



**BAYLIN TECHNOLOGIES INC.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF JUNE 30, 2016**

**(U.S. dollars in thousands)**

**UNAUDITED**

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**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

U.S dollars in thousands

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
	<b>Unaudited</b>	<b>Audited</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$8,149	\$11,426
Trade receivables, net	11,020	9,942
Other accounts receivable	2,582	1,061
Inventories	<u>7,816</u>	<u>5,917</u>
	<u>29,567</u>	<u>28,346</u>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment, net	17,786	20,982
Lease deposits	86	246
Deferred taxes	<u>136</u>	<u>-</u>
	<u>18,008</u>	<u>21,228</u>
<b>TOTAL ASSETS</b>	<b><u>\$47,575</u></b>	<b><u>\$49,574</u></b>

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

U.S dollars in thousands

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
	<b>Unaudited</b>	<b>Audited</b>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Credit from banks and others	\$2,714	\$6,372
Accounts payable and accrued liabilities	13,761	11,784
Income tax payable	555	277
	<u>17,030</u>	<u>18,433</u>
NON-CURRENT LIABILITIES		
Employee benefit liabilities, net	1,355	983
	<u>1,355</u>	<u>983</u>
TOTAL LIABILITIES	<u>18,385</u>	<u>19,416</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:		
Share capital and premium	81,342	81,124
Foreign currency translation reserve	2,350	2,849
Capital reserve from transactions with non- controlling interests	101	101
Share-based payment reserve	743	531
Accumulated deficit	(55,346)	(54,447)
TOTAL EQUITY	<u>29,190</u>	<u>30,158</u>
TOTAL LIABILITIES AND EQUITY	<u><u>\$47,575</u></u>	<u><u>\$49,574</u></u>

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

<u>August 9, 2016</u>			
Date of approval of the financial statements	<u>Jeffrey C. Royer</u> Chairman of the Board of Directors	<u>Randy Dewey</u> President & Chief Executive Officer	<u>James Newell</u> Chief Financial Officer

**BAYLIN TECHNOLOGIES INC.**  
**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER**  
**COMPREHENSIVE LOSS (UNAUDITED)**

U.S dollars in thousands

	Six months ended June 30,		Three months ended June 30,	
	2016	2015	2016	2015
Revenue	\$ 31,450	\$ 17,947	\$ 15,661	\$ 9,992
Cost of revenue	22,782	14,703	11,254	7,777
Gross profit	8,668	3,244	4,407	2,215
Operating expenses:				
Selling and marketing expenses	1,532	2,320	660	1,089
Research and development expenses	3,700	3,144	1,828	1,527
General and administrative expenses	4,329	4,872	2,183	2,302
	9,561	10,336	4,671	4,918
Operating loss	(893)	(7,092)	(264)	(2,703)
Finance income	469	416	268	308
Finance expense	(193)	(1,610)	(82)	(146)
Loss before tax	(617)	(8,286)	(78)	(2,541)
Income tax expense	(282)	(132)	(233)	(127)
Net loss	(899)	(8,418)	(311)	(2,668)
Other comprehensive income (loss):				
<u>Amounts not to be reclassified subsequently to profit or loss:</u>				
Re-measurement loss from defined benefit plans	-	(105)	-	-
<u>Amounts to be reclassified to profit or loss under specific conditions:</u>				
Adjustments arising from translating of foreign operations	(500)	49	(502)	122
Total other comprehensive loss	(500)	(56)	(502)	122
Total comprehensive loss	\$ (1,399)	\$ (8,474)	\$ (813)	\$ (2,546)
Basic and diluted loss per share (in US dollars)	\$ (0.05)	\$ (0.45)	\$ (0.02)	\$ (0.14)

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

**BAYLIN TECHNOLOGIES INC.**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
(UNAUDITED)**

**U.S dollars in thousands**

	<b>Share capital and premium</b>	<b>Accumulated deficit</b>	<b>Share- based payment reserve</b>	<b>Foreign currency translation reserve</b>	<b>Capital reserve from transactions with non- controlling interests</b>	<b>Total equity</b>
Balance as of January 1, 2016	\$81,124	(\$54,447)	\$531	\$2,849	\$101	\$30,158
Net loss		(899)				(899)
Total other comprehensive income (loss)				(499)		(499)
Total comprehensive income (loss)		(899)		(499)		(1,398)
Harmonized Sales tax refund on IPO related expenses	218					218
Share-based payment			212			212
Balance as of June 30, 2016	\$81,342	(\$55,346)	\$743	\$2,350	\$101	\$29,190

