BAYLIN TECHNOLOGIES

BAYLIN TECHNOLOGIES INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2017

(Canadian dollars in thousands)

UNAUDITED

INDEX

Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements

These interim condensed interim consolidated financial statements of the Company for the three months ended March 31, 2017 have been prepared by Management and were authorized for issue in accordance with a resolution of the board of directors on May 8, 2017. The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements, in accordance with the standards established by the Chartered Professional Accounts of Canada for a review of interim financial statements by an entities auditors.

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INTERIM CONDENSED CONSOLIDATED STATMENTS OF FINANCIAL POSITION (UNAUDITED)

Canadian dollars in thousands

	March 31, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (note 6)	$ 15,570	$ 18,480
Trade and other receivables	14,216	14,211
Other current assets	2,418	1,662
Inventories	7,764	8,678
	39,968	43,031
NON-CURRENT ASSETS:		
Property, plant and equipment	21,668	21,873
Lease deposits	184	102
	21,852	21,975
	$ 61,820	$ 65,006

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

INTERIM CONDENSED CONSOLIDATED STATMENTS OF FINANCIAL POSITION (UNAUDITED)

Canadian dollars in thousands

	March 31, 2017	December 31, 2016
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Credit from banks (note 6)	$ 4,933	$ 3,483
Accounts payable and accrued liabilities	15,263	18,580
Income tax payable	130	51
	20,326	22,114
NON-CURRENT LIABILITIES:		
Employee benefit liabilities, net (Note 7)	1,635	1,462
	1,635	1,462
TOTAL LIABILITIES:	21,961	23,576
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:		
Share capital	90,929	90,929
Foreign currency translation reserve	11,503	11,515
Capital reserve from transactions with non-controlling interests	107	107
Share-based payment reserve	1,172	1,087
Accumulated deficit	(63,852)	(62,208)
Total equity	39,859	41,430
	$ 61,820	$ 65,006

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

May 8, 2017	*"Jeffrey Royer"*	*"Randy Dewey"*	*"James Newell"*
Date of approval of the financial statements	Jeffrey C. Royer Chairman of the Board of Directors	Randy Dewey President & Chief Executive Officer	James Newell Chief Financial Officer

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE LOSS (UNAUDITED)

Canadian dollars in thousands

	Three months ended March 31,	
	2017	**2016**
Revenues	$ 19,801	$ 20,925
Cost of revenues	13,859	15,302
Gross profit	5,942	5,623
Operating expenses:		
Selling and marketing expenses	1,248	1,156
Research and development expenses	2,931	2,450
General and administrative expenses	2,989	2,861
	7,168	6,467
Operating loss	(1,226)	(844)
Finance income	223	266
Finance expense	(626)	(136)
Loss before income taxes	(1,629)	(714)
Income tax	(15)	(65)
Net Loss	(1,644)	(779)
Other comprehensive loss:		
Items that will be reclassified subsequently to profit or loss:		
Adjustments arising from translating of foreign operations	(12)	(2,567)
Total other comprehensive loss	(12)	(2,567)
Total comprehensive loss	$ (1,656)	$ (3,346)
Basic and diluted loss per share	($0.08)	($0.04)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Canadian dollars in thousands

	Share capital	Accumulated deficit	Share-based payment reserve	Foreign currency translation reserve	Capital reserve from transactions with non-controlling interests	Total equity
Balance as of January 1, 2017	$ 90,929	($ 62,208)	$ 1,087	$ 11,515	$ 107	$ 41,430
Net loss		(1.644)				(1,644)
Total other comprehensive income (loss)				(12)		(12)
		(1,644)		(12)		(1,656)
Total comprehensive income (loss)						
Share-based payment			85			85
Balance as of March 31, 2017	$ 90,929	($ 63,852)	$ 1,172	$ 11,503	$ 107	$ 39,859

	Share capital	Accumulated deficit	Share-based payment reserve	Foreign currency translation reserve	Capital reserve from transactions with non-controlling interests	Total equity
Balance as of January 1, 2016	$ 85,837	($ 59,472)	$ 636	$ 14,630	$ 107	$ 41,738
Net loss		(779)				(779)
Total other comprehensive loss				(2,567)		(2,567)
						(3,346)
Total comprehensive loss						
Share-based payment			170			170
Balance as of March 31, 2016	$ 85,837	($ 60,251)	$ 806	$ 12,063	$ 107	$ 38,562

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Canadian dollars in thousands

