



**BAYLIN TECHNOLOGIES INC.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT JUNE 30, 2019**

**(Canadian dollars in thousands)**

**UNAUDITED**

**Notice of Non-Reviewed Interim Condensed Consolidated Financial Statements**

These interim condensed consolidated financial statements of Baylin Technologies Inc. (“Baylin”) for the three and six months ended June 30, 2019 have been prepared by management and were authorized for issue in accordance with a resolution of the board of directors on August 7, 2019. Baylin’s independent auditor has not performed a review of these interim condensed 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.

## INDEX

	<u>Page</u>
<b>Interim Condensed Consolidated Statements of Financial Position</b>	<b>3</b>
<b>Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)</b>	<b>4</b>
<b>Interim Condensed Consolidated Statements of Changes in Equity</b>	<b>5</b>
<b>Interim Condensed Consolidated Statements of Cash Flows</b>	<b>6</b>
<b>Notes to Interim Condensed Consolidated Financial Statements</b>	<b>7 - 25</b>

Date of approval of consolidated financial statements: August 7, 2019

*“Jeffrey C. Royer”*

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**Jeffrey C. Royer**  
Chairman of the Board of Directors

*“Randy Dewey”*

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**Randy Dewey**  
President and Chief Executive Officer

*“Michael Wolfe”*

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**Michael Wolfe**  
Chief Financial Officer

# Baylin Technologies Inc.

## Interim Condensed Consolidated Statements of Financial Position (unaudited)

Canadian dollars in thousands

		<u>June 30, 2019</u>	<u>December 31, 2018</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		\$ 17,235	\$ 20,859
Trade and other receivables		35,472	29,387
Other current assets		8,324	6,179
Inventories		<u>23,487</u>	<u>23,512</u>
		84,518	79,937
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment, net		26,776	27,371
Right of use assets, net	Note 4	6,477	-
Other long-term assets		262	70
Deferred tax assets		7,030	6,426
Equity method investment	Note 12	46	16
Intangibles	Note 6	22,203	23,551
Goodwill	Note 6	<u>31,791</u>	<u>33,146</u>
		94,585	90,580
<b>TOTAL ASSETS</b>		<u>\$ 179,103</u>	<u>\$ 170,517</u>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Credit from banks	Note 7	\$ 14,820	\$ 377
Accounts payable and accrued liabilities		33,194	33,257
Short-term portion of senior term loan	Note 8	3,926	-
Short-term portion of lease liability	Note 4	975	-
Income tax payable		<u>664</u>	<u>1,443</u>
		53,579	35,077
<b>NON-CURRENT LIABILITIES</b>			
Long-term portion of lease liability	Note 4	5,812	-
Term loan	Note 8	-	30,081
Senior term loan	Note 8	22,130	-
Convertible debentures	Note 9	19,061	18,975
Employee benefit liabilities, net	Note 10	2,269	2,301
Deferred tax liabilities		<u>2,240</u>	<u>2,256</u>
		51,512	53,613
<b>TOTAL LIABILITIES</b>		<u>105,091</u>	<u>88,690</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	Note 11	137,221	136,675
Share-based payment reserve	Note 11	2,337	3,798
Accumulated other comprehensive income		10,681	12,840
Accumulated deficit		<u>(76,227)</u>	<u>(71,486)</u>
<b>TOTAL EQUITY</b>		<u>74,012</u>	<u>81,827</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u>\$ 179,103</u>	<u>\$ 170,517</u>

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

# Baylin Technologies Inc.

## Interim Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) (unaudited)

Canadian dollars in thousands except per share and weighted average share figures

		<b>Six months ended June 30,</b>		<b>Three months ended June 30,</b>	
		<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>Revenues</b>	Note 15	\$ 86,864	\$ 62,016	\$ 47,831	\$ 32,578
<b>Cost of sales</b>		<u>54,889</u>	<u>38,406</u>	<u>30,187</u>	<u>19,530</u>
<b>Gross profit</b>		31,975	23,610	17,644	13,048
<b>Operating expenses</b>					
Selling and marketing expenses		7,418	6,004	4,035	3,574
Research and development expenses		8,774	6,886	4,950	3,623
General and administrative expenses		13,948	9,820	7,121	3,699
Acquisition expenses		<u>180</u>	<u>2,426</u>	<u>-</u>	<u>638</u>
		<u>30,320</u>	<u>25,136</u>	<u>16,106</u>	<u>11,534</u>
<b>Operating income (loss)</b>		1,655	(1,526)	1,538	1,514
Finance expense (income), net	Note 16	5,411	2,301	(150)	871
Investment income, net	Note 12	(30)	-	(18)	-
Fair value adjustments	Note 9	<u>86</u>	<u>-</u>	<u>86</u>	<u>-</u>
<b>Income (loss) before income taxes</b>		(3,812)	(3,827)	1,620	643
Income tax expense (recovery)		<u>435</u>	<u>488</u>	<u>(34)</u>	<u>351</u>
<b>Net income (loss)</b>		<u>\$ (4,247)</u>	<u>\$ (4,315)</u>	<u>\$ 1,654</u>	<u>\$ 292</u>
Net income (loss) attributable to shareholders of the company		(4,247)	(3,522)	1,654	746
Net loss attributable to non-controlling interests		-	(793)	-	(454)
Items that may be reclassified to profit or loss					
Amount arising from translation of foreign operations, net of tax		(2,200)	1,620	(2,323)	(98)
Items that will not be reclassified to profit or loss					
Actuarial gains, net of tax		<u>41</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Other comprehensive income (loss) (net of tax effect)</b>		<u>\$ (2,159)</u>	<u>\$ 1,620</u>	<u>\$ (2,323)</u>	<u>\$ (98)</u>
<b>Total comprehensive income (loss)</b>		<u>\$ (6,406)</u>	<u>\$ (2,695)</u>	<u>\$ (669)</u>	<u>\$ 194</u>
Comprehensive income (loss) attributable to shareholders of the company		(6,406)	(1,902)	(669)	648
Comprehensive loss attributable to non-controlling interests		-	(793)	-	(454)
<b>Basic and diluted net income (loss) per share</b>		\$ (0.11)	\$ (0.13)	\$ 0.04	\$ 0.01
<b>Weighted average shares outstanding</b>		40,053,429	31,150,669	40,175,113	31,224,336

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 number of shares outstanding

