



BAYLIN TECHNOLOGIES INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 2020

(Canadian dollars in thousands)

UNAUDITED

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Date of approval of consolidated financial statements: November 11, 2020

“Jeffrey C. Royer”

Jeffrey C. Royer
Chairman of the Board of Directors

“Randy Dewey”

Randy Dewey
President and Chief Executive Officer

“Michael Wolfe”

Michael Wolfe
Chief Financial Officer

Baylin Technologies Inc.

Interim Condensed Consolidated Statements of Financial Position (unaudited)

Canadian dollars in thousands

	September 30, 2020	December 31, 2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 14,855	\$ 13,974
Trade and other receivables	25,693	19,443
Other current assets	6,893	9,788
Inventories	20,419	21,088
	<u>67,860</u>	<u>64,293</u>
NON-CURRENT ASSETS		
Property, plant and equipment	25,392	19,359
Right of use assets	13,387	14,509
Other long-term assets	387	3,126
Deferred tax assets	8,572	7,285
Equity method investment	97	78
Intangibles	16,689	19,999
Goodwill	18,908	18,908
	<u>83,432</u>	<u>83,264</u>
TOTAL ASSETS	<u>\$ 151,292</u>	<u>\$ 147,557</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Credit from banks	\$ 13,496	\$ 10,874
Accounts payable and accrued liabilities	29,000	20,342
Short-term portion of term loan	4,002	3,896
Short-term portion of lease liability	1,549	1,437
Income tax payable	63	299
	<u>48,110</u>	<u>36,848</u>
NON-CURRENT LIABILITIES		
Long-term portion of lease liability	11,321	12,412
Term loan	19,491	19,979
Convertible debentures	13,983	14,231
Employee benefit liabilities, net	2,122	1,925
Deferred tax liabilities	1,521	2,732
Other long-term liabilities	708	549
	<u>49,146</u>	<u>51,828</u>
TOTAL LIABILITIES	<u>97,256</u>	<u>88,676</u>
SHAREHOLDERS' EQUITY		
Share capital	138,009	137,195
Share-based payment reserve	3,223	2,715
Accumulated other comprehensive income	11,921	10,555
Accumulated deficit	(99,117)	(91,584)
TOTAL EQUITY	<u>54,036</u>	<u>58,881</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 151,292</u>	<u>\$ 147,557</u>

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

Baylin Technologies Inc.

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

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

	For the nine months ended September 30,		For the three months ended September 30,	
	2020	2019	2020	2019
Revenues	\$ 94,148	\$ 123,294	\$ 36,577	\$ 36,430
Cost of sales	65,472	79,107	26,178	24,218
Gross profit	28,676	44,187	10,399	12,212
Operating expenses				
Selling and marketing expenses	7,496	11,116	2,487	3,698
Research and development expenses	9,153	13,171	3,047	4,397
General and administrative expenses	17,133	19,965	5,599	6,017
Acquisition expenses	71	539	24	359
	<u>33,853</u>	<u>44,791</u>	<u>11,157</u>	<u>14,471</u>
Operating loss	(5,177)	(604)	(758)	(2,259)
Finance expense, net	4,510	6,359	1,129	948
Investment income, net	(19)	(92)	106	(62)
Reversal of provision	-	401	-	401
Fair value adjustments	(139)	(2,893)	176	(2,979)
	<u>(9,529)</u>	<u>(4,379)</u>	<u>(2,169)</u>	<u>(567)</u>
Loss before income taxes	(9,529)	(4,379)	(2,169)	(567)
Income tax expense (recovery)	(1,996)	586	(1,804)	151
Net loss	<u>\$ (7,533)</u>	<u>\$ (4,965)</u>	<u>\$ (365)</u>	<u>\$ (718)</u>
Net loss attributable to shareholders of the company	(7,533)	(4,965)	(365)	(718)
Net loss attributable to non-controlling interests	-	-	-	-
Items that may be reclassified to profit or loss				
Amount arising from translation of foreign operations, net of tax	1,366	(2,394)	(295)	(194)
Items that will not be reclassified to profit or loss				
Actuarial gains, net of tax	-	41	-	-
	<u>1,366</u>	<u>(2,353)</u>	<u>(295)</u>	<u>(194)</u>
Other comprehensive income (loss) (net of tax effect)	<u>\$ 1,366</u>	<u>\$ (2,353)</u>	<u>\$ (295)</u>	<u>\$ (194)</u>
Total comprehensive loss	<u>\$ (6,167)</u>	<u>\$ (7,318)</u>	<u>\$ (660)</u>	<u>\$ (912)</u>
Comprehensive loss attributable to shareholders of the company	(6,167)	(7,318)	(660)	(912)
Comprehensive loss attributable to non-controlling interests	-	-	-	-
Basic and diluted net loss per share	\$ (0.18)	\$ (0.12)	\$ (0.01)	\$ (0.02)
Weighted average shares outstanding	40,259,828	40,177,304	40,882,313	40,300,653