	Three months ended March	
	2017	**2016**
Cash flows from operating activities:		
Net loss	$ (1,644)	$ (779)
Adjustments to reconcile loss to net cash used in operating activities:		
Adjustments to the profit or loss items:		
Share-based payment	85	170
Depreciation and amortization	1002	1,087
Finance expense, net	403	(98)
Loss from sale of property, plant and equipment	15	38
Income taxes	15	49
Change in employee benefit liabilities, net	65	363
	1,585	1,609
Changes in asset and liability items:		
Decrease (increase) in trade and other receivables	(790)	(2,852)
Decrease (increase) in inventories	927	202
Increase (decrease) in accounts payable and accrued liabilities	(3,749)	836
	(3,612)	(1,814)
Cash paid and received during the year for:		
Interest paid	(39)	(76)
Interest received	14	
Taxes paid	39	(72)
	14	(148)
Net cash used in operating activities	$ (3,657)	$ (1,132)

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Canadian dollars in thousands

	Year ended March 31, 2017	Year ended March 31, 2016
Cash flows from investing activities:		
Purchase of property, plant and equipment	$ (789)	$ (254)
Proceeds from sale of property, plant and equipment	43	62
Net cash used in investing activities	(746)	(192)
Cash flows from financing activities:		
Repayment of finance lease liabilities	-	(260)
Borrowings under short-term credit facilities from banks, net	1,402	(4,650)
Net cash provided by (used in) financing activities	1,402	(4,910)
Exchange differences on balances of cash and cash equivalents	91	1,688
Decrease in cash and cash equivalents	(2,910)	(4,546)
Cash and cash equivalents at the beginning of the year	18,480	13,255
Cash and cash equivalents at the end of the year	$ 15,570	$ 8,709

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

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.

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 Asia Pacific (formerly known as Mobile), networking and wireless infrastructure markets, primarily in the Far East and North America.

b. Approval of financial statements

These interim condensed interim consolidated financial statements of the Company for the three months ended March 31, 2017 have been prepared by Management and were authorized for issue in accordance with a resolution of the board of directors on May 8, 2017.

NOTE 2:- BASIS OF PREPARATION

The interim condensed consolidated financial statements for the three months ended March 31, 2017, 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, 2016.

Effective January 1, 2017, the Company changed its reporting currency to Canadian dollars from United States Dollars. All comparative information, originally prepared in United States dollars have been converted into Canadian dollars in these interim condensed consolidated financial statements.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES

As of March 31, 2017 there have been no material changes to the significant accounting policies as outlined in Note 2 of the audited consolidated financial statements dated December 31, 2016, except as disclosed in Note 2.

NOTE 4:- SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUPMTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

There have been no significant changes to our critical accounting estimates and accounting policies subsequent to the disclosure made in our annual financial reporting for the year ended December 31, 2016 except as disclosed in Note 2 thereto.

NOTE 5:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

In Note 4 to the audited consolidated financial statements dated December 31, 2016, the following are new standards that have been issued but are not yet in effect and which are relevant to the Group:

(a) IFRS 15, "Revenue from contracts with customers"
(b) IFRS 9 – “Financial Instruments”
(c) Amendments to IAS7, “Statement of Cash Flows”, regarding additional disclosures of financial liabilities, and
(d) IFRS 16 – “Leases”

We will assess the impact once the standards have been completed.

NOTE 6:- CASH AND CASH EQUIVALENTS

The Company has a United States dollar $4,000 revolving credit facility with Hong Kong Shanghai Bank Corporation (“HSBC”, and the “HSBC Facility”). Any drawing on the HSBC Facility are required to be fully collateralized by cash, which is deposited in a restricted account with HSBC (“Restricted Cash”), the only use of which is to repay any borrowings under the HSBC Facility. There were no borrowing under this facility as at March 31, 2017, and accordingly there is no Restricted Cash.

In January, 2017, the Company entered into a bank credit facility with a Vietnamese bank, for a United States dollar $1,100. This facility is collateralized by certain equipment owned by our Vietnamese company.

Our ability to utilize our bank credit facilities is dependent on being able to provide collateral in accordance with the requirements of the banks providing credit facilities to our subsidiaries. Bank credit facilities are for working capital and are secured by our building in China and account receivable from our customers in China and Korea. The company is in compliance with all of its financial covenants.

NOTE 7:- EMPLOYEE BENEFIT ASSETS AND LIABILITIES

The Group accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in qualifying insurance policies.

The liability for employee benefits shown in the statement of financial position reflects the present value of the defined benefit obligation less the fair value of the plan assets. The present value of the benefits is determined at year end, based on actuarial valuations.

