BAYLIN TECHNOLOGIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

(Canadian dollars in thousands)

INDEX

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Date of approval of consolidated financial statements: **February 28, 2018**

"Jeffrey C. Royer"	*"Randy Dewey"*	*"Michael Wolfe"*
Jeffrey C. Royer	**Randy Dewey**	**Michael Wolfe**
Chairman of the Board of Directors	**President & Chief Executive Officer**	**Chief Financial Officer**

February 28, 2018

Independent Auditor's Report

To the Shareholders of
Baylin Technologies Inc.

We have audited the accompanying consolidated financial statements of Baylin Technologies Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017, December 31, 2016 and January 1, 2016 and the consolidated statements of loss and other comprehensive loss, changes in equity and cash flows for the years ended December 31, 2017 and December 31, 2016, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Baylin Technologies Inc. and its subsidiaries as at December 31, 2017, December 31, 2016 and January 1, 2016 and their financial performance and their cash flows for the years ended December 31, 2017 and December 31, 2016 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Baylin Technologies Inc.

Consolidated Statements of Financial Position

Canadian dollars in thousands

	December 31, 2017	December 31, 2016 (note 3)	January 1, 2016 (note 3)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 35,156	$ 18,480	$ 15,814
Trade receivables (note 6)	16,091	14,211	13,760
Other current assets (note 7)	4,252	1,662	1,467
Inventories (note 8)	9,167	8,678	8,189
	64,666	43,031	39,230
NON-CURRENT ASSETS			
Property, plant and equipment, net (note 9)	20,151	21,873	29,039
Lease deposits	65	102	340
	20,216	21,975	29,379
TOTAL ASSETS	$ 84,882	$ 65,006	$ 68,609
LIABILITES AND EQUITY			
CURRENT LIABILITIES			
Credit from banks (note 10)	$ 4,159	$ 3,483	$ 8,819
Accounts payable and accrued liabilities (note 11)	22,552	18,580	16,309
Income tax payable (note 15)	162	51	383
	26,873	22,114	25,511
NON-CURRENT LIABILITIES			
Long-term portion of credit from banks (note 10 and note 12)	347	-	-
Employee benefit liabilities, net (note 13)	1,836	1,462	1,360
	2,183	1,462	1,360
TOTAL LIABILITES	29,056	23,576	26,871
SHAREHOLDER'S EQUITY			
Share capital (note 16)	109,210	90,929	85,837
Accumulated other comprehensive income	11,212	11,247	14,418
Share-based payments reserve (note 17)	1,446	1,087	636
Accumulated deficit	(65,947)	(61,940)	(59,260)
	55,921	41,323	41,631
Non-Controlling Interest (note 3)	(95)	107	107
TOTAL EQUITY	55,826	41,430	41,738
TOTAL LIABILITIES AND TOTAL EQUITY	$ 84,882	$ 65,006	$ 68,609

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

Baylin Technologies Inc.

Consolidated Statements of Loss and Other Comprehensive Loss

Canadian dollars in thousands except per share figures

	Year ended December 31, 2017	Year ended December 31, 2016 (note 3)
Revenues (note 20)	$ 91,642	$ 84,133
Cost of sales (note 21)	63,297	60,628
Gross profit	28,345	23,505
Operating expenses (note 21)		
Selling and marketing expenses	5,490	4,134
Research and development expenses	11,248	10,233
General and administrative expenses	13,384	12,647
	30,122	27,014
Operating loss	(1,777)	(3,509)
Finance expense (income), net (note 22)	1,996	(831)
Loss before income taxes	(3,773)	(2,678)
Income tax expense (note 15)	436	2
Net loss	$ (4,209)	$ (2,680)
Net loss attributable to shareholders	(3,726)	(2,680)
Net loss attributable to non-controlling interest	(483)	-
Amounts arising from translation of foreign operations	(22)	(3,115)
Amounts arising from actuarial losses	(13)	(56)
Other comprehensive loss, net of tax:	$ (35)	$ (3,171)
Total Comprehensive loss	$ (4,244)	$ (5,851)
Total Comprehensive loss attributable to shareholders	(4,022)	(5,851)
Total Comprehensive loss attributable to non-controlling interest	(202)	-
Basic and diluted loss per share (note 18)	**$ (0.17)**	**$ (0.15)**

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

Baylin Technologies Inc.

Consolidated Statements of Changes in Equity

Canadian dollars in thousands

	Share capital	Share-based payment reserve	Accumulated deficit	Accumulated other comprehensive income (loss)	Non-controlling interests	Total equity
Balance as of January 1, 2017 (note 3)	$ 90,929	$ 1,087	$ (61,940)	$ 11,247	$ 107	$ 41,430
Net loss	-	-	(4,007)	-	(202)	(4,209)
Other comprehensive loss	-	-	-	(35)	-	(35)
Share-based payment (note 17)	-	359	-	-	-	359
Issuance of shares, net of share issuance costs (note 16)	18,281	-	-	-	-	18,281
Balance as of December 31, 2017	$ 109,210	$ 1,446	$ (65,947)	$ 11,212	$ (95)	$ 55,826

	Share capital (note 3)	Share-based payment reserve (note 3)	Accumulated deficit (note 3)	Accumulated other comprehensive income (loss) (note 3)	Non-controlling interest (note 3)	Total equity (note 3)
Balance as of January 1, 2016	$ 85,837	$ 636	$ (59,260)	$ 14,418	$ 107	$ 41,738
Net Loss	-	-	(2,680)	-	-	(2,680)
Other comprehensive loss	-	-	-	(3,171)	-	(3,171)
Share-based payment (note 17)	-	451	-	-	-	451
Issuance of shares, net of share issuance costs (note 16)	5,092	-	-	-	-	5,092
Balance as of December 31, 2016	$ 90,929	$ 1,087	$ (61,940)	$ 11,247	$ 107	$ 41,430

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

Baylin Technologies Inc.