	<u>Number of shares outstanding</u>	<u>Share capital</u>	<u>Share- based payment reserve</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive income</u>	<u>Total equity</u>
	Note 11	Note 11	Note 11			
Balance as of December 31, 2018	40,006,454	\$ 136,675	\$ 3,798	\$ (71,486)	\$ 12,840	\$ 81,827
Impact of modified retrospective adoption of new lease standard (Note 4)	-	-	-	(494)	-	(494)
Balance as of January 1, 2019	40,006,454	\$ 136,675	\$ 3,798	\$ (71,980)	\$ 12,840	\$ 81,333
Net loss	-	-	-	(4,247)	-	(4,247)
Other comprehensive loss	-	-	-	-	(2,159)	(2,159)
Share-based payment	138,750	627	(1,328)	-	-	(701)
Employee Share Compensation Plan and Purchase Plan	129,126	84	(133)	-	-	(49)
Acquisition purchase price adjustment (Note 6)	-	(165)	-	-	-	(165)
Balance as of June 30, 2019	<u>40,274,330</u>	<u>\$ 137,221</u>	<u>\$ 2,337</u>	<u>\$ (76,227)</u>	<u>\$ 10,681</u>	<u>\$ 74,012</u>

	<u>Number of shares outstanding</u>	<u>Share capital</u>	<u>Share- based payment reserve</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive income</u>	<u>Non- controlling interest</u>	<u>Total equity</u>
	Note 11	Note 11	Note 11				
Balance as of January 1, 2018	30,512,912	\$ 109,210	\$ 1,446	\$ (65,947)	\$ 11,212	\$ (95)	\$ 55,826
Net loss	-	-	-	(3,522)	-	(793)	(4,315)
Other comprehensive income	-	-	-	-	1,620	-	1,620
Share-based payments	110,078	-	1,730	-	-	-	1,730
Employee Share Compensation Plan and Purchase Plan	-	(265)	66	-	-	-	(199)
Issuance of shares, net of share issuance cost	694,444	2,222	-	-	-	-	2,222
Balance as of June 30, 2018	<u>31,317,434</u>	<u>\$ 111,167</u>	<u>\$ 3,242</u>	<u>\$ (69,469)</u>	<u>\$ 12,832</u>	<u>\$ (888)</u>	<u>\$ 56,884</u>

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

	<b>Six months ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Net loss	\$ (4,247)	\$ (4,315)
Adjustments to reconcile net loss to net cash used in operating activities		
Share-based payment	967	1,813
Depreciation and amortization	6,350	2,249
Finance expense, net	4,421	2,301
Loss from sale of property, plant and equipment	334	257
Share of net income of equity method investment	(30)	-
Income tax expense	435	488
Fair value adjustment	86	-
Unrealized foreign exchange losses	19	317
	<u>12,582</u>	<u>7,425</u>
Changes in asset and liability items		
Increase in trade receivables	(6,829)	(5,592)
Decrease (increase) in other current assets	(2,264)	1,220
Decrease (increase) in inventories	(524)	483
Increase (decrease) in trade payables and other current liabilities	<u>1,058</u>	<u>(5,531)</u>
	(8,559)	(9,420)
Cash paid and received during the year for		
Interest paid, net	(1,571)	(1,112)
Taxes paid, net	<u>(2,167)</u>	<u>(531)</u>
	<u>(3,738)</u>	<u>(1,643)</u>
Net cash used in operating activities	(3,962)	(7,953)
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	\$ (3,943)	\$ (1,118)
Proceeds from sale of property, plant and equipment	-	(10)
Business Acquisition	-	(48,000)
Net cash used in investing activities	<u>(3,943)</u>	<u>(49,128)</u>
<b>Cash flows from financing activities</b>		
Cash received from share issuance	\$ 210	\$ -
Cash used in share purchases	(1,926)	(125)
Receipt (repayment) of short-term credit from banks and others, net	13,467	(3,293)
Receipt of senior term loan	27,038	-
Receipt (repayment) of long-term loan	(33,000)	31,203
Principal elements of lease payments	<u>(898)</u>	<u>-</u>
Net cash generated by financing activities	4,891	27,785
Exchange differences on balances of cash and cash equivalents	(610)	292
Decrease in cash and cash equivalents	\$ (3,624)	\$ (29,004)
Cash and cash equivalents at the beginning of the period	<u>20,859</u>	<u>35,156</u>
<b>Cash and cash equivalents at the end of the period</b>	<u>\$ 17,235</u>	<u>\$ 6,152</u>

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

# **Baylin Technologies Inc.**

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

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## **NOTE 1: NATURE OF OPERATIONS**

Baylin Technologies Inc. (“Baylin”) was incorporated pursuant to the laws of the province of Ontario on September 24, 2013. Baylin's registered office is located at 60 Columbia Way, Suite 205, Markham, Ontario, Canada.

Baylin, together with its subsidiaries, inclusive of the prior year acquisitions of the assets of Advantech Wireless Inc. and certain of its affiliates and Alga Microwave Inc. (collectively the “Company” or the “Group”), is a leading, diversified, global wireless technology management company. Baylin focuses on research, design, development, manufacturing and sales of passive and active radio frequency (“RF”) and terrestrial microwave products and services. The Company’s products are marketed and sold under the brand names Galtronics, Advantech Wireless, Alga Microwave and Mitec through certain subsidiaries of the Company. The Company’s shares are publicly traded on the Toronto Stock Exchange (TSX: BYL).

### **Approval of financial statements**

These interim condensed consolidated financial statements of the Company for the three and six months ended June 30, 2019 have been prepared by management of Baylin and were authorized for issue in accordance with a resolution of the board of directors on August 7, 2019.

## **NOTE 2: BASIS OF PREPARATION**

The interim condensed consolidated financial statements for the three and six months ended June 30, 2019, 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 for the year ended December 31, 2018 (the “Annual Financial Statements”) which 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**

As of June 30, 2019 there have been no material changes to the significant accounting policies as outlined in Note 3 of the Annual Financial Statements, except as disclosed in Note 4.

## **NOTE 4: DISCLOSURES OF NEW STANDARDS ADOPTED AND PRIOR TO ADOPTION**

### **New standards and amendments adopted**

Certain new standards and amendments that have an impact on the interim condensed consolidated financial statements of the Company became effective on January 1, 2019 including IFRS 16 Leases and IFRIC 23 Uncertainty over Income Tax Treatments.

