcom business line. Backlog at September 30, 2022 was an increase of \$8.0 million or 27.3% compared to the backlog at September 30, 2021 as a result of improved marketing, business development and sales activities.

## NET DEBT, CAPITAL RESOURCES AND LIQUIDITY

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 September 30, 2022	As at December 31, 2021
	\$	\$
Total Debt	28,802	31,969
Less: Cash and cash equivalents	(7,289)	(19,674)
<b>Net Debt</b>	<b>21,513</b>	<b>12,295</b>

The Company had net debt as at September 30, 2022 and December 31, 2021 of \$21.5 million and \$12.3 million, respectively. The increase was mainly attributable to an increase in non-cash working capital of \$2.8 million, capital expenditures of \$1.6 million, as well as interest and tax payments of \$2.0 million.

### *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.

### *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, 2022, the Company's CCC was 55 days compared to 47 days as at December 31, 2021. The increase was primarily due to longer days of inventory turnover as a result of higher inventory levels in the Satcom business line during the nine months ended September 30, 2022.

During the nine months ended September 30, 2022, working capital increased by \$2.8 million. The increase was mainly due to the following factors:

- a) Inventories as at September 30, 2022 were \$20.1 million compared to \$15.8 million as at December 31, 2021. The increase was primarily due to investment in inventory in the nine months ended September 30, 2022 for the Satcom business line to mitigate supply chain risks and long lead times in order to support the increased backlog and demand.
- b) Other current assets as at September 30, 2022 were \$4.7 million compared to \$3.8 million as at December 31, 2021. The increase was mainly due to higher prepaid expenses and other receivables in the third quarter of 2022.
- c) Trade payables and accrued liabilities as at September 30, 2022 were \$32.2 million compared to \$28.6 million as at December 31, 2021. The increase was mainly attributable to the extensions in days payable outstanding in the latter part of the third quarter of 2022.

### *Commitment for capital expenditures*

As at September 30, 2022, the Company had an aggregate commitment for capital expenditures of approximately \$0.4 million.

### *Credit from banks and loans*

On March 29, 2019, the Company entered into a credit agreement (the “Credit Agreement”) with Royal Bank of Canada and HSBC Bank Canada (collectively, the “Lenders”) pursuant to which the Lenders established in favour of the Company a revolving credit facility (the “Revolving Facility”) for up to \$15 million and a term credit facility (“Term Loan”) for up to \$28.8 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 the revolving credit facilities with banks domiciled in China and South Korea, as needed. As at September 30, 2022, the Company’s aggregate revolving credit facilities were \$18.8 million, of which \$11.2 million was drawn and utilized. As at September 30, 2022, \$7.7 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 and September 30, 2020 being deferred with the consent of the Lenders.

The Credit Agreement has previously been amended, most recently as of September 14, 2022. The effect of these amendments is that:

- the maturity date of the Credit Facilities was extended from September 30, 2022 to September 29, 2023;
- the Lenders will neither make nor maintain, and Company will no longer be entitled to have, any borrowings with an interest rate based on the LIBO Rate. Instead, the interest rate on the Credit Facilities will be based on the US Base Rate (as defined in the Credit Agreement);
- the Senior Debt to EBITDA Ratio and Fixed Charge Coverage Ratio will not apply during the remaining term of the Credit Facilities;
- the Company is required to maintain a minimum Liquidity of \$7.5 million until December 31, 2022 and \$4 million thereafter;
- the Company is required to maintain a minimum EBITDA for the twelve months ending September 30, 2022, December 31, 2022, March 31, 2023 and June 30, 2023;
- the maximum availability under the Revolving Facility was reduced to \$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 amendments also included waivers of compliance with certain financial covenants for the quarters ended March 31 and June 30, 2021.

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 9.25% as at September 30, 2022 (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”) are parties to a credit agreement dated October 14, 2020, as amended (the “Vietnam Credit Agreement”), pursuant to which HSBC Vietnam established a credit facility in favour of GTD for up to \$3.3 million in Vietnamese Dong currency equivalent (the “Vietnam Loan”). As at September 30, 2022, \$1.2 million was outstanding under the Vietnam Loan. The interest rate on the Vietnam Loan is determined based on the base lending rate in Vietnam plus a margin of up to 2%, and the interest is payable semi-annually in arrears. The Vietnam Loan matures on August 18, 2023. The remaining principal amount of the Vietnam Loan is repayable in four equal quarterly amounts, with the first payment due on November 18, 2022. The Company’s other Vietnamese subsidiary, Galtronics Vietnam Co., Ltd. (“GTV”), is a guarantor of the Vietnam Loan. The Vietnam Loan is secured by certain

assets of GTD and GTV. The Vietnam Credit Agreement includes customary covenants and events of default. Baylin is a guarantor of the Vietnam Loan.

### *Convertible debentures*

On July 10, 2018, the Company issued \$17.25 million of extendible convertible unsecured debentures (the “Debentures”). The Debentures bear interest at a rate of 6.5% per annum, payable semi-annually in arrears on June 30 and December 31 of each year and mature on July 10, 2023 (the “Maturity Date”).