Consolidated Statements of Cash Flows

Canadian dollars in thousands

	Year ended December 31, 2017	2016 (note 3)
Cash flows from operating activities		
Net loss	$ (4,209)	$ (2,680)
Adjustments to reconcile loss to net cash provided by (used in) operating activities		
Share-based payment	359	451
Depreciation of property, plant and equipment	4,083	4,111
Impairment of property, plant and equipment	499	-
Finance expense (income), net	1,996	(831)
Loss from sale of property, plant and equipment	78	158
Pension plan and share conversion expense	-	(122)
Income taxes	436	2
Unrealized foreign exchange	1,751	(350)
	9,202	3,420
Changes in asset and liability items		
Increase in trade receivables	(2,446)	(1,332)
Increase in other current assets	(2,581)	(54)
Increase in inventories	(722)	(1,123)
Increase in other accounts payable	2,099	3,572
Increase in employee benefit liabilities	283	186
	(3,367)	1,249
Cash paid and received during the year for		
Interest paid, net	(41)	(233)
Taxes paid, net	(327)	(318)
	(368)	(551)
Net cash (used in) provided by operating activities	1,258	1,438
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,210)	(1,621)
Proceeds from sale of property, plant and equipment	45	2,644
Net cash (used in) provided by investing activities	(3,165)	1,023
Cash flows from financing activities		
Net proceeds from share issuance	18,281	5,092
Receipt (repayment) of short-term credit from banks and others, net	1,036	(4,232)
Net cash provided by financing activities	19,317	860
Exchange gain (loss) on balances of cash and cash equivalents	(734)	(655)
Increase in cash and cash equivalents	16,676	2,666
Cash and cash equivalents at the beginning of the year	18,480	15,814
Cash and cash equivalents at the end of the year	$ 35,156	$ 18,480

The accompanying notes are an integral part of the 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 antennas and communications solutions for the mobile, networking, small cell, DAS and base station markets, primarily in the North American and Asia Pacific regions.

Approval of financial statements

These consolidated financial statements of the Company for the year ended December 31, 2017 have been prepared by management and were authorized for issue in accordance with a resolution of the board of directors on February 28, 2018.

NOTE 2: BASIS OF PREPARATION

The consolidated financial statements for the year ended December 31, 2017, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies been applied consistently in the consolidated financial statements for all periods presented, unless otherwise stated. The consolidated financial statements have been prepared on a historical cost basis.

Consolidated Financial Statements

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Potential voting rights are considered when assessing whether an entity has control. The consolidation of the subsidiaries commences on the date on which control is obtained and ends when such control ceases.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group, which is considered to have one operating segment. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Canadian dollars in thousands, unless stated otherwise

The Company's principal subsidiaries at December 31, 2017 are as follows:

Name of entity	Country of incorporation or registration	Ownership interest held as at December 31, 2017	Ownership interest held as at December 31, 2016
Galtronics Israel	Israel	100%	100%
Galtronics USA	United States of America	100%	100%
Galtronics Wuxi	China	100%	100%
Galtronics Korea	Korea	100%	100%
Galtronics Vietnam	Vietnam	100%	100%
Galtronics Ottawa	Canada	49%	Not applicable

Except for Galtronics USA which is a division of Galtronics Israel, the subsidiaries have share capital consisting solely of ordinary shares that are held directly by the group, and the proportion of ownership interests held equals the voting rights held by the group. The country of incorporation or registration is also their principal place of business.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of loss and other comprehensive loss, statement of changes in equity and statement of financial position respectively.

Presentation currency, functional currency and foreign currency

a. Presentation Currency

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 as: (i) the Company's shareholders are primarily Canadian-based; and, (ii) the Company's shares are listed on the Toronto Stock Exchange ("TSX") with the share price quoted in CAD; reporting the financial statements in CAD enables analysis of the Company's share price and market capitalization without having to convert amounts reported in the 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.

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 accumulated other comprehensive loss 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)		Impact of the presentation currency change (in thousands)		Restated 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)		Impact of the presentation currency change (in thousands)		Restated 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 year ended December 31, 2016 basic and diluted loss per share:

	Reported in USD		Impact of the presentation currency change		Restated in CAD presentation currency	
Basic and diluted loss per share for the year ended December 30, 2016	$	(0.11)	$	(0.04)	$	(0.15)

The change in presentation currency did not result in a material impact on net income (loss) and cash flows for the years ended December 31, 2016 and December 31, 2015.

b. Functional currency

The Group determines the functional currency of each subsidiary, and this currency is used to separately measure each subsidiary's financial position and operating results. The functional currency of the Company is CAD.

When a subsidiary’s functional currency differs from the Company's presentation currency, that subsidiary’s financial statements are translated into the Company's presentation currency so that they can be included in the consolidated financial statements. Assets and liabilities are translated at the closing rate at the end of each reporting period. Profit or loss items are translated at average exchange rates for all the relevant periods. All resulting translation differences are recognized as a component of other comprehensive income (loss) and as a component of accumulated other comprehensive income (loss) in equity.

c. Foreign currency

Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate approximating the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at the end of each reporting period into the functional currency at the exchange rate at that date. Exchange rate differences are recognized in profit or loss. Non-monetary assets and liabilities measured at historical cost in foreign currency are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated selling costs. Raw materials are measured at cost of purchase using the weighted-average cost method. Work in progress and finished goods are measured on the basis of average costs including materials, labor and other direct and indirect manufacturing costs. The Company periodically evaluates the condition and age of inventories and makes provisions to decrease inventories to net realizable value accordingly.

Revenue recognition

Revenues are recognized in profit or loss when the revenues can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Revenues are measured at the fair value of the consideration received less any trade discounts, volume rebates and returns.

The following specific revenue recognition criteria must also be met before revenue is recognized:

Revenues from the sale of goods are recognized when all significant risks and rewards of ownership of the goods have passed to the buyer and the seller no longer retains continuing managerial involvement. The delivery date is usually the date on which ownership passes.

Income taxes

Current or deferred taxes are recognized in profit or loss, except to the extent that they relate to items which are recognized in other comprehensive income or directly in equity.

a. Current taxes

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period as well as adjustments required in connection with the tax liability in respect of previous years.

b. Deferred taxes

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the consolidated financial statements and the amounts attributed for tax purposes, except for temporary differences related to investments in subsidiaries, to the extent that it is probable that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred taxes are measured at the tax rates that are expected to apply when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the end of the reporting period. Deferred taxes in profit or loss represent the changes in the carrying amount of deferred tax balances during the reporting period, excluding changes attributable to items recognized in other comprehensive income or in equity.

Deferred tax assets are reviewed at the end of each reporting period and reduced to the extent that it is not probable that they will be utilized. Temporary differences and loss carry-forward balances for which deferred tax assets have not been recognized are reviewed at the end of each reporting period and a deferred tax asset is recognized to the extent that their realization is probable.