# Baylin Technologies Inc.

## Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

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### *IFRS 16 Leases*

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2019, the IASB issued the new standard, IFRS 16 Leases, 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 based on 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 right-of-use assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). Lease liabilities will be reduced over the term of the lease by allocating lease payments to a reduction in liability and an expense recognized in finance costs. Right-of-use assets will be amortized over the term of the lease.

The Company has adopted IFRS 16 Leases from January 1, 2019 and has elected to use the modified retrospective approach. The cumulative effect of initial application is recognized in retained earnings as at January 1, 2019 and the Company will not restate comparative information for prior periods presented. The details of the changes in accounting policy are discussed below.

To determine whether a contract contains a lease, the Company applies the new definition of a lease under IFRS 16 namely if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases and thus applied IFRS 16 only to leases that were previously identified as leases prior to adoption of IFRS 16.

The Company leases assets including buildings, machinery and equipment, vehicles and other office equipment. Previously under IAS 17 the Company classified leases as operating or finance leases based on whether the lease transferred substantially all of the risks and rewards of ownership. The Company previously did not have any leases that were classified as finance leases. Under IFRS 16, the Company recognizes right of use assets and lease liabilities for all leases except where the Company has elected to use the practical expedient to not recognize right-of-use assets and lease liabilities for low-value assets or short-term leases under 1 year that are not expected to renew. The Company has recognized low-value assets and short-term lease payments as an expense on a straight-line basis over the lease term. The Company has also elected to apply the practical expedient to not separate non-lease components from lease components for which the Company is the lessee and has accounted for the combined amounts as a single lease component.

The Company recognizes a right of use asset as a lease liability at the lease commencement date. The right of use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. The Company has elected to use the practical expedient of excluding initial direct costs from the measurement of the right of use asset cost at the date of initial application. The lease liability is initially measured at the present value of the lease payments remaining that are not paid at the commencement date adjusted for lease prepayments and lease incentives, discounted using the interest rate implicit in the lease, or if not readily determinable, the incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there



# Baylin Technologies Inc.

## Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

is a change in future lease payments arising from a change in an index or rate, or changes in assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company presents right of use assets on the balance sheet as follows:

	<u>Buildings</u>	<u>Machinery and Equipment</u>	<u>Motor Vehicles</u>	<u>Office, furniture, computers, peripheral equipment</u>	<u>Right of Use Asset</u>
Balance as at January 1, 2019	\$ 3,857	\$ 80	\$ 70	\$ 175	\$ 4,182
Balance as of June 30, 2019	\$ 6,202	\$ 76	\$ 50	\$ 149	\$ 6,477

The Company has applied judgement to determine the incremental borrowing rate and the lease term for some lease contracts in which it is a lessee that include renewal options, which significantly affects the amount of lease liability and right of use assets recognized. The Company has used the practical expedient of applying hindsight in assessing certain lease extension options. The Company has also used judgement in determining the incremental borrowing rate based on the term, security, the lessee entities economic environment, credit rating, level of indebtedness and asset specific adjustments.

	<u>As at January 1, 2019</u>
Right of use assets	\$ 4,182
Short term lease liabilities	982
Long term lease liability	3,694
Retained Earnings	(494)

The reconciliation from the operating lease commitment disclosed in the Annual Financial Statements as of December 31, 2018 and the lease liability as at January 1, 2019 is as follow:

Operating lease commitment as at December 31, 2018	\$ 5,560
Discounted using incremental borrowing rate as at January 1, 2019	\$ 4,576
Recognition exemption of low value leases	(10)
Recognition exemption of leases with terms lease than 1 year	(4)
Extension options reasonably certain to be exercised	114
Lease liability as at January 1, 2019	<u>\$ 4,676</u>
Short-term portion of lease liability	982
Long-term portion of lease liability	3,694
Lease liability as at January 1, 2019	<u>\$ 4,676</u>

# Baylin Technologies Inc.

## Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

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When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its weighted average incremental borrowing rate as at January 1, 2019 which was 6%.

For the three and six months ended June 30, 2019, the Company recognized \$301 and \$589, respectively as depreciation on right of use assets within Cost of sales and General and administrative expense. The Company also recognized \$61 and \$124 as interest cost on lease liabilities within Finance expense during the three and six months ended June 30, 2019.

### *IFRIC 23 Uncertainty over Income Tax Treatments*

IFRIC 23 was issued in June 2017 as a clarification to requirements under IAS 12, Income Taxes. IFRIC 23 clarifies the application of various recognition and measurement requirements when there is uncertainty over income tax treatments. This interpretation is effective for annual reporting periods on or after January 1, 2019. The Company has adopted IFRIC 23 and determined the application did not have a material impact on the Company's consolidated financial statements as its policies were in line with the guidance.

### **New standards and interpretations not yet adopted**

The following are new standards that have been issued but are not yet in effect and which are relevant to the Group:

On October 31, 2018, the IASB issued Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors for 'Definition of Material,' to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements.

On October 22, 2018, the IASB issued amendments to IFRS 3 Business Combinations for the 'Definition of a Business' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The Company will evaluate the impact of the standard on its consolidated financial statements if the Company has a business combination.

### **NOTE 5: SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS**

There have been no significant changes to our critical accounting judgments, estimates and assumptions made since our annual financial reporting for the year ended December 31, 2018, except as discussed in Note 4.

# Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

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## NOTE 6: ACQUISITIONS

### Advantech

On January 17, 2018, through a wholly-owned subsidiary, the Company acquired 100% of the assets (the “Advantech Acquisition”) of the radio frequency, terrestrial microwave and antenna equipment divisions of Advantech Wireless Inc. and certain of its affiliates (now known as Spacebridge Inc.) (collectively “Advantech”). Advantech is a leading designer and manufacturer of customizable radio frequency, terrestrial microwave and antenna products for highly specialized wireless communications markets. The Advantech Acquisition provides entry into the satellite connectivity market broadening the Company’s product offering and expanding the Company’s geographical footprint.

The purchase price paid for the Advantech Acquisition was \$49,000, subject to customary adjustments, of which \$48,000 was paid in cash and \$1,000 was satisfied through the issuance of 308,642 common shares of the Company at a deemed price of \$3.24 per share. The recorded amount of the Advantech Acquisition was \$49,000. The Advantech Acquisition was financed using the Company’s available cash and the Loan (as defined in Note 8).