NOTE 8:- CONTINGENT LIABILITIES, GUARANTEES, COMMITMENTS AND CHARGES

Legal claims:

In 2009 Galtronics Israel received notice for possible indemnification by a major customers (the "customer"), for a claim filed against the customer related to several U.S. patent infringements. A judgment against the customer for approximately Untied States dollar $38,000 was subsequently dismissed in 2014, and since the notice we have not received any demand for payment from the customer. It is not clear whether a demand will be received, and if so, for what amount. Management and its legal counsel are unable to assess the outcome of the claim against the customer and the effect, if any, on the Company. Accordingly, no provision has been recorded in respect of this demand.

Canadian dollars in thousands

NOTE 9:- SHARE-BASED PAYMENT

a. Pursuant to the Company's Deferred Share Unit Plan for directors of the Company (the "DSU Plan"), the Company granted deferred share units ("DSUs") to directors during the three months ended March 31, 2017.

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

	Number of DSUs	Weighted average price in CAD $
DSUs outstanding at January 1, 2017	224,827	2.00
DSUs granted during the period	19,250	1.98
DSUs outstanding at end of March 31, 2017	244,077	1.99

b. Under the Baylin Stock Option Plan (the “Stock Option Plan”), the President and Chief Executive Officer was granted of 925,000 share options at grant price was CAD$1.51. At March 31, 2017 all of the options were vested. The options expire on August 24, 2020. In the first quarter of fiscal 2017 (i) the President and Chief Operating Officer, America/EMEA was granted of 435,000 share options at grant price was CAD$1.98 and (ii) the EVP Innovation and Product Strategy was granted 250,000 share options at grant price was CAD$1.98. At March 31, 2017 nil of these options were vested, vesting (i) 1/3 on each of March 30, 2018, March 30, 2019 and March 30, 2020, and (ii) immediately upon a change of control of the Company. The options expire on March 30, 2022.

NOTE 9:- SHARE-BASED PAYMENT (Cont.)

c. The Company intends to grant the President and Chief Operating Officer, America/EMEA a further 65,000 share options on March 30, 2018, on similar terms under the Stock Option Plan at a price to be determined at the time of grant.

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.

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
Option fair value at the grant date (CAD)	0.44-0.48

NOTE 10:- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Foreign exchange risk:
A portion of the Group's revenues and operating costs is denominated in currencies other than the functional currency of the relevant Group entity. As a result, the Group 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. The Company does so by matching foreign denominated assets with foreign denominated liabilities.

Credit risk:
A significant portion of 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 major customers would adversely affect our business, results of operations and financial condition. The Company’s strategy in managing this risk is to diversify its customer base by expanding its product portfolio and enlarging our sales and marketing efforts.

The Company and its subsidiaries extend 30-90 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 Group provides an allowance for doubtful accounts based on the factors that affect the credit risk of certain customers, past experience and other information.

We recognize a significant portion of our revenue from a limited number of customers. The loss of, or a significant reduction in, orders from one or more of our major customers would adversely affect our business, results of operations and financial condition. In particular, we received 49% and 58% of revenue, directly and indirectly, from Samsung and its subcontractors for the three months ended March 31, 2017 and March 31, 2016, respectively.

Liquidity risk:
The Group monitors its liquidity risk through the use of quarterly budgets, weekly cash flow projections, and close monitoring of accounts receivable balances, inventory build and payment of suppliers. The objective is to maintain sufficient liquidity in our operating entities through a combination of cash on hand, borrowings under Credit Facilities, and generating operating cash flow. We also regularly monitor the amounts owing to Galtronics China by other subsidiaries to ensure compliance with China’s State of Administration of Foreign Exchange (“SAFE”) requirements.

NOTE 11:- RELATED PARTY TRANSACTIONS

The Company entered into a service agreement with a company controlled by its principal shareholder, for office space, service of certain employees, administrative support and supplies, computers and communication equipment. The agreement automatically renewed until December 31, 2017, with a fee of $210 per annum, which may change from month to month depending on the services the Company required.

a) The following summarizes the remuneration of directors and executive officers:

*Short-term benefits**,** pension and post-retirement benefits*
These amounts comprise of executive officers, salary and benefits earned during the period, 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.

Directors' remuneration
These amounts represent fees and expenses reimbursement paid to directors.
Share-based payment for executive officers
These amounts represent the costs of the Company's President and Chief Executive Officer grants under the Stock Option Plan.

Share-based payment for directors
These amounts represent the costs of directors' grants under the DSU Plan.

NOTE 12:- OTHER EVENTS DURING THE REPORTING PERIOD

In the quarter ending March 31, 2017 the Company changed its reporting currency to Canadian dollars, whereas previously the reporting currency was United States dollars. All comparative information is now reported in Canadian dollars.