	<b>Share capital and premium</b>	<b>Accumulated deficit</b>	<b>Share- based payment reserve</b>	<b>Foreign currency translation reserve</b>	<b>Capital reserve from transactions with non- controlling interests</b>	<b>Total equity</b>
Balance as of January 1, 2015	\$80,530	(\$39,660)	\$866	\$3,688	\$101	\$45,525
Net loss		(8,418)				(8,418)
Total other comprehensive income (loss)		(105)		49		(56)
Total comprehensive income (loss)		(8,523)		49	-	(8,474)
Underwriters warrants expiration	594		(594)			
Share-based payment			93			93
Balance as of June 30, 2015	\$81,124	(\$48,183)	\$365	\$3,737	\$101	\$37,144

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)****U.S dollars in thousands**

	<b>Six months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<u>Cash flows from operating activities:</u>		
Net loss	(\$899)	(\$8,418)
Adjustments to reconcile net loss to net cash used in operating activities:		
Adjustments to the profit or loss items:		
Share-based payment	211	93
Depreciation and amortization	1,600	1,874
Finance expense (income), net	(275)	1,194
(Gain) loss from sale of property, plant and equipment	(113)	132
Income taxes	282	20
Change in employee benefit liabilities, net	362	(102)
	<u>2,067</u>	<u>3,211</u>
Changes in asset and liability items:		
Decrease (increase) in trade receivables	(1,170)	(301)
Decrease (increase) in other accounts receivable	(1,361)	1,176
Decrease (increase) in inventories	(1,991)	(37)
Increase (decrease) in trade payables	3,069	(102)
Decrease (increase) in other accounts payable	(932)	283
	<u>(2,385)</u>	<u>1,019</u>
Cash paid and received during the year for:		
Interest paid	(144)	(238)
Interest received	5	72
Taxes paid	(141)	(48)
	<u>(280)</u>	<u>(214)</u>
Net cash used in operating activities	<u>(1,497)</u>	<u>(4,402)</u>

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

**BAYLIN TECHNOLOGIES INC.**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**

**U.S dollars in thousands**

Cash flows from investing activities:

Purchase of property, plant and equipment	(290)	(502)
Proceeds from sale of property, plant and equipment	1,867	1
Rental lease deposits	-	103
Net cash used in investing activities	1,577	(398)

Cash flows from financing activities:

Repayment of finance lease liabilities	(104)	(707)
Repayment of long-term loan from banks	-	(600)
Receipt of short-term loans from banks	-	2,915
Receipt (repayment) of short-term credit from banks and others, net	(3,527)	(3,530)
Harmonized Sales tax refund on IPO related expenses	218	
Net cash used in financing activities	(3,413)	(1,922)

Exchange differences on balances of cash and cash equivalents	56	(746)
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Decrease in cash and cash equivalents	(3,277)	(7,468)
Cash and cash equivalents at the beginning of the year	11,426	23,747

Cash and cash equivalents at the end of the year	\$8,149	\$16,279
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The accompanying notes are an integral part of the interim condensed consolidated financial statements.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**U.S dollars in thousands**

**NOTE 1:- GENERAL**

a. Corporate information

Baylin Technologies Inc. (the "Company" or "Baylin") was incorporated pursuant to the laws of the province of Ontario on September 24, 2013, for the purpose of completing the initial public offering of its shares. The Company's registered office is located Toronto, Ontario, Canada.

On November 27, 2013, the Company completed an Initial Public Offering (the "Offering" or "IPO") and issued 6,253,125 Common shares at a price of CAD \$ 8.00 per share for total gross proceeds of CAD \$ 50,025 (approximately \$ 47,304), including the over-allotment, which was fully exercised by the underwriters concurrently with the completion of the Offering.

Immediately prior to the completion of the Offering, on November 27, 2013 (the "Closing date"), all the issued and outstanding ordinary shares of Galtronics Corporation Ltd. ("Galtronics" or "GTI"), an entity under common control with the Company, were exchanged for Common shares on the basis of ten Galtronics ordinary shares for one Common share of the Company. Holders of Galtronics ordinary shares became shareholders of Baylin and Galtronics became a wholly-owned subsidiary of Baylin (the "Pre-IPO Reorganization"). This Pre-IPO Reorganization was accounted for as a reorganization and capital transaction of Galtronics such that the consolidated financial statements of Baylin are a continuation of, and reflect, the historical financial position and results of operations of Galtronics retrospectively based on the carrying values and results of operations presented in the Galtronics' historical consolidated financial statements.