The purchase price for the Advantech Acquisition is subject to customary post-closing adjustments and Advantech Wireless Inc. may be entitled to additional compensation between \$750 and \$3,000 conditional on Advantech meeting certain performance targets in each of 2018 and 2019. The performance targets were not met in 2018.

In connection with the Advantech Acquisition, Advantech Wireless Inc. entered into a consulting agreement with the Company, pursuant to which Advantech Wireless Inc. agreed to provide the services of its principals David and Stella Gelerman for a period of two years following closing of the Advantech Acquisition. In consideration for these services, Advantech Wireless Inc. will receive a fee of \$2,500, payable, as to one-half, in cash in quarterly instalments and, as to one-half, through the issuance of 385,802 common shares at closing of the Advantech Acquisition at a deemed price of \$3.24 per share. The trading of such shares is subject to certain time release restrictions for a period of up to 24 months following the closing of the Advantech Acquisition.

This transaction qualifies as a business combination and was accounted for in accordance with IFRS 3 Business Combinations using the acquisition method of accounting. To account for the transaction, the Company has performed a business valuation of Advantech at the date of acquisition and a purchase price allocation.

The following table summarizes the consideration and closing date fair values of the net identifiable assets acquired pursuant to the Advantech Acquisition:

	<b>Purchase Price</b> <b>January 17, 2018</b>
Cash consideration	\$ 48,000
Share consideration	1,000
	<u>\$ 49,000</u>

# Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

	<b>Fair Values</b>
	<b>January 17, 2018</b>
Accounts and other receivables	\$ 3,441
Inventory	9,770
Other current assets	161
Property, plant and equipment	882
Intangibles	19,700
Goodwill	21,215
Accounts payables and other liabilities	(6,035)
Other long-term provisions	(134)
	<u>\$ 49,000</u>

Trade receivables have been reflected at fair value which represent gross contractual amounts receivable.

Factors that make up the goodwill recognized include cost reduction programs and intangible assets that do not qualify for separate recognition. Goodwill is expected to be deductible for tax purposes.

## Alga

On July 11, 2018, the Company acquired all of the issued and outstanding shares of Alga Microwave Inc. (“Alga”) through a newly incorporated, wholly-owned subsidiary of the Company (the “Alga Acquisition”). Alga is a leading supplier of RF and microwave solid state power amplifiers, pulsed amplifiers for radar applications, transmitter and transceiver products as well as RF passive components and systems. The Alga Acquisition enhances the Company’s satellite connectivity product offering, provides a modern facility for expansion and adds experienced employees to the Company’s management team.

The consideration paid at closing for the Alga Acquisition was \$25,000, subject to customary adjustments. The purchase price was satisfied by the payment of \$21,000 in cash and the issuance of \$4,000 in common shares of the Company at a deemed price of \$3.26 per share. Pursuant to the terms of the Alga Acquisition, the vendors earned an additional \$1,000 upon completion of certain criteria and may be entitled to receive additional compensation of up to \$1,000 conditional on Alga meeting certain performance targets in each of 2019 and 2020.

Concurrent with the closing of the Alga Acquisition, Baylin acquired, through a wholly-owned subsidiary, the premises in which Alga’s operations are primarily conducted (the “Alga Facility”) for a purchase price of \$6,200. The purchase price for the Alga Facility was satisfied in part by the assumption of existing debt, with the balance of the purchase price payable to the vendor one year after closing and bearing interest at 8% per annum, payable quarterly, and repayable at any time without penalty. The Company repaid the amount owing to the vendor on September 12, 2018. The existing debt, assumed by the Company, due to a Canadian chartered bank, had a principal amount of \$2,999 at the closing of the acquisition of the Alga Facility, bears interest at 3.22% and matured and was repaid on December 19, 2018.

A portion of the net proceeds of the 2018 Offering of Subscription Receipts and Debentures (as defined in Note 9), was used to satisfy payment of the cash purchase price for the Alga Acquisition.

## Baylin Technologies Inc.

### Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

This transaction qualifies as a business combination and was accounted for in accordance with IFRS 3 Business Combinations using the acquisition method of accounting. To account for the transaction, the Company has performed a preliminary business valuation of Alga at the date of acquisition and a preliminary purchase price allocation and updated through the measurement period. The measurement period adjustments were made to reflect facts and circumstances existing as of the acquisition date and did not result from intervening events subsequent to the acquisition date. At the time of issuance of these financial statements, certain aspects of the valuation are not finalized, and the business valuation and the purchase price allocations are subject to change.

	<b>Amounts Recognized as of the Acquisition Date</b>	<b>Measurement period Adjustments</b>	<b>Purchase Price July 11, 2018</b>
Cash consideration	\$ 21,433	\$ (583)	\$ 20,850
Share consideration	4,000	(165)	3,835
Contingent consideration	2,144	339	2,483
	<u>\$ 27,577</u>	<u>\$ (409)</u>	<u>\$ 27,168</u>
	<b>Amounts Recognized as of the Acquisition Date</b>	<b>Measurement period Adjustments</b>	<b>Provisional Fair Values July 11, 2018</b>
Cash	\$ 887	\$ -	\$ 887
Accounts and other receivable	4,515	(437)	4,078
Inventories	4,980	1,530	6,510
Other current assets	47	(1)	46
Property, plant and equipment	6,950	-	6,950
Intangibles	8,600	1,450	10,050
Goodwill	10,683	(107)	10,576
Accounts payables and accrued liabilities	(2,885)	315	(2,570)
Current portion of long-term debt	(6,200)	-	(6,200)
Deferred tax liability	-	(3,159)	(3,159)
	<u>\$ 27,577</u>	<u>\$ (409)</u>	<u>\$ 27,168</u>

Trade receivables have been reflected at fair value which represent gross contractual amounts receivable.

Factors that make up the goodwill recognized include cost reduction programs and intangible assets that do not qualify for separate recognition. Goodwill is not expected to be deductible for tax purposes.

Transaction costs for the Advantech Acquisition and the Alga Acquisition of \$180 and \$2,426 were expensed during the six months ended June 30, 2019 and June 30, 2018, respectively, and are included in Acquisition expenses.

During the six months ended June 30, 2019, the company recognized \$2,799 in General and administrative expenses related to the amortization of intangibles acquired in the Advantech Acquisition and Alga Acquisition.