All deferred tax assets and deferred tax liabilities are presented in the statement of financial position as non-current assets and non-current liabilities, respectively. Deferred taxes are offset in the consolidated statement of financial position if there is a legally enforceable right to offset a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

Leases

The criteria for classifying leases as finance or operating leases depend on the substance of the agreements and are made at the inception of the lease.

a. Finance Lease

Finance leases transfer to the Group substantially all the risks and benefits incidental to ownership of the leased asset. At the commencement of the lease term, the leased assets are measured at the lower of the fair value of the leased asset or the present value of the minimum lease payments. The liability for lease payments is presented at its present value and the lease payments are apportioned between finance charges and a reduction of the lease liability using the effective interest method. The leased asset is amortized over the shorter of its useful life or the lease term.

b. Operating Lease

Lease agreements are classified as an operating lease if they do not transfer substantially all the risks and benefits incidental to ownership of the leased asset. Lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

Property, plant and equipment

Property, plant and equipment are measured at cost, including directly attributable costs, less accumulated depreciation, and accumulated impairment losses and excluding day-to-day servicing expenses. Cost includes spare parts and auxiliary equipment that are used in connection with plant and equipment.

A component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation is calculated on a straight-line basis over the useful life of the assets at annual rates as follows:

	Useful Life in Years
Buildings (excluding land component)	50
Machinery and Equipment	3 – 10
Motor Vehicles	5 – 7
Office furniture, computers and peripheral equipment	3 – 20
Leasehold improvements	Shorter of lease term and expected life

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. An asset is derecognized on disposal or when no further economic benefits are expected from its use. The gain or loss arising from the derecognition of the asset (determined as the difference between the net disposal proceeds and the carrying amount in the consolidated financial statements) is included in profit or loss when the asset is derecognized.

Impairment of non-financial assets

The Company evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of fair value less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss is limited to the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years, and its recoverable amount. The reversal of impairment loss of an asset is recognized in profit or loss.

Financial instruments

a. Financial assets

Financial assets within the scope of IAS 39 are initially recognized at fair value including directly attributable transaction costs, except for financial assets measured at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the accounting treatment of financial assets is based on their classification. The only currently relevant classification for the Company is loans and receivables, which include cash and cash equivalents, trade and other receivables. Loans and receivables are investments with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans and receivables are measured based on their terms at amortized cost less directly attributable transaction costs using the effective interest method and less any impairment losses.

b. Financial liabilities

Financial liabilities are initially recognized at fair value. Loans and other liabilities measured at amortized cost are presented less direct transaction costs.

After initial recognition, the accounting treatment of financial liabilities is based on their classification. The only currently relevant classification for the Company are financial liabilities at amortized cost, which include credits from banks, accounts payables and accrued liabilities. After initial recognition, financial liabilities are measured based on their terms at amortized cost less directly attributable transaction costs using the effective interest method and any impairment losses. The amortization of the effective interest is recognized in profit or loss. The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows of the contract.

c. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is presented in the consolidated statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The right of set-off must be legally enforceable not only during the ordinary course of business of the parties to the contract but also in the event of bankruptcy or insolvency of one of the parties. In order for the right of set-off to be currently available, it must not be contingent on a future event, there may not be periods during which the right is not available, or there may not be any events that will cause the right to expire.

d. Derecognition of financial instruments

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Company has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged, cancelled or expires. A financial liability is extinguished when the debtor (the Group) discharges the liability by paying in cash, other financial assets, goods or services; or is legally released from the liability.

e. Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset or group of financial assets.

Objective evidence of impairment exists when one or more events that have occurred after the initial recognition of the asset have a negative impact on the estimated future cash flows. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate computed at initial recognition). In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.
Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observed directly or indirectly

Level 3: Inputs that are not based on observable market data (valuation techniques which use inputs that are not observable market data)

As at December 31, 2017 and December 31, 2016, there were no financial instruments that were recognized and measured at fair values in the financial statements.

Provisions

A provision in accordance with IAS 37 is recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense is recognized in the consolidated statement of profit or loss net of any reimbursement.

A provision for claims is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is more likely than not that an outflow of resources embodying economic benefits will be required by the Group to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Employee benefits liabilities

The Company has several employee benefits:

a. Short-term employee benefits

   These benefits include salaries, paid annual leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

b. Post-employment benefits

Contributions to the defined contribution plan in respect of severance or retirement pay are recognized as an expense when contributed concurrently with performance of the employee's services.

Galtronics Korea operate a defined benefit plan in respect of severance pay pursuant to the severance pay law in the relevant jurisdictions. According to these laws, employees are entitled to severance pay upon dismissal or retirement.

The liability for termination of employment is measured using the projected unit credit method. The actuarial assumptions include rates of employee turnover and future salary increases based on the estimated timing of payment. The amounts are presented based on discounted expected future cash flows using a discount rate determined by reference to market yields on high-quality corporate bonds with a term that is consistent with the estimated term of the benefit obligation. The liability for employee benefits shown in the statement of financial position reflects the present value of the defined benefit obligation.

Re-measurement arising from defined benefit plans comprises actuarial gains and losses and the return on plan assets (excluding interest). The Group recognizes them immediately in other comprehensive income (loss) and all other expenses related to defined benefit plans, including past service costs, in employee benefits expenses in profit or loss.

c. Termination benefits

Employee termination benefits are recognized as an expense when the Group has committed, without realistic possibility of withdrawal, to terminate employees before the normal retirement date according to a detailed formal plan. Benefits to employees in respect of voluntary retirement are provided for when the Group has offered the employees a plan that encourages voluntary redundancy, it is expected that the offer will be accepted and the number of respondents can be reliably measured.

Share based payments

The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at the grant date. The fair value is determined using an acceptable option pricing model.

As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments. In cases where the fair value of the goods or services received as consideration for equity instruments cannot be measured, they are measured by reference to the fair value of the equity instruments granted.

The cost of equity-settled transactions is recognized in profit or loss, together with a corresponding increase in equity, during the period in which the performance and/or service conditions are satisfied, ending on the date on which the relevant employees become fully entitled to the award (the “vesting period”). The cumulative expense recognized for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Company’s best estimate of the number of equity instruments that will ultimately vest.

