BAYLIN TECHNOLOGIES INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2017

(Canadian dollars in thousands)

UNAUDITED

INDEX

Notice of Non-Reviewed Interim Condensed Consolidated Financial Statements

These interim condensed interim consolidated financial statements of the Company for the six months ended June 30, 2017 have been prepared by Management and were authorized for issue in accordance with a resolution of the board of directors on August 2, 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 entity's auditors.

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Baylin Technologies Inc.

Interim Condensed Consolidated Statements of Financial Position (Unaudited)

Canadian dollars in thousands

	June 30, 2017	December 31, 2016	January 1, 2016
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents (note 6)	$ 15,018	$ 18,480	$ 15,814
Trade and other receivables	15,459	14,211	13,760
Other current assets	2,892	1,662	1,467
Inventories	8,109	8,678	8,189
	41,478	43,031	39,230
NON-CURRENT ASSETS			
Property, plant and equipment, net	20,324	21,873	29,039
Lease deposits	142	102	340
	20,466	21,975	29,379
TOTAL ASSETS	$ 61,944	$ 65,006	$ 68,609
LIABILITES AND SHAREHOLDER'S EQUITY			
CURRENT LIABILITIES			
Credit from banks (note 6)	$ 4,855	$ 3,483	$ 8,819
Accounts payable and accrued liabilities	17,872	18,580	16,309
Income tax payable	127	51	383
	22,854	22,114	25,511
NON-CURRENT LIABILITIES			
Employee benefit liabilities, net (note 7)	1,639	1,462	1,360
TOTAL LIABILITES	24,493	23,576	26,871
SHAREHOLDER'S EQUITY			
Share Capital	90,929	90,929	85,837
Accumulated other comprehensive income	12,196	11,515	14,630
Capital reserve from transactions with non-controlling interests	107	107	107
Share-based payments reserve	1,276	1,087	636
Accumulated deficit	(67,057)	(62,208)	(59,472)
TOTAL EQUITY	37,451	41,430	41,738
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$ 61,944	$ 65,006	$ 68,609

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

August 2, 2017		
Date of approval of the financial statements	Jeffrey C. Royer Chairman of the Board of Directors	Randy Dewey President & Chief Executive Officer

Baylin Technologies Inc.

Interim Condensed Consolidated Statements of Loss and Other Comprehensive Loss (Unaudited)

Canadian dollars in thousands except per share figures

	Six months ended June 30,		Three months ended June 30,	
	2017	2016	2017	2016
Revenues	$ 40,150	$ 41,681	$ 20,349	$ 20,756
Cost of sales	27,407	30,193	13,548	14,891
Gross profit	12,743	11,488	6,801	5,865
Operating expenses				
Selling and marketing expenses	2,603	2,030	1,355	874
Research and development expenses	6,177	4,904	3,247	2,454
General and administrative expenses	7,362	5,737	4,372	2,876
	16,142	12,671	8,974	6,204
Operating loss	(3,399)	(1,183)	(2,173)	(339)
Finance expense (income), net	1,030	(366)	627	(236)
Loss before income taxes	(4,429)	(817)	(2,800)	(103)
Income tax	420	374	405	309
Net loss	$ (4,849)	$ (1,191)	$ (3,205)	$ (412)
Other comprehensive income (loss), net of tax:				
Foreign exchange translation adjustment	681	(1,062)	693	(1,058)
Total Comprehensive loss	$ (4,168)	$ (2,253)	$ (2,512)	$ (1,470)
Basic and diluted loss per share	$ (0.22)	$ (0.06)	$ (0.15)	$ (0.02)

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

Baylin Technologies Inc.