# Baylin Technologies Inc.

## Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

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### NOTE 7: CREDIT FROM BANKS

The Group has revolving credit lines which are being drawn as needed. As at June 30, 2019, the aggregate credit facilities of the Group were \$25,341 of which \$14,820 was drawn and utilized. As at December 31, 2018, the aggregate credit facilities of the Group were approximately \$11,017 of which \$377 was drawn and utilized.

- a. On March 29, 2019, the Company entered into a credit agreement (the "Credit Agreement") with Royal Bank of Canada and HSBC Bank Canada (collectively, the "Lenders") pursuant to which the Lenders established a revolving credit facility (the "Revolving Facility") in favour of the Company for up to \$20,000. As at June 30, 2019, \$14,820 was outstanding under the Revolving Facility. The availability of the Revolving Facility is based on the Company's accounts receivables and inventory balances. The interest rate on the Revolving Facility is determined based on the type of advance, the applicable margin and the Company's senior debt to EBITDA ratio and is payable monthly in arrears, as set out in the Credit Agreement. As at June 30, 2019, the interest rate on the Revolving Facility was 7.4% on United States Dollar advances and 5.38% on Canadian Dollar advances. The standby fee on the undrawn portion of the Revolving Facility has a fee of 0.50% per annum if the Company's senior debt to EBITDA ratio is less than 1.75:1.0 and 0.55% per annum if the Company's senior debt to EBITDA ratio is greater than 1.75:1.0. Baylin and certain of its subsidiaries are guarantors of the Revolving Facility and granted and pledged certain security in favour of the Lenders including, without limitation, a general security agreement, as well as executing and delivering in favour of the Lenders various other loan documents. The Credit Agreement contains certain covenants that the Company must comply with, including the following financial covenants: the Company must maintain a fixed charge coverage ratio and senior debt to EBITDA ratio (as defined in the Credit Agreement) calculated at the end of each quarter. The Credit Agreement also includes other customary covenants and events of default. As at June 30, 2019, the Company is in compliance with all of the covenants under the Credit Agreement.

Prior to March 29, 2019, the Company had a United States dollar revolving credit facility with HSBC Bank Canada for up to \$5,235. This facility was cancelled when the Company entered into the Revolving Facility. There were no borrowings under the facility at the time it was cancelled or as at December 31, 2018.

- b. The Company's Chinese subsidiary has a Yuan equivalent \$3,431 short-term credit facility with the Shanghai Pudong Development Bank ("SPD") secured by the Company's Chinese subsidiary building. As at June 30, 2019 and December 31, 2018 there was no outstanding balance under this facility.
- c. In January 2017, the Company's Vietnamese subsidiary entered into a \$1,440 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 June 30, 2019, there was no balance outstanding under this facility and \$377 as at December 31, 2018.
- 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 June 30, 2019 and December 31, 2018, there was no balance outstanding under this facility.

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. Bank credit facilities are for working capital and are secured by the Group's buildings in China and Canada, accounts receivable, inventory and equipment. The company is in compliance with all of its covenants.

# Baylin Technologies Inc.

## Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

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### **NOTE 8: TERM LOAN AND SENIOR TERM LOAN**

On January 17, 2018, in connection with the Advantech Acquisition (Note 6), the Company entered into a term loan (“Loan”) with Crown Capital Fund IV, LP with a principal amount of \$33,000, an annual interest rate of 9% and a maturity date of January 17, 2023.

In connection with the Loan, the Company issued warrants to acquire 682,500 common shares at an exercise price of \$3.37 per common share and valued at \$1,065 included in share-based payment reserve (using the following Black-Scholes model inputs: expected volatility of the stock prices of 50.50%, risk-free interest rate of 0.90%, 5 year expected life and \$1.56 warrant fair value at the grant date) expiring on January 17, 2023.

Debt issuance costs of \$3,427, including the warrants, were incurred and were capitalized against the Loan. During the period from January 1, 2019 to March 29, 2019, \$142 of amortization of debt issuance costs was recognized in finance expense.

On March 29, 2019, the Company prepaid the Loan using funds advanced under the Term Loan (as defined below) and the Revolving Facility. The Company paid Crown Capital Fund IV, LP a prepayment fee of \$990 and expensed the unamortized debt issuance costs in the amount of \$2,777 which were included in finance expense.

On March 29, 2019, in connection with the Revolving Facility and pursuant to the Credit Agreement, the Lenders also established a term credit facility (“Term Loan”) in favour of the Company for up to \$27,483. The principal amount under the Term Loan was advanced in United States Dollars at closing and was used to repay the Loan. Quarterly principal payments in the amount of \$982 are due commencing June 30, 2019. The Term Loan matures on March 29, 2022. The interest rate on the Term Loan is determined based on the LIBO Rate (as defined in the Credit Agreement) plus the applicable margin and the Company’s senior debt to EBITDA ratio (as detailed in the Credit Agreement) and is payable monthly in arrears. As at June 30, 2019, the interest rate on the Term Loan was 5.0%. Commencing July 26, 2019, the LIBO Rate portion of the interest rate on the Term Loan was fixed at 2% until maturity on March 29, 2022. The Company and certain of its subsidiaries are guarantors of the Term Loan and granted and pledged certain security in favour of the Lenders including, without limitation, a general security agreement, as well as executing and delivering in favour of the Lenders various other loan documents. The Credit Agreement contains certain covenants that the Company must comply with including the following financial covenants: the Company must maintain a fixed charge coverage ratio and senior debt to EBITDA ratio (as defined in the Credit Agreement) calculated at the end of each quarter. The Credit Agreement also includes other customary covenants and events of default. As at June 30, 2019, the Company is in compliance with all of the covenants under the Credit Agreement.

### **NOTE 9: CONVERTIBLE DEBENTURES**

On July 10, 2018, the Company completed a bought deal public offering of 7,419,355 subscription receipts (“Subscription Receipts”) at \$3.10 per Subscription Receipt and \$17,250 principal amount of 6.5% extendible convertible unsecured debentures (“Debentures”) for aggregate gross proceeds of \$40,250 (the “2018 Offering”). The Debentures bear interest at a rate of 6.5% per annum, payable in arrears semi-annually on June 30 and December 31 of each year and mature on July 10, 2023 (the “Maturity Date”). On July 11, 2018, upon satisfaction of certain escrow release conditions, each Subscription Receipt was converted into one common share.