The expense or income recognized in profit or loss represents the change between the cumulative expense recognized at the end of the reporting period and the cumulative expense recognized at the end of the previous reporting period. Where vesting is conditional upon a market condition, an expense is recognized over the vesting period irrespective of whether the market condition is satisfied, provided that all other vesting conditions (service and/or performance) are satisfied.

Loss per share

Loss per share are calculated by dividing the net loss attributable to equity holders of the Company by the weighted number of common shares outstanding during the period. Potential common shares (convertible securities such as convertible debentures, options and warrants) are only included in the computation of diluted earnings per share when their conversion decreases earnings per share or increases loss per share. Potential common shares that are converted during the period are included in diluted earnings per share only until the conversion date and from that date in basic earnings per share.

Research and Development

Research and development costs are expensed except in cases where development costs meet the definition of an intangible asset and the recognition criteria for intangible assets as prescribed in IAS 38. For all periods presented, development costs incurred have not met the criteria for capitalization.

NOTE 4: SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates and judgements made by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Operating segments

The Company is considered to operate as one segment. In making this judgement, the Company has evaluated the business activities from which it earns revenues and incurs expenses, at which level operating results are reviewed by the chief operating decision maker and for which discrete financial information is available. The chief executive officer has been deemed the chief operating decision maker.

Impairment of property, plant and equipment

Impairment exists when the carrying amount of an asset exceeds its recoverable amount. In evaluating impairment of property, plant and equipment, the Company determines recoverable amount based on fair value less costs of disposal of the assets. The fair value of property plant and equipment is determined using the depreciated replacement cost ("DRC") approach for certain assets, and a market approach using comparable transactions for other assets.

Estimates used in arriving at fair value involve significant judgment of changes in market and other conditions that can affect fair values. DRC includes adjustments for obsolescence which are based in part on assumptions that are influenced by factors that are both internal and external to the Company, and therefore, changes in such factors can affect those assumptions.

Income taxes

The company is subject to income taxes in all jurisdictions in which it operates. Significant judgement is required in determining the tax provision. There are many transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. Deferred tax assets are recognized for unutilized carry forward tax losses and deductible temporary differences to the extent that it is probable that taxable income will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

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

New standards and amendments adopted

Certain new standards and amendments became effective during the current fiscal year. The company has adopted these standards where they were applicable to the Company. The adoption of new standards and amendments did not have any impact on the amounts recognized in prior period and did not affect the current periods. The amendments to IAS 7 require disclosure of changes in liabilities arising from financing activities, see Note 10.

New standards and interpretations not yet adopted

At the date of authorization of these consolidated financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Company. All pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company’s consolidated financial statements is provided below. Certain other new standards, amendments and interpretations may have been issued but are not expected to have a material impact on the Company's consolidated financial statements.

IFRS 9 Financial Instruments

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2018, the final version of IFRS 9 was issued in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduces a model for classification and measurement, a single, forward-looking ‘expected loss’ impairment model and a substantially reformed approach to hedge accounting. The new single, principle based approach for determining the classification of financial assets is driven by cash flow characteristics and the business model in which an asset is held. The new model also results in a single impairment model being applied to all financial instruments, which will require more timely recognition of expected credit losses.

It also includes changes in respect of the entity's own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in profit or loss.

Company has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The financial assets held by the Company include debt instruments currently classified as loans and receivables and measured at amortized cost, which meet the conditions for classification at amortized cost under IFRS 9. Accordingly, the Company does not expect the new guidance to affect the classification and measurement of these financial assets.

Accounts payables and accrued liabilities and credit from banks are classified as financial liabilities to be subsequently measured at amortized costs. There will be no impact on the Company's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Company does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortized cost, debt instruments measured at FVOCI, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date and as the Company has taken insurance to help mitigate against credit losses, the Company does not expect a material impact on the loss allowance for trade creditors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Company's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15 Revenue from Contracts with Customers

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2018, the IASB issued this new standard to replace IAS 18 Revenue and IAS 11 Construction Contracts. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements.

The Company analyzed its significant customer relationships to determine the effects of IFRS 15. In particular, the Company assessed under the new guidance whether its existing contracts with customers to produce certain goods would permit the Company to recognize revenue over time versus at a point in time, based on whether the given product has an alternative use or not and whether there is an enforceable right to payment under the contract for product produced to date.

Canadian dollars in thousands, unless stated otherwise

The Company expects to adopt IFRS 15 using the modified retrospective approach as of January 1, 2018. The modified retrospective approach allows the cumulative impact of the adoption to be recognized in retained earnings as of January 1, 2018 and that comparatives will not be restated. Based on its assessment to date, the Company has tentatively concluded that it does not satisfy the criteria to recognize revenue over time, and, therefore, expects to continue to recognize revenue at a point in time consistent with its current policies and processes. Consequently, the Company does not expect the adoption of IFRS 15 to have a material impact on its consolidated financial statements and revenue recognition practices.

IFRS 16 Leases

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2019, the IASB issued this new standard to replace IAS 17 Leases. The new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and lease of low value assets). Management is currently assessing the impact that this new standard will have on the consolidated financial statements of the Company.

NOTE 6: TRADE RECEIVABLES, NET

The following comprise the balance of trade receivables, net:

	December 31, 2017	December 31, 2016	January 1, 2016
Trade Receivables, gross	$ 16,369	$ 15,261	$ 14,071
Less: Allowance for doubtful accounts	(278)	(1,050)	(311)
Trade receivables, net	$ 16,091	$ 14,211	$ 13,760

The movement in the allowance for doubtful accounts is as follows:

	2017	2016
Balance as at January 1	$ 1,050	$ 311
Allowance for doubtful accounts taken during the year	4	773
Receivables written off during the year as uncollectible	(745)	(27)
Effects of translation from changes in foreign exchange	(31)	(7)
Balance as at December 31	$ 278	$ 1,050

Canadian dollars in thousands, unless stated otherwise

The following is the aging of trade receivables, net:

	Current trade receivables, net	Past due but not impaired trade receivables, net				Total trade receivables, net
		> 30 days	30 – 60 days	60 – 90 days	Over 90 days	
December 31, 2017	11,662	3,499	747	183	-	$ 16,091
December 31, 2016	7,741	5,173	1,191	106	-	$ 14,211
January 1, 2016	9,639	2,354	936	603	228	$ 13,760

NOTE 7: OTHER CURRENT ASSETS

The following comprise the balance of other current assets:

	December 31, 2017	December 31, 2016	January 1, 2016
Due from government authorities	$ 501	$ 234	$ 559
Advance to suppliers	412	423	141
Prepaid expenses	3,069	602	683
Other receivables	270	403	84
Total other current assets	$ 4,252	$ 1,662	$ 1,467

NOTE 8: INVENTORIES

The following comprise the balance of inventories:

	December 31, 2017	December 31, 2016	January 1, 2016
Raw materials	$ 2,925	$ 3,382	$ 2,858
Work in progress	1,250	1,768	1,362
Finished good	4,992	3,528	3,969
Total inventory	$ 9,167	$ 8,678	$ 8,189

The inventory reserve taken against inventory amounted to $316, $372 and $1,258 as at December 31, 2017, December 31, 2016 and January 1, 2016 respectively.