The Debentures are convertible at the holder’s option into common shares 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 \$3.85 per common share (the “Conversion Price”), being a ratio of approximately 260 common shares per \$1,000 principal amount of Debentures, subject to adjustment in certain events in accordance with the convertible debenture indenture dated July 10, 2018 (the “Indenture”).

Prior to the Maturity Date, the Company may, at its option, subject to providing not more than 60 days’ and not less than 30 days’ prior notice, redeem the Debentures, in whole or, from time to time, in part, at par plus accrued and unpaid interest provided that the volume-weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given (the “Current Market Price”) is not less than 125% of the Conversion Price (as defined in the Indenture). The Company may, at its option, subject to regulatory approval, elect to satisfy its obligation to pay the principal amount of the Debentures on redemption or at maturity, provided no Event of Default (as defined in the Indenture) has occurred and is continuing at such time, upon not more than 60 days’ and not less than 30 days’ prior written notice, by delivering that number of freely tradeable common shares obtained by dividing the principal amount of the Debentures being repaid by 95% of the Current Market Price on the redemption or maturity date, as applicable.

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

Upon a Change of Control (as defined in the Indenture) of the Company, the Company may be required to repurchase the Debentures, at the option of the holder, in whole or in part, at a price equal to 101% of the principal amount of the Debentures outstanding, plus accrued interest.

The Debentures are classified as financial liabilities at fair value through profit or loss and are measured at fair value with changes recognized in the consolidated statement of net income (loss). Further details of the Debentures are set out in the Indenture filed under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## **SHARE-BASED PAYMENTS**

### *Omnibus Equity Incentive Plan*

On August 13, 2020, the shareholders of the Company approved a new Omnibus Equity Incentive Plan (as amended and restated as of March 9, 2022, 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 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, 2022 and September 30, 2021:

	<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>
	<u>Number of DSUs</u>	<u>Weighted Average Price</u>
DSUs outstanding as at January 1, 2021	583,106	\$1.96
DSUs granted during 2021 up to September 30, 2021	273,369	\$1.06
DSUs redeemed during 2021 up to September 30, 2021	(29,934)	\$3.15
DSUs outstanding as at September 30, 2021	<u>826,541</u>	<u>\$1.52</u>

The Company recognized a DSU expense of \$0.2 million during the nine months ended September 30, 2022, which was included in G&A expenses.

#### *Stock Option Grants*

Stock options may be granted by the board of directors to directors, officers, employees and consultants of the Company (or its subsidiaries or investee entities) as performance incentives. At the time of granting a stock option, the board of directors will determine: (i) the exercise price, being not less than the market value of the common shares; (ii) the vesting provisions, generally being over three to five years with an equal number of common shares vesting on each anniversary of the grant date, and (iii) the expiry date, generally being no more than seven years after the grant date.

The table below summarizes stock option grants as at September 30, 2022:

Options grant date	Options granted	Exercise price	Options expiry date	Options vested as at		Options exercised, surrendered, expired or cancelled as at September 30, 2022	Options net outstanding as at September 30, 2022
				September 30, 2022	December 31, 2021		
Mar. 30, 2017	685,000	\$1.98	Mar. 30, 2022	-	456,666	685,000	-
Aug. 8, 2017	500,000	\$2.00	Aug. 8, 2022	500,000	500,000	200,000	300,000
Mar. 10, 2018	30,000	\$3.51	Mar. 10, 2023	-	20,000	30,000	-
May 17, 2018	275,000	\$3.34	May 17, 2023	-	181,666	275,000	-
May 22, 2018	25,000	\$3.34	May 22, 2023	-	5,000	25,000	-
Jul. 11, 2018	197,500	\$3.50	Jul. 11, 2023	81,200	81,200	185,000	12,500
Nov. 9, 2018	250,000	\$3.84	Nov. 9, 2023	250,000	250,000	-	250,000
Mar. 25, 2019	325,000	\$3.89	Mar. 25, 2024	-	70,000	325,000	-
May 21, 2019	270,000	\$3.57	May 21, 2024	180,000	180,000	20,000	250,000
Aug. 16, 2019	60,000	\$3.18	Aug. 16, 2024	-	40,000	60,000	-
Nov. 23, 2020	150,000	\$0.87	Nov. 23, 2025	50,000	50,000	-	150,000
Jun. 21, 2021	900,000	\$1.05	Jun. 21, 2026	300,000	-	-	900,000
Aug. 23, 2021	75,000	\$0.78	Aug. 23, 2026	25,000	-	-	75,000
Jan. 4, 2022	400,000	\$0.86	Jan. 4, 2027	-	-	-	400,000
Mar. 21, 2022	2,285,000	\$0.79	Mar. 21, 2027	-	-	14,000	2,271,000
May 23, 2022	150,000	\$0.59	May 23, 2027	-	-	-	150,000
Sep. 26, 2022	5,000	\$0.33	Sep. 26, 2027	-	-	-	5,000
	<u>6,582,500</u>			<u>1,386,200</u>	<u>1,834,532</u>	<u>1,819,000</u>	<u>4,763,500</u>

The Company recognized a stock option expense of \$0.8 million during the nine months ended September 30, 2022, which was included in G&A expenses.