The Debentures are convertible at the holder’s option into common shares at any time prior to the close of business on the earliest of: (i) last business day before the Maturity Date; or (ii) if called for redemption, the business day

# Baylin Technologies Inc.

## Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

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immediately preceding the date specified by the Company for redemption, at a conversion price of \$3.85 per common share (the “Conversion Price”), being a ratio of approximately 260 common shares per \$1 principal amount of Debentures, subject to adjustment in certain events in accordance with a convertible debenture indenture dated July 10, 2018 (the “Indenture”).

The Debentures will not be redeemable by the Company prior to July 10, 2021 (except in certain limited circumstances following a Change of Control (as defined in the Indenture)). On or after July 10, 2021, and prior to the Maturity Date, the Company may, at its option, subject to providing not more than 60 days’ and not less than 30 days’ prior notice, redeem the Debentures, in whole or, from time to time, in part, at par plus accrued and unpaid interest provided that the volume weighted-average trading price of the common shares on the Toronto Stock Exchange (the “TSX”) for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given (the “Current Market Price”) is not less than 125% of the Conversion Price. The Company may, at its option, subject to regulatory approval, elect to satisfy its obligation to pay the principal amount of Debentures on redemption or at maturity, provided no Event of Default (as defined in the Indenture) has occurred and is continuing at such time, upon not more than 60 days’ and not less than 30 days’ prior written notice, by delivering that number of freely tradeable common shares obtained by dividing the principal amount of the Debentures being repaid by 95% of the Current Market Price on the date of redemption or maturity, as applicable.

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

The Company paid the underwriters a cash commission equal to 6.0% of the aggregate principal amount of the Debentures issued, except Debentures issued to certain directors and officers of the Company for which a reduced commission of 3.0% was paid.

	<b>Debentures Principal</b>	<b>Debentures Fair Value</b>
Balance as of January 1, 2019	\$ 17,250	\$ 18,975
Fair value adjustment	-	86
Balance as of June 30, 2019	<u>\$ 17,250</u>	<u>\$ 19,061</u>

### NOTE 10: EMPLOYEE BENEFIT 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.



# Baylin Technologies Inc.

## Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

### NOTE 11: 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 DSUs. If no election is made, a deemed election of 50% applies. The number of DSUs issued is determined each month while the applicable director is serving as a board member. DSUs granted may be settled subsequent to a director ceasing to be a director of the Company and its subsidiaries: (i) in common shares purchased by the Company on the open market for delivery to the director; (ii) in common shares issued from treasury; (iii) in cash; or (iv) any combination of the foregoing. The maximum number of common shares reserved for issuance upon redemption of DSUs under the DSU Plan is equal to 500,000.

The following table lists the number of DSUs issued:

	<b>Number of DSUs</b>	<b>Weighted average price in CAD</b>
DSUs outstanding at January 1, 2019	325,418	\$ 2.43
DSUs granted during 2019	25,406	\$ 3.99
DSUs outstanding at June 30, 2019	<u>350,824</u>	<u>\$ 2.54</u>
	<b>Number of DSUs</b>	<b>Weighted average price in CAD</b>
DSUs outstanding at January 1, 2018	302,422	\$ 2.20
DSUs granted during 2018	<u>26,842</u>	<u>\$ 3.59</u>
DSUs outstanding at June 30, 2018	<u>329,264</u>	<u>\$ 2.32</u>

The company recognized an expense of \$101 in six months ended June 30, 2019 and \$94 in the six months ended June 30, 2018 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 being over three to five years with an equal number of common shares vesting 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.

# Baylin Technologies Inc.

## Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

The below table summarizes grants made under the Stock Option Plan as at June 30, 2019:

Stock option grant date	Stock options granted	Exercise price	Option expiry date	Options vested as at:		Options exercised as at:	Options surrendered or expired as at:
				June 30, 2019	December 31, 2018	June 30, 2019	June 30, 2019
Aug. 24, 2015	925,000	\$ 1.51	Aug. 24, 2020	925,000	925,000	138,750	786,250
Mar. 30, 2017	685,000	\$ 1.98	Mar. 30, 2022	456,666	228,333	-	145,000
Aug. 8, 2017	500,000	\$ 2.00	Aug. 8, 2022	166,667	166,667	-	-
Mar. 10, 2018	30,000	\$ 3.51	Mar. 10, 2023	10,000	-	-	-
May 17, 2018	275,000	\$ 3.34	May 17, 2023	81,667	-	-	43,333
May 22, 2018	25,000	\$ 3.34	May 22, 2023	5,000	-	-	-
Jul. 11, 2018	197,500	\$ 3.50	Jul. 11, 2023	-	-	-	-
Nov. 9, 2018	250,000	\$ 3.84	Nov. 9, 2023	-	-	-	-
Mar. 25, 2019	325,000	\$ 3.89	Mar. 25, 2024	-	-	-	-
May 21, 2019	270,000	\$ 3.57	May 21, 2024	-	-	-	-

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.

Stock option grant date	Stock options granted	Expected volatility of the stock prices (%)	Risk-free interest rate (%)	Expected life of stock options (years)	Option fair value at the grant date (CAD)
Aug. 24, 2015	925,000	44.42 – 45.29	0.90	2.67 – 3.25	\$ 0.44 – 0.48
Mar. 30, 2017	685,000	50.48	1.10	5.0	\$ 0.89
Aug. 8, 2017	500,000	48.69	1.55	5.0	\$ 0.89
Mar. 10, 2018	30,000	50.68	1.98	5.0	\$ 1.42
May 17, 2018	275,000	50.20	2.04	5.0	\$ 1.89
May 22, 2018	25,000	50.29	2.30	5.0	\$ 1.45
Jul. 11, 2018	197,500	48.87	2.07	5.0	\$ 1.36
Nov. 9, 2018	250,000	48.29	2.48	5.0	\$ 1.78
Mar. 25, 2019	325,000	48.42	1.44	5.0	\$ 1.76
May 21, 2019	270,000	47.88	1.65	5.0	\$ 1.67

The Company recognized expenses during the six months ended June 30, 2019 due to the stock options under the Company's Stock Option Plan in the amount of \$497 as general and administrative expenses and \$522 during the six months ended June 30, 2018.