Interim Condensed Consolidated Statements of Changes in Equity (Unaudited)

Canadian dollars in thousands except per share figures

	Share capital	Accumulated deficit	Share-based payment reserve	Accumulated other comprehensive income (loss)	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	-	(4,849)	-	-	-	(4,849)
Other comprehensive loss	-	-	-	681	-	681
Share-based payment	-	-	189	-	-	189
Balance as of June 30, 2017	$ 90,929	$ (67,057)	$ 1,276	$ 12,196	$ 107	$ 37,451

	Share capital	Accumulated deficit	Share-based payment reserve	Accumulated other comprehensive income (loss)	Capital reserve from transactions with non-controlling interest	Total equity
Balance as of January 1, 2016	$ 85,837	$ (59,472)	$ 636	$ 14,630	$ 107	$ 41,738
Net Loss	-	(1,191)	-	-	-	(1,191)
Other comprehensive loss	-	-	-	(1,062)	-	(1,062)
Share-based payment	-	-	274	-	-	274
Refund on IPO share issuance expense	282	-	-	-	-	282
Balance as of June 30, 2016	$ 86,119	$ (60,663)	$ 910	$ 13,568	$ 107	$ 40,041

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

Baylin Technologies Inc.

Interim Condensed Consolidated Statements of Cash Flows (Unaudited)

Canadian dollars in thousands except per share figures

	Six months ended June 30, 2017	Six months ended June 30, 2016
Cash flows from operating activities		
Net loss	$ (4,849)	$ (1,191)
Adjustments to reconcile loss to net cash used in operating activities		
Share-based payment	189	274
Depreciation and amortization	2,341	2,120
Finance expense (income), net	1,030	(366)
(Gain) Loss from sale of property, plant and equipment	15	(150)
Income taxes	420	374
Changes in employee benefit liabilities, net	151	480
	4,146	2,732
Changes in asset and liability items		
Decrease (increase) in trade receivables	(1,570)	(1,551)
Decrease (increase) in other current assets	(1,323)	(1,804)
Decrease (increase) in inventories	435	(2,639)
Increase (decrease) in trade payables	(600)	4,067
Increase (decrease) in other accounts payable	(77)	(1,235)
	(3,135)	(3,162)
Cash paid and received during the year for		
Interest paid, net	(29)	(184)
Taxes paid, net	(355)	(187)
	(384)	(371)
Net cash used in operating activities	(4,222)	(1,992)
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,252)	(384)
Proceeds from sale of property, plant and equipment	43	2,474
Net cash (used in) provided by investing activities	(1,209)	2,090
Cash flows from financing activities		
Repayment of finance lease liabilities	-	(138)
Receipt (Repayment) of short-term credit from banks and others, net	1,150	(4,674)
Harmonized sales tax refund on IPO related expenses	-	302
Net cash provided by (used in) financing activities	1,150	(4,510)
Exchange difference on balances of cash and cash equivalents	819	(877)
Decrease in cash and cash equivalents	(3,462)	(5,289)
Cash and cash equivalents at the beginning of the year	18,480	15,814
Cash and cash equivalents at the end of the period	$ 15,018	$ 10,525

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

NOTE 1: GENERAL

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 in 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 mobile, networking (formerly known as broadband) and wireless infrastructure markets, primarily in the Far East and North America.

Approval of financial statements

These interim condensed consolidated financial statements of the Company for the six months ended June 30, 2017 have been prepared by Management and were authorized for issue in accordance with a resolution of the board of directors on August 2, 2017.

NOTE 2: BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended June 30, 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.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except for the following:

Effective January 1, 2017 the Company changed its presentation currency to Canadian dollars (CAD) from the United States dollar (USD). This change was considered advisable due to (i) the Company’s shareholders are primarily Canadian-based, (ii) the Company is a TSX reporting entity with share price quoted in CAD, the financial information was not explicitly converted from USD to CAD when reading our financial statements.