## OFF-BALANCE SHEET ARRANGEMENTS

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

## TRANSACTIONS WITH RELATED PARTIES

### *Private Placements*

On June 30, 2020, certain directors and management purchased 267,566 Common Shares by way of private placement. The Common Shares were issued at \$0.9259 per Common Share, representing 85% of the volume-weighted average price of the Common Shares on the Toronto Stock Exchange for the five trading days ended June 29, 2020.

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

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

In August 2021, the Company announced a private placement of a minimum of 11,765,000 Common Shares and up to a maximum of 17,648,000 Common Shares. On September 1, 2021, the Company completed the first tranche of the private placement, issuing 11,765,000 Common Shares at a price of \$0.85 per Common Share for proceeds of \$10 million, all of which were purchased by the Principal Shareholder. On October 21, 2021, the Company completed the second (and final) tranche of the private placement, issuing 5,883,000 Common Shares at a price of \$0.85 per Common Share for proceeds of \$5 million, of which the Principal Shareholder purchased 5,460,192 Common Shares and other

insiders of the Company purchased the remaining 422,808 Common Shares. The Company relied on the “financial hardship” exemption available to it under the rules of the Toronto Stock Exchange to permit the Principal Shareholder and other insiders to purchase more than 10% of the number of Common Shares then outstanding without having to obtain disinterested shareholder approval.

#### *Advantech Wireless Inc.*

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

Pursuant to the terms of the Advantech Acquisition, the Advantech Vendor was entitled to additional compensation of between \$0.75 million and \$3.0 million per year in each of 2018 and 2019 conditional on the Advantech Wireless business meeting certain EBITDA targets in those years. The EBITDA targets were not met in 2018 and 2019. On June 1, 2020, the Advantech Vendor contested that the 2019 EBITDA targets were not met. The Company is opposing the objection.

The Advantech Vendor and certain of its affiliates acted as agent for the Company. As at September 30, 2022, no balance was included in trades receivable or accounts payables and accrued liabilities related to the agent. During the nine months ended September 30, 2022, the Company did not recognize any amount related to the sale of goods to the Advantech Vendor and certain of its affiliates. During the nine months ended September 30, 2022, the Company did not provide services to the Advantech Vendor or its affiliates.

#### *Executive officer remuneration*

Short-term benefits, pension and post-retirement benefits of the executive officers of the Company amounted to \$4.2 million for the nine months ended September 30, 2022 compared to \$3.8 million for the nine months ended September 30, 2021. These amounts comprise of executive officers’ salary and benefits earned during the year, plus bonuses awarded for the year. The amounts also represent the estimated costs of providing defined benefit pensions and other post-retirement benefits to executive officers in respect of the current year of service.

#### *Other*

The Company retains the services of Mr. Jeffrey C. Royer, pursuant to a services agreement between Mr. Royer and the Company dated as of January 1, 2015, to fulfill the position of Chairman of the board of directors and to provide related strategic leadership and guidance to the board of directors and management of the Company. As Chairman of the board of directors, Mr. Royer is entitled to an annual fee of \$125,000. For the nine months ended September 30, 2022, the Company paid \$93,750 in cash to Mr. Royer.

### **SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS**

For a detailed review of critical accounting estimates associated with the Company, refer to the “Significant Accounting Judgements, Estimates And Assumptions” section of the Company’s MD&A for the three and twelve months ended December 31, 2021, which is available under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

There were no changes to our critical accounting estimates in financial reporting during the three months ended September 30, 2022.

### **RISK MANAGEMENT AND FINANCIAL INSTRUMENTS**

The business of the Company is subject to various financial risks such as foreign exchange risk, interest rate 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 (assuming \$24.1 million remains outstanding under the Credit Facilities).

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, 2021, which is available under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

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, 2022, and there were no changes to our use of financial instruments during the three months ended September 30, 2022.

## **OUTSTANDING SHARE DATA**

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

- 80,256,924 common shares;
- \$5.115 million principal amount of Debentures; and,
- warrants to purchase up to an aggregate of 882,501 common shares.

The number of common shares issuable under the Omnibus Plan and any other security-based compensation arrangements of the Company may not exceed 10% of the number of common shares outstanding from time to time, being as at the date of this MD&A 8,025,692 common shares. As at the date of this MD&A, 1,868,215 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.

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

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

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

There were no changes in our internal control over financial reporting during the three months ended September 30, 2022 that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company, including the most recently filed Annual Information Form and Management Information Circular, is available under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).

## **RISK FACTORS**

For a detailed description of risk factors associated with the Company, refer to the “Risk Factors” section of the Company’s Annual Information Form dated March 9, 2022, which is available under the Company’s profile on SEDAR at [www.sedar.com](http://www.sedar.com).