Canadian dollars in thousands, unless stated otherwise

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

The following comprise the balance of property, plant and equipment:

	Land and building	Machinery and Equipment	Motor Vehicles	Office furniture, computers, peripheral equipment	Leasehold improvement	Construction in progress	Total
Cost							
Balance as at January 1, 2017	$ 6,742	$ 36,884	$ 355	$ 4,916	$ 4,257	$ 84	$ 53,238
Additions	248	1,114	-	375	173	1,300	3,210
Disposals	-	(1,487)	(162)	(46)	-	-	(1,695)
Reclassifications	-	(8,641)	(155)	(2,153)	(103)	-	(11,052)
Impairments	-	(499)	-	-	-	-	(499)
Effects of translation	(44)	305	(21)	(114)	(580)	-	(454)
Balance as at December 31, 2017	$ 6,946	$ 27,676	$ 17	$ 2,978	$ 3,747	$ 1,384	$ 42,748
Accumulated depreciation							
Balance as at January 1, 2017	$ 3,383	$ 22,306	$ 355	$ 4,443	$ 879	-	$ 31,366
Additions	278	3,229	-	$199	377	-	4,083
Disposals	-	(1,369)	(162)	(41)	-	-	(1,572)
Reclassifications	-	(8,776)	(156)	(2,075)	(45)	-	(11,052)
Effects of translation	(768)	752	(20)	(175)	(17)	-	(228)
Balance as at December 31, 2017	$ 2,893	$ 16,142	$ 17	$ 2,351	$ 1,194	-	$ 22,597
Carrying amount							
Balance as at December 31, 2017	$ 4,053	$ 11,534	-	$ 627	$ 2,553	$ 1,384	$ 20,151

	Land and building	Machinery and Equipment	Motor Vehicles	Office furniture, computers, peripheral equipment	Leasehold improvement	Construction in progress	Total
Cost							
Balance as at January 1, 2016	$ 11,551	$ 38,835	$ 355	$ 5,649	$ 3,920	-	$ 60,310
Additions	-	519	-	55	963	84	1,621
Disposals	(4,163)	(493)	-	(528)	(168)	-	(5,352)
Reclassifications	(185)	(297)	-	(148)	(412)	-	(1,042)
Impairments	-	-	-	-	-	-	-
Effects of translation	(461)	(1,680)	-	(112)	(46)	-	(2,299)
Balance as at December 31, 2016	$ 6,742	$ 36,884	$355	$ 4,916	$ 4,257	$ 84	$ 53,238
Accumulated depreciation							
Balance as at January 1, 2016	$ 5,028	$ 20,001	$ 347	$ 4,784	$ 1,111	-	$ 31,271
Additions	306	3,078	8	$328	391	-	4,111
Disposals	(1,896)	(160)	-	(313)	(168)	-	(2,537)
Reclassifications	169	(518)	-	(239)	(454)	-	(1,042)
Effects of translation	(224)	(95)	-	(117)	(1)	-	(439)
Balance as at December 31, 2016	$ 3,383	$ 22,306	$ 355	$ 4,443	$ 879	-	$ 31,364
Carrying amount							
Balance as at December 31, 2016	$ 3,359	$ 14,578	-	$ 473	$ 3,378	$ 84	$ 21,873

Canadian dollars in thousands, unless stated otherwise

Property, plant and equipment by geographic location are as follows:

	December 31, 2017		December 31, 2016	
Asia Pacific	$	17,611	$	19,860
North America		2,540		1,104
Israel		-		909
	$	20,151	$	21,873

The depreciation expense recognized in the consolidated statements of loss are as follows:

	For the Year ended December 31, 2017		2016	
Cost of goods sold	$	3,055	$	3,471
Research and development		772		236
General and administrative		256		403
	$	4,083	$	4,111

On June 12, 2017, the Company made the decision to cease operations at its engineering facility in Tiberias, Israel. Existing assets in Tiberias, Israel have been transferred to other locations of the Company. The Company evaluated as of December 31, 2017, whether there were any indications of impairment of its property, plant and equipment. In relation to the closure of the Company's engineering facility in Tiberias, Israel, an impairment charge of $351 was recognized in net loss for the year ended December 31, 2017 for property and equipment that could not be transferred. 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 $801 in the year ended December 31, 2017 for property carrying costs, severance costs and other cost related to the closure.

During the year ended December 31, 2017 Galtronics Wuxi recognized an impairment charge of $148.

Canadian dollars in thousands, unless stated otherwise

NOTE 10: CREDIT FROM BANKS

The following comprise the balance of credit from banks:

	Annual Interest Rate %	December 31, 2017	December 31, 2016	January 1, 2016
Short-term credit from banks				
a. In United States dollar	3.6 – 3.9 %	$ -	$ -	$ 3,998
b. In Chinese yuan	5.5 – 5.9 %	3,470	3,483	4,432
c. In United States dollar	3 month Libor + 2.8 %	689	-	-
d. In Korean won	5.7 %	-	-	389
		$ 4,159	$ 3,483	$ 8,819
Long-term portion of credit from banks				
c. In United States dollar	3 month Libor + 2.8 %	347	-	-
		$ 4,506	$ 3,483	$ 8,819

The Group has revolving credit lines which are being drawn as needed. As at December 31, 2017, the aggregate credit facility of the Group is approximately $10,338 of which $4,506 was drawn and utilized. As at December 31, 2016, the aggregate credit facility of the Group is approximately $9,289 of which $3,483 was drawn and utilized.

a. The Company has a United States dollar revolving credit facility with Hong Kong Shanghai Bank Corporation (“HSBC”, and the “HSBC Facility”) for up to $5,018. Any draws 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 borrowings under this facility as at December 31, 2017 and December 31, 2016 and accordingly there is no amount in restricted cash.