In accordance with the guidance in IAS 21, The effects of changes in foreign exchange rates and other IFRS, the Company has applied the presentation currency change retrospectively and translated all amounts for the December 31, 2016 consolidated statement of financial position into the new presentation currency using the exchange rate in effect at the date of the change. For the presentation currency change affecting the January 1, 2016 consolidated statement of financial position, as required by IFRS for change in accounting policy, all amounts were presented for comparative purposes in CAD using the exchange rate in accordance with IAS 21 guidance.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following exchange rates were used to convert the previously filed USD financial statements into CAD: January 1, 2016 USD 1.00 = CAD 1.384; 2016 average rate USD 1.00 = CAD 1.3253; December 31, 2016 USD 1.00 = CAD 1.3427. All resulting exchange rate differences are included in the reserve in the statement of changes of equity.

The change in presentation currency resulted in the following impact on the January 1, 2016 opening consolidated statement of financial position:

	Reported at January 1, 2016 in USD (in thousands)	Presentation currency change (in thousands)	Reported at January 1, 2016, in CAD presentation currency (in thousands)
Total Asset	$ 49,574	$ 19,035	$ 68,609
Total Liabilities	$ 19,416	$ 7,455	$ 26,871
Total Equity	$ 30,158	$ 11,580	$ 41,738

The change in presentation currency resulted in the following impact on the December 31, 2016 consolidated statement of financial position:

	Reported at December 31, 2016 in USD (in thousands)	Presentation currency change (in thousands)	Reported at December 31, 2016, in CAD presentation currency (in thousands)
Total Assets	$ 48,415	$ 16,591	$ 65,006
Total Liabilities	$ 17,559	$ 6,017	$ 23,576
Total Equity	$ 30,856	$ 10,574	$ 41,430

The change in presentation currency resulted in the following impact on the Six months ended and Three months ended June 30, 2016 basic and diluted loss per share:

	Reported in USD	Presentation currency change	Reported in CAD presentation currency
Basic and diluted loss per share for the six months ended June 30, 2016	$ (0.05)	$ (0.01)	$ (0.06)
Basic and diluted loss per share for the three months ended June 30, 2016	$ (0.02)	$ (0.00)	$ (0.02)

NOTE 4: SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

There have been no significant changes to our critical accounting judgements, estimates and assumptions made since our annual financial reporting for the year ended December 31, 2016 except as disclosed in Note 12 regarding the closure of the engineering facility located in Tiberias, Israel.

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 IAS 7, “Statement of Cash Flows”
(d) IFRS 16 – “Leases”

The Company is in the process of evaluating the impact of these standards on its consolidated financial statements.

NOTE 6: CASH AND CASH EQUIVALENTS

The Company has a United States dollar 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 was no borrowing under this facility as at June 30, 2017, and accordingly there is no Restricted Cash.

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 accounts 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.

Canadian dollars in thousands

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 $38 million USD 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. There were no new developments during the period ended June 30, 2017.

NOTE 9: SHARE-BASED PAYMENTS

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 six months ended June 30, 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	36,406	$ 2.13
DSUs outstanding at June 30, 2017	261,233	$ 2.02

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 June 30, 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 June 30, 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.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 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 enhancing 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 55% of revenue, directly and indirectly, from Samsung and its subcontractors for the six months ended June 30, 2017 and June 30, 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 TRANSACATIONS

Share-based payment for executive officers

These amounts represent the costs of the Company's President and Chief Executive Officer and other key executives and employees' grants under the Company's 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

Change in presentation currency

In the six months ending June 30, 2017 the Company changed its presentation currency to Canadian dollars from the United States dollar. All comparative information is similarly now reported in Canadian dollars.

Restructuring provision and impairment loss

On June 12, 2017, the Company made the decision to cease operations at its engineering facility in Tiberias, Israel. Activities are currently underway to transfer existing assets in Tiberias, Israel to other locations of the company. The Company took an impairment charge of $191 in the three months ended June 30, 2017 for property and equipment that could not be transferred and for which the company intends to dispose of. The property and equipment only has use in the Tiberias, Israel engineering facility thus the carrying value had exceeded fair value. The Company also expensed $723 in the three months ended June 30, 2017 for property carrying costs and severance costs related to the closure.