In June 2019, 138,750 stock options were exercised at an exercise price of \$1.51 for proceeds of \$210 recognized in share capital and 786,250 stock options were surrendered and paid in cash by the Company for the intrinsic value of \$1,926 recognized in share based payment reserve. An additional 188,333 stock options expired in the six months ended June 30, 2019.

- c. In January 2018, certain employees of the Company ("Participants") commenced participation in the Employee Share Purchase Plan ("ESPP"). The Company granted each Participant a number of shares equal to each Participant's annual share purchase commitment. In March 2018, a total of 80,968 common shares of the

# Baylin Technologies Inc.

## Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

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Company were acquired for an aggregate purchase price of \$262 to fulfill the Company's obligations under the ESPP. During the six months ended June 30, 2019, 56,700 common shares were issued with a value of \$178 and during the six months ended June 30, 2018, 2,292 common shares were issued with a value of \$7 to fulfill the Company's obligations under the ESPP. The Company did not recognize an expense for the six months ended June 30, 2019 and for the six months ended June 30, 2018, the Company recognized \$66 in general and administrative expenses with regards to the ESPP.

- d. The Company also provides for the issuance of common shares to employees of the Company under the terms of the Employee Share Compensation Plan ("ESCP").

In February 2018, the Company granted certain employees and executives 49,738 restricted common shares. Fifty percent of the common shares vest 12 months subsequent to the date of grant and fifty percent vest 24 months subsequent to the date of the grant. The Company recognized \$40 and \$48 in general and administrative expenses for the six months ended June 30, 2019 and June 30, 2018, respectively.

In March 2018, a total of 46,000 common shares of the Company were acquired for an aggregate purchase price of \$148. During the six months ended June 30, 2018, 43,000 common shares of these acquired shares were issued with a value of \$138, recognized in general and administrative expenses and share capital related to the ESCP.

In March 2019, the Company issued 64,263 restricted common shares of which fifty percent vest 12 months subsequent to the date of grant and fifty percent vest 24 months subsequent to the date of grant. The Company recognized \$47 in general and administrative expenses for the six months ended June 30, 2019 in terms of the ESCP.

The Company issued an additional 64,863 shares and recognized \$270 in general and administrative expenses for the six months ended June 30, 2019 under the ESCP.

- e. In connection with the Advantech Acquisition (Note 6), Advantech Wireless Inc. (now known as Spacebridge Inc.) entered into a consulting agreement with the Company payable as to one-half through the issuance of 385,802 common shares at closing of the Advantech Acquisition at a deemed price of \$3.24 per share. The trading of such shares is subject to certain time release restrictions for a period of up to 24 months following the closing of the Advantech Acquisition. The Company estimated the fair value of the shares issued by taking into account the time release restrictions and recognized \$1,082 in general and administrative expenses for six months ended June 30, 2018 with regards to the common shares issued in relation to the consulting agreement.
- f. In connection with the Advantech Acquisition (Note 6), on January 17, 2018, the Company issued 308,642 common shares of the Company at a deemed price of \$3.24 per share, in partial satisfaction of the purchase price for the Advantech Acquisition.

# Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

## NOTE 12: EQUITY METHOD INVESTMENT

Baylin's equity-method investments consist of a 19 percent interest in Galtronics Canada Ltd. ("GTC"), a Canadian technology company providing innovative antenna designs and RF test services for wireless communication products and a 19 percent interest in Advantech Wireless Research Inc. ("AWR"), a Canadian technology company that designs terrestrial and satellite communications solutions for wireless broadband communication companies.

For the six months ended June 30, 2019, transactions between Baylin and GTC and AWR totaled \$4,462 consisting primarily of revenue earned related to the services agreements.

Summary financial information for the Corporation's equity-method investments as follows:

	As of June 30, 2019		
	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total
Cash	\$ 194	\$ 215	\$ 409
Other current assets	68	438	506
Accounts receivables	2,724	4,434	7,158
Property, plant and equipment	1,097	432	1,529
Accounts payables and accrued liabilities	(4,438)	(5,278)	(9,716)
Net assets (liabilities)	\$ (355)	\$ 241	\$ (114)
Share of equity method investment net assets (liability)	(67)	46	(21)
Unrecognized equity method losses	67	-	67
	<u>\$ -</u>	<u>\$ 46</u>	<u>\$ 46</u>

	For the Six Months Ended June 30, 2019		
	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total
Revenue	\$ 2,425	\$ 2,194	\$ 4,619
Expenses	<u>2,487</u>	<u>2,037</u>	<u>4,524</u>
Net income (loss)	\$ (62)	\$ 157	\$ 95
Share of equity method investment net income (loss)	(12)	30	18
Unrecognized share of equity method investment net loss	<u>12</u>	<u>-</u>	<u>12</u>
	<u>\$ -</u>	<u>\$ 30</u>	<u>\$ 30</u>

# **Baylin Technologies Inc.**

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)  
Canadian dollars in thousands, except per share amounts

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## **NOTE 13: RELATED PARTY TRANSACTIONS**

### **Share-based payment for executive officers**

These amounts represent the costs of the key executives and employees' grants under the Company's employee share compensation plan and are recognized within general and administrative expenses.

In June 2019, the Company's President and Chief Executive Officer exercised 138,750 stock options at an exercise price of \$1.51 for proceeds of \$210 and surrendered 786,250 stock options for cash paid by the Company for the intrinsic value of \$1,926.

### **Share-based payment for directors**

These amounts represent the costs of directors' grants under the Company's DSU Plan and are recognized within general and administrative expenses.

### **Employee Purchase Plan**

These amounts represent the costs of grants under the Company's ESPP and are recognized within general and administrative expenses.

### **Advantech Wireless Inc.**

As described in Note 6, on January 17, 2018, the Company completed the Advantech Acquisition. Advantech Wireless Inc. (now known as Spacebridge Inc.) is owned and controlled by David Gelerman, a director of the Company.

Pursuant to the terms of the Advantech Acquisition, Spacebridge Inc. may be entitled to additional compensation of between \$750 and \$3,000 per year in each of 2018 and 2019 conditional on the Advantech Wireless business meeting certain EBITDA targets in those years. The EBITDA target was not met in 2018.

In connection with the Advantech Acquisition, Spacebridge Inc. entered into a consulting agreement with the Company payable in cash and common shares as detailed in Note 6. \$312 was recognized in general and administrative expenses for the six months ended June 30, 2019 and for the six months ended June 30, 2018.