b. The Company’s Chinese subsidiary has a Renminbi equivalent $3,470 short-term credit facility with the Shanghai Pudong Development Bank ("SPD") secured by the Company’s Chinese subsidiary building in Renminbi currency equivalent. As at December 31, 2017 the full balance was outstanding under this facility, payable in 2018. As at December 31, 2016 the full balance was also outstanding under this facility and was paid in 2017.

c. In January 2017, the Company’s Vietnamese subsidiary entered into a $1,380 credit facility with a Vietnamese bank in United States Dollar equivalent. This facility is collateralized by certain equipment owned by the Company’s Vietnamese subsidiary. As at December 31, 2017, there was $1,036 outstanding under this facility of which $689 is due in 2018 and $347 is due in 2019.

d. The Company’s Korean subsidiary has a $470 short-term credit facility with the Shinhan Bank in South Korean Won currency equivalent. The credit facility is secured by an irrevocable letter of credit issued by Baylin to the lender in Korea. As at December 31, 2017 and December 31, 2016, there was no balance outstanding under this facility.

Canadian dollars in thousands, unless stated otherwise

The Group's ability to utilize 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 the Group's building in China and certain equipment owned by the Company's Vietnamese subsidiary. The company is in compliance with all of its covenants.

The following table sets out an analysis of net debt and the movements in net debt for each of the periods presented

	Cash and cash equivalents	Credit from banks	Net debt
Net debt as at January 1, 2016	$ 15,814	$ (8,819)	$ 6,995
Cash flows	3,319	4,232	7,551
Foreign exchange adjustments	(653)	1,104	451
Net debt as at December 31, 2016	$ 18,480	$ (3,483)	$ 14,997
Cash flows	(871)	(1,036)	(1,907)
Share issuance	18,281	-	18,281
Foreign exchange adjustments	(734)	13	(721)
Net debt as at December 31, 2017	$ 35,156	$ (4,506)	$ 30,650

NOTE 11: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following comprise the balance of accounts payable and accrued liabilities:

	December 31, 2017	December 31, 2016	January 1, 2016
Trade payables	$ 16,875	$ 15,031	$ 11,547
Employee and payroll accruals	907	665	2,703
Employee short-term benefits	310	701	805
Accrued expenses	4,101	1,278	905
Other	359	905	349
Total accounts payables and accrued liabilities	$ 22,552	$ 18,580	$ 16,309

Canadian dollars in thousands, unless stated otherwise

NOTE 12: FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial assets and financial liabilities consist of the following:

	December 31, 2017	December 31, 2016	January 1, 2016
Financial assets			
Cash and cash equivalents	$ 35,156	$ 18,480	$ 15,814
Trade receivables	16,091	14,211	13,760
	51,247	32,691	29,574
Financial liabilities			
Credit from banks	4,159	3,483	8,819
Accounts payable and accrued liabilities	22,552	18,580	16,309
Long-term portion of credit from banks	347	-	-
	$ 27,058	$ 22,063	$ 25,128

The carrying amount of cash and cash equivalents, trade receivables, credit from banks and others, trade payables and accrued liabilities approximates their fair value.

The Group's activities expose it to various financial risks such as market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's comprehensive risk management plan focuses on activities that reduce to a minimum any possible adverse effects on the Group's financial performance.

Market risk

a. Foreign exchange risk

A portion of the Group's transactions are denominated in currencies other than the functional currency of the respective subsidiary. 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. Gains and losses are primarily derived from changes in the Canadian dollar exchange rate in relation to the U.S. dollar.

The sensitivity analysis below illustrates in impact of changes in the U.S. dollar exchange rate on net loss:

	December 31, 2017	December 31, 2016
Gain (loss) from change in U.S. dollar exchange rate:		
5% increase in exchange rate	$ 879	$ 251
5% decrease in exchange rate	$ (879)	$ (251)

Canadian dollars in thousands, unless stated otherwise

b. Interest rate risk

The Company has exposure to interest rate risk on credit from banks with variable interest rate. The Company reduces its exposure to this risk by reducing debt levels. The Company believes that interest rate risk is low as the majority of its loans are short-term.

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. In particular, the Company received 51% and 52% of revenue, directly and indirectly, from the Company's largest customer and its subcontractors for the years ended December 31, 2017 and December 31, 2016, respectively. 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.

Below are the Company's top 3 customers:

	For the year ended December 31,	
	2017	**2016**
	%	**%**
Customer A *	51	52
Customer B	6	5
Customer C	4	3

* Includes sales to customers that are subcontractors

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.

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 its operating entities through a combination of cash on hand, borrowings under Credit Facilities, and generating operating cash flow. The Group also regularly monitor the amounts owing to Galtronics Wuxi by other subsidiaries to ensure compliance with China's State of Administration of Foreign Exchange ("SAFE") requirement.

Canadian dollars in thousands, unless stated otherwise

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

	December 31, 2017		
	Less than one year	**One to two years**	**Total**
Credit from banks	$ 4,159	$ 347	$ 4,506
Accounts payable and accrued liabilities	22,552	-	22,552

	December 31, 2016		
	Less than one year	**One to two years**	**Total**
Credit from banks	$ 3,483	-	$ 3,483
Accounts payable and accrued liabilities	18,580	-	18,580

NOTE 13: 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.

a. The employee benefit liabilities, net are as follows:

	December 31, 2017	December 31, 2016	January 1, 2016
Non-current employee benefit liability, net			
Present value of obligations	$ 1,836	$ 1,462	$ 2,915
Fair value of plan assets	-	-	(1,555)
Total employee benefit liability, net	$ 1,836	$ 1,462	$ 1,360

Canadian dollars in thousands, unless stated otherwise

b. Changes in the present value of defined benefit obligation:

	December 31, 2017	December 31, 2016
Balance as at January 1	$ 1,462	$ 1,360
Amount recognized in net loss:		
Interest expense	42	39
Current service cost	270	228
	312	267
Amounts recognized in other comprehensive income:		
Experience adjustments	69	59
Actuarial (gains) losses from changes in financial assumptions	(56)	11
Actuarial (gains) losses from changes in Demographic assumptions	-	(14)
	13	56
Benefits paid by the plan	(39)	(129)
Effect of movement in exchange rates	88	(92)
Balance as at December 31	$ 1,836	$ 1,462

c. The principle assumptions underlying the defined benefit plan are as follows:

	December 31, 2017 %	December 31, 2016 %
Discount rate	3.46	3.13
Future salary increases	5.00	5.00

d. Sensitivity analysis of underlying assumptions

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by one percent.