Galtronics was incorporated in Israel in October 1978. GTI's office is located at 1 Tsivonit Street, Industrial Zone, Upper Tiberias, 14115, Israel.

The Company's business is primarily carried out through GTI's wholly-owned subsidiaries, as follows: Galtronics Electronics (Wuxi) Co. Ltd. ("GTW"), incorporated in China in December 2003, which is the Company's main production facility and is located in Wuxi, China; and Galtronics Korea Ltd. ("GTK"), incorporated in South Korea in July 2003, which is the Company's technical design and product configuration services center and is located in Seoul, South Korea.

On January 16, 2014, the Company established a new wholly-owned subsidiary in Vietnam, Galtronics Vietnam Co., Limited ("GTV").

The Company and its subsidiaries (the "Group") operate in the field of research, development, manufacture and sales of a wide range of affordable antennas and communications solutions for the mobile, networking (formerly known as broadband) and wireless infrastructure markets, primarily in the Far East and North America.

b. Approval of financial statements

These interim condensed consolidated financial statements of the Company were authorized for issue in accordance with a resolution of the board of directors on August 9, 2016.



**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**U.S dollars in thousands**

**NOTE 2:- BASIS OF PREPARATION**

The interim condensed consolidated financial statements for the six and three months ended June 30, 2016, have been prepared in accordance with IAS 34, *Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual audited consolidated financial statements as of December 31, 2015.

**NOTE 3:- CONTINGENT LIABILITIES, GUARANTEES, COMMITMENTS AND CHARGES**

Legal claims:

In 2009 GTI received a notice for possible indemnification by one of its major customers (the "customer"), for a claim filed against the customer in relation to several U.S. patent infringements. A jury judgment against the customer for about \$ 27,000 was issued and is currently under appeal. During the relevant period subject to the claim, GTI was not the major antennas supplier for the customer. Since the notice for possible indemnification in 2009, GTI has not received any demand for payment from the customer and it is not clear whether such a demand will ever be received and if so what would be the amount of such demand. The Company's management and its legal counsels are unable to assess what the outcome of the claim against the customer might be and the effect, if any, on the Company. Accordingly, no provision was recorded in respect of this demand.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

U.S dollars in thousands

**NOTE 4:- SHARE-BASED PAYMENT**

- a. Pursuant to the Company's Deferred Share Unit Plan for directors of the Company (the "DSU Plan"), the Company granted 43,722 deferred share units ("DSUs") to directors during the six months ended June 30, 2016.

The following table lists the number of DSUs issued during the period

	<u>Number of DSUs</u>	<u>Weighted average price in CAD \$</u>
DSUs outstanding at beginning of the period (January 1, 2016)	139,423	3.50
DSUs granted during the period	<u>43,722</u>	<u>1.98</u>
DSUs outstanding at end of the period (June 30, 2016)	<u>183,145</u>	<u>2.71</u>

- b. As part of the IPO, the Company issued to the underwriters 375,187 nontransferable warrants to purchase up to an aggregate of 375,187 Common Shares (the "warrants"), at an exercise price per share of CAD \$ 8.00, exercisable over 18 months. The warrants expired during the second quarter of 2015.
- c. On August 24, 2015 the Company's board of directors resolved to grant the Company's President and Chief Executive Officer 925,000 share options subject to the Company's Stock Option Plan. 260,000 share options shall vest as to fifty percent on the first anniversary of the grant date and fifty percent on the second anniversary of the grant date. 240,000 share options and 425,000 share options shall vest at the discretion of the board of directors, upon recommendation from the Corporate Governance and Compensation Committee, following final review of the performance of the Company for the fiscal years 2015 and 2016, respectively. The exercise price is the average closing price of the common shares on the Toronto Stock Exchange for the 5 trading days ending on the last day before the grant date and shall expire 5 years following their grant date.

In the event of change of control over the Company, all unvested share options will be vested immediately.

As for June 30, 2016 the number of share options outstanding is 925,000, with weighted average exercise price of CAD 1.51. The remaining weighted average contractual life of the share options is 3.6 years.

The fair value of the share options is estimated at the grant date using Black & Scholes option pricing model, taking into account the terms and conditions upon which the share options were granted.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**U.S dollars in thousands**

**NOTE 4:- SHARE-BASED PAYMENT (Cont.)**

Expected volatility of the share prices (%)	44.42-45.29
Risk-free interest rate (%)	0.9
Expected life of share options (years)	2.67-3.25
Share price (CAD)	1.50
Option fair value at the grant date (CAD)	0.44-0.48

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