During the six months ended June 30, 2019, Spacebridge Inc. and certain of its affiliates acted as agent for the Company through \$551 cash collections. As at June 30, 2019, \$2,085 due to the Company was included in trade receivables and \$1,622 due to the agent was included in accounts payable and accrued liabilities. As at June 30, 2018, \$1,097 due to the Company was included in trade receivables and \$280 due to the agent was included in accounts payable and accrued liabilities.

The Company did not provide services to Spacebridge Inc. and certain of its affiliates during the six months ended June 30, 2019 and provided \$90 during the six months ended June 30, 2018. As of June 30, 2019, \$361 was included within trade receivables and as of June 30, 2018, \$26 was included within trade receivables.

# **Baylin Technologies Inc.**

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

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## *Legal Proceedings*

In the fourth quarter of 2018, the Company received a payment from the escrow agent of approximately \$1,800 as a result of an indemnity claim made by the Company against the portion of the cash purchase price being held in escrow pursuant to the terms of the Advantech Acquisition. The sum was released by the escrow agent because the vendor of Advantech failed to contest the indemnity claim within the prescribed time period. Post the payment, the vendor of Advantech filed an application for relief from forfeiture to have the sum returned to the escrow agent. The Company is opposing the application. A date has not been set for the hearing of the application.

The Company has filed statements of claim for certain other indemnity obligations of the vendor pursuant to the terms of the Advantech Acquisition. The claims, in the aggregate, total approximately \$5,975. The vendor has filed statements of defence as well as statements of counterclaim totaling approximately \$1,600. The vendor has also delivered multiple indemnity claims pursuant to the terms of the Advantech Acquisition seeking to set off the amounts being claimed by the Company. The Company will contest the indemnity claims.

In the second quarter of 2019, the vendor filed an application asserting oppression for, among other things, unspecified amounts in relation to the 2018 earn out under the terms of the Advantech Acquisition and for shares in the Company for which set-off has been claimed by the Company. The vendor alleges that Mr. Gelerman was improperly denied from participating in the management of the Company resulting in a lower earn out. The Company will defend the allegations. No date has been set for the application.

No amounts of settlement can be determined at this time. Accordingly, no provision has been recorded in respect of the claims or counter claims.

## **Alga**

For the six months ended June 30, 2019, \$78 was recognized in revenue for premises leased to a company partly owned by Michael Perelshtein, an employee of Alga Microwave Inc.

In connection with the acquisition of Alga Microwave, Michael Perelshtein may be entitled to a portion of additional compensation of up to \$1,000 conditional on the Alga Microwave business meeting certain performance targets in each of 2019 and 2020.

## **2018 Offering of Subscription Receipts and Debentures**

Certain directors and officers of the Company, directly and indirectly, purchased an aggregate of 3,791,724 Subscription Receipts and \$8,692 principal amount of Debentures pursuant to the 2018 Offering.

## **Other**

The Company retains the services of Mr. Jeffrey C. Royer, pursuant to a services agreement between Mr. Royer and the Company dated as of January 1, 2015, to fulfill the position of Chairman of the board of directors and to provide related strategic leadership and guidance to the board of directors and management of the Company. The agreement has been renewed for one year terms on January 1, 2018 and 2019. As consideration for the services provided under the agreement, the Company agreed to pay Mr. Royer an annual fee of \$150 either in cash or securities of the

# Baylin Technologies Inc.

## Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

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Company as mutually agreed between the Company and Mr. Royer. For the six months ended June 30, 2019 and six months ended June 30, 2018, the Company paid \$75 to Mr. Royer under this agreement.

### 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 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 Six Months Ended June 30,	
	2019	2018
Short-term benefits, pension and post-retirement benefits	\$ 4,524	\$ 2,323
Directors' remuneration	79	84
Share-based payment for executive management	853	515
Share-based payment for directors	102	94

There are no other material related party transactions other than as described herein.

### NOTE 14: FAIR VALUE MEASUREMENTS

The Company classifies its financial instruments into the three levels prescribed under the accounting standards.

The following table presents the Company's financial liabilities measured and recognized at fair value at June 30, 2019 (December 31, 2018: \$18,975 Convertible Debentures were classified as Level 1):

	Level 1	Level 2	Level 3	Total
Convertible Debentures	\$ 19,061	\$ -	\$ -	\$ 19,061

# Baylin Technologies Inc.

## Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

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Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted marked price used for financial assets held by the group is the current bid price.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. As at June 30, 2019 and December 31, 2018, the Company did not hold any instruments included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. As at June 30, 2019 and December 31, 2018, the Company did not hold any instruments included in level 3.

### NOTE 15: REVENUE

Revenues by geographic destination are as follows:

	For the Six Months Ended June 30,	
	2019	2018
Asia Pacific	\$ 51,218	\$ 34,454
North America	24,136	20,803
Europe, Middle East and Africa	9,982	5,277
Other	1,528	1,482
	<u>\$ 86,864</u>	<u>\$ 62,016</u>

### NOTE 16: FINANCE INCOME AND EXPENSE

	For the Six Months Ended June 30,	
	2019	2018
Interest income	\$ (30)	\$ (42)
Interest expense	2,092	1,714
Interest cost on lease liabilities (Note 4)	124	-
Prepayment fee (Note 8)	990	-
Expense of unamortized deferred financing cost (Note 8)	2,777	-
Bank charge expense	63	50
Changes from foreign exchange rate changes	(605)	579
Finance expense, net	<u>\$ 5,411</u>	<u>\$ 2,301</u>



# **Baylin Technologies Inc.**

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

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## **NOTE 17: SUBSEQUENT EVENTS**

Commencing July 26, 2019, the LIBO Rate portion of the interest rate on the Term Loan was fixed at 2% until maturity on March 29, 2022.

Subsequent to June 30, 2019, a former executive officer of the Company surrendered 311,666 stock options in exchange for the intrinsic value of the surrendered stock options of approximately \$445 which will be settled in shares of the Company.

Subsequent to June 30, 2019, the Company has agreed to the sale of its Kirkland, Quebec, Canada facility ("Quebec Facility") for \$7,100 subject to conditions, including the completion of the purchaser's due diligence. The proceeds will be used to repay a portion of the Revolving Facility and the sale is expected to close during the three months ended September 30, 2019. The Company has also negotiated a long term lease of the Quebec Facility and will continue to have operations in the Quebec Facility.