	December 31, 2017	December 31, 2016
Change in discount rate		
+ 1%	$ (154)	$ (124)
- 1%	181	146
Future salary increases		
+ 1%	176	142
- 1%	(153)	(124)

Canadian dollars in thousands, unless stated otherwise

NOTE 14: COMMITMENTS

The Group leases various premises expiring within 10 years with further extensions available. During the year ended December 31, 2017, the Company ceased operations of its Israel-based facility and terminated its lease.

The future minimum lease fees payable as of December 31, 2017, for the Group in total are as follows:

Year 1:	2018	$	1,060
Years 2 to 5:	2019 to 2022		2,085
Years 6 onward:	2023 to 2027		1,447
		$	4,592

Limitations on dividend distribution from Galtronics Wuxi

In accordance with applicable Chinese laws, Galtronics Wuxi is only permitted to distribute up to 90% of its after-tax earnings. As of December 31, 2017, amounts restricted from distribution, which constitute 10% of GTW's retained earnings, amounted to approximately $1,085.

NOTE 15: INCOME TAXES

Income tax expense included in profit or loss:

	Year ended December 31,			
	2017		2016	
Current taxes	$	436	$	2
Deferred taxes		-		-
	$	436	$	2

The Company is subject to tax rates applicable in Canada. The combined federal and provincial rate for 2017 and 2016 is 26.5%. The Company’s subsidiaries are in tax jurisdictions that have tax rates ranging from 11% to 35%. Effective January 1, 2018, the federal corporate tax rate in the United States has decreased from 35% to 21%.

Canadian dollars in thousands, unless stated otherwise

The reconciliation between the tax expenses, assuming that all the income and expenses, gains and losses in profit or loss were taxed at the statutory tax rate and the taxes on income recorded in profit or loss is as follows:

	Year ended December 31,	
	2017	**2016**
Loss before income taxes	$ (3,773)	$ (2,678)
Statutory tax rate in Canada	26.5%	26.5%
Tax expenses (benefit) computed at the statutory tax rate	$ (1,000)	$ (710)
Increase (decrease) in taxes on income resulting from the following factors:		
Non-deductible expenses	36	-
Utilization of previously unrecognized tax losses	(351)	-
Tax exemption	(1,249)	-
Increase in unrecognized tax losses in the year	3,294	2,024
Effect of different tax rates of subsidiaries	(267)	(997)
Taxes in respect of previous years	-	(320)
Other	(27)	5
Taxes on income	$ 436	$ (2)

Deferred tax assets relating to carry-forward losses and other temporary have not been recognized because the recovery of the deferred tax assets in the foreseeable future is not probable. The Group had the following carry-forward losses:

a. operating tax losses amounting to $21,546 (2016: $12,977) in Canada that expire between 2032 and 2035

b. operating losses amounting to $57,430 (2016: $53,789) and capital tax losses of approximately $15,932 in Israel that do not have expiration date;

c. operating losses amounting to $1,009 (2016: $1,748) in China that expire between 2020 and 2021;

d. operating losses amounting to $3,187 (2016: $3,457) in Vietnam that expire between 2019 and 2020; and

e. operating losses amounting to $14,260 (2016: $9,057) in Korea that expire between 2023 and 2026.

Canadian dollars in thousands, unless stated otherwise

NOTE 16: EQUITY

Authorized share capital

The company is authorized to issue the following share capital:

a. An unlimited number of preferred shares
b. An unlimited number of common shares at no par value

Movement in share capital

Included in the movement in share capital are the share offerings below:

On November 18, 2017 the company completed a bought deal offering of 8,441,490 common shares at a price of CAD $2.35 per common share for aggregate gross proceeds of $19,838.

On December 22, 2016 the Company completed a prospectus offering of 3,108,450 common shares at a price of CAD $1.85 per common share for aggregate gross proceeds of $5,751.

The following table lists the share capital issued and outstanding:

	Number of shares issued and outstanding	Share capital	
Balance as at January 1, 2016	18,773,919	$	85,837
Issued during 2016, net of share issue costs	3,182,895		5,092
Balance as at December 31, 2016	21,916,813	$	90,929
Issued during 2017, net of share issue costs	8,596,099		18,281
Balance as at December 31, 2017	30,512,912	$	109,210

Capital management

The company’s capital management objectives are:

a. To preserve the Group's ability to ensure business continuity thereby creating a return for the shareholders, investors and other interested parties.
b. To ensure adequate return for the shareholders by pricing of products and services that is adjusted to the level of risk in the Group's business activity.
c. To maintain a strong credit rating and healthy capital ratios in order to support business activity and maximize shareholder value. In managing the capital structure, the Company takes into consideration various factors, including the growth of the business and related infrastructure and the up-front cost of taking on new customers. The Company's officers and senior management are responsible for managing the capital and do so through monthly meetings and regular review of financial information. The Board of Directors is responsible for overseeing this process. The Company manages capital to ensure that there are adequate capital resources while maximizing the return to shareholders through the optimization of the cash flows from operations and capital transactions.

Canadian dollars in thousands, unless stated otherwise

NOTE 17: SHARE-BASED PAYMENTS

a. Pursuant to the Company's Deferred Share Unit Plan for directors of the Company (the "DSU Plan"), the Company grants deferred share units ("DSUs") to directors as part of its long-term incentive compensation plan. Unless otherwise approved by the Board of Directors, each Director may elect to receive between 50% and 100% of their annual retainers in deferred share units (“DSUs”). The number of DSUs issued is determined each month while the Director is serving as a board member. DSUs granted will be settled by purchasing and providing common shares on the date the Director ceases to be a director of the Company. The number of DSUs issuable is limited to 500,000 units.

The following table lists the number of DSUs issued:

	Number of DSUs		Weighted average price in CAD
DSUs outstanding at January 1, 2016	139,422	$	2.34
DSUs granted during 2016	85,404	$	1.99
DSUs outstanding at December 31, 2016	224,826	$	2.21
DSUs granted during 2017	77,596	$	2.19
DSUs outstanding at December 31, 2017	302,442	$	2.20

The company recognized an expense of $170 in the year ended December 31, 2017 and $164 in the year ended December 31, 2016 within general and administrative expenses with regards to the DSU Plan.

b. The Company’s stock option plan (the “Stock Option Plan”) was adopted so the Board of Directors can grant stock options to directors, officers, employees and consultants of the Company (or its affiliates) as performance incentives. There are limitations on the number of common shares issuable under the Stock Option Plan (and all other security based compensation arrangements), as well as limitations on the number of common shares issuable to insiders (or their affiliates). At the time of granting a stock option, the Board of Directors must approve, (i) the exercise price, being not less than the market value of the common shares, (ii) the vesting provisions, generally that one third vest on each anniversary of the grant date (except as noted below), and (iii) the expiry date, generally being no more than seven years after the grant date.

The below table summarizes the company’s option grants:

		Stock option grant date		
		August 24, 2015	March 30, 2017	August 8, 2017
Stock options granted		925,000	685,000	500,000
Exercise price	$	1.51	1.98	2.00
Option expiry date		August 24, 2020	March 30, 2022	August 8, 2022
Options vested as at December 31, 2016		500,000	-	-
Options vested as at December 31, 2017		925,000	-	-

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

		Grant date	
	August 24, 2015	**March 30, 2017**	**August 8, 2017**
Expected volatility of the stock prices (%)	44.42 - 45.29	50.48	48.69
Risk-free interest rate (%)	0.9	1.10	1.55
Expected life of stock options (years)	2.67 - 3.25	5.0	5.0
Option fair value at the grant date (CAD)	0.44 - 0.48	0.89	0.87

The Company intends to grant the President and Chief Operating Officer, America/EMEA a further 65,000 stock 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 Company recognized expenses during the year ended December 31, 2017 due to the stock options under the Company's Stock Option Plan in the amount of $195 and in the year ended December 31, 2016 of $281 as general and administrative expenses.

NOTE 18: NET LOSS PER SHARE

Details of the number of shares used in the computation of loss per share attributable to shareholders of the Company:

	For the Year Ended December 31,	
	2017	**2016**
Net loss attributable to shareholder's	$ (4,007)	$ (2,680)
Weighted number of shares (in thousands of units)	22,935	19,033
Net loss per share attributable to shareholder's	$ (0.17)	$ (0.15)

To compute diluted net loss per share, share options granted have not been taken into account since their effect is anti-dilutive.

NOTE 19: RELATED PARTY TRANSACTIONS

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 Company incurred expenses of $140 in general and administrative expenses for the year ended December 31, 2017 and $207 for the year ended December 31, 2016 and under this service agreement. The company terminated the service agreement in the second quarter of 2017 with no penalty and secured alternative office space with a non-related party.

Canadian dollars in thousands, unless stated otherwise

The following table summarizes balances with related parties in the consolidated statements of financial position:

	December 31, 2017	December 31, 2016
Other accounts receivables	19	15
Other accounts payables	2	24

Director and executive officer remuneration

The following comprise the remuneration for directors and executive officers:

a. Short-term benefits, pension and post-retirement benefits

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.

b. Directors' remuneration

These amounts represent fees and expense reimbursement paid to directors.

c. Share-based payment for executive officers

These amounts represent the costs of the grants under the Company's stock option plan.

d. Share-based payment for directors

These amounts represent the costs of directors' grants under the DSU Plan.

The following table summarizes the remuneration of directors and executive officers:

	For the year ended December 31, 2017	For the year ended December 31, 2016
Short-term benefits, pension and post-retirement benefits	$ 4953	$ 2,465
Directors' remuneration	15	9
Share based payment for executive management	195	281
Share based payment for directors	164	170
Consulting services	-	7

Canadian dollars in thousands, unless stated otherwise

NOTE 20: REVENUES

Revenues by geographic destination are as follows:

	For the year ended December 31, 2017	2016
Asia Pacific	$ 70,188	$ 68,040
North America	19,739	14,460
Europe	1,089	846
Other	626	787
	$ 91,642	$ 84,133

NOTE 21: NATURE OF EXPENSES

The nature of cost of sales expenses are as below:

	For the year ended December 31, 2017	2016
Materials	$ 39,369	$ 38,906
Overhead and freight	13,468	11,582
Payroll	7,405	6,668
Depreciation	3,055	3,472
	$ 63,297	$ 60,628

The nature of operating expenses are as below:

	For the year ended December 31, 2017	2016
Payroll	$ 17,825	$ 15,660
Office and IT costs	4,435	3,052
Professional services	2,869	3,041
Depreciation	1,028	640
Other	3,965	4,621
	$ 30,122	$ 27,014

NOTE 22: FINANCE INCOME AND EXPENSES

The following table summarizes finance income and expenses:

	For the year ended December 31, 2017	2016
Interest income	$ 47	$ 25
Interest expense	(268)	(258)
Bank charge expense	(83)	(86)
Gain (loss) from foreign exchange rate changes	(1,692)	1,150
Finance income (expense)	$ (1,996)	$ 831

NOTE 23: SUBSEQUENT EVENTS

On January 17, 2018, Baylin Holdings Canada Inc. ("Buyer"), a wholly owned subsidiary of Baylin, entered into a sale and purchase agreement (the "Agreement") with Advantech Wireless Inc. and certain of its affiliates (collectively the "Seller"), to acquire the radio frequency, terrestrial microwave and antenna equipment divisions of Advantech Wireless Inc. (the "Advantech Transaction"). Pursuant to the Agreement, Buyer agreed to acquire from Seller, the assets of certain entities ("Advantech") for an aggregate purchase price of $49,000 of which $48,000 was paid in cash and $1,000 in common shares. The Advantech Transaction is subject to customary post-closing adjustments based on the amount of working capital in the businesses at the closing date. Seller may be entitled to additional compensation between $750 and $3,000 in each of 2018 and 2019 conditional on Advantech meeting certain EBITDA targets.

Buyer has financed the Advantech Transaction through Buyer's cash on hand and through a $33,000 term loan, with an annual rate of 9.0% maturing in 60 months. The Buyer also issued 682,500 warrants at an exercise price of $3.37 per common share in connection with the term loan.

At the time of the financial statements authorization, the allocation of the purchase price between the fair value of the assets and liabilities acquired and the resulting goodwill has not been finalized.

The Company has evaluated subsequent events up to February 28, 2018, which is the date these consolidated financial statements were approved by the board of directors.