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

	Number of shares outstanding	Share capital	Share- based payment reserve Note 10	Accumulated deficit	Accumulated other comprehensive income	Total equity
Balance as of January 1, 2020	40,231,090	\$ 137,195	\$ 2,715	\$ (91,584)	\$ 10,555	\$ 58,881
Net loss	-	-	-	(7,533)	-	(7,533)
Other comprehensive loss	-	-	-	-	1,366	1,366
Share-based payment	651,223	689	547	-	-	1,236
Employee Share Compensation Plan and Purchase Plan	-	125	(39)	-	-	86
Balance as of September 30, 2020	<u>40,882,313</u>	<u>\$ 138,009</u>	<u>\$ 3,223</u>	<u>\$ (99,117)</u>	<u>\$ 11,921</u>	<u>\$ 54,036</u>
	Number of shares outstanding	Share capital	Share- based payment reserve Note 10	Accumulated deficit	Accumulated other comprehen- sive income	Total equity
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	-	-	-	(494)	-	(494)
Balance as of January 1, 2019	40,006,454	\$ 136,675	\$ 3,798	\$ (71,980)	\$ 12,840	\$ 81,333
Net loss	-	-	-	(4,965)	-	(4,965)
Other comprehensive income	-	-	-	-	(2,353)	(2,353)
Share-based payments	195,069	806	(1,347)	-	-	(541)
Employee Share Compensation Plan and Purchase Plan	129,126	84	(74)	-	-	10
Acquisition purchase price adjustment	-	(165)	-	-	-	(165)
Balance as of September 30, 2019	<u>40,330,649</u>	<u>\$ 137,400</u>	<u>\$ 2,377</u>	<u>\$ (76,945)</u>	<u>\$ 10,487</u>	<u>\$ 73,319</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

	For the nine months ended September 30,	
	2020	2019
Cash flows from operating activities		
Net loss	\$ (7,533)	\$ (4,965)
Adjustments to reconcile net loss to net cash generated by (used in) operating activities		
Share-based payment	1,355	1,186
Depreciation, amortization and impairment	9,165	9,433
Finance expense, net	4,510	5,369
Loss (gain) from sale of property, plant and equipment	(230)	400
Loss from disposal of right of use asset	107	-
Share of net income of equity method investment	(19)	(92)
Income tax (benefit) expense	(1,996)	586
Fair value adjustment	(139)	(2,893)
Reversal of provision	-	401
Unrealized foreign exchange gains	(518)	(649)
	12,235	13,741
Changes in asset and liability items		
Increase in trade receivables	(6,026)	(3,690)
Decrease (increase) in other current assets	3,414	(981)
Decrease in inventories	877	324
Increase (decrease) in current liabilities and employee benefits	7,029	(2,002)
	5,294	(6,349)
Cash paid and received during the year for		
Interest paid, net	(2,068)	(2,243)
Taxes paid, net	(791)	(2,611)
Cash used in stock option settlement	-	(1,926)
	(2,859)	(6,780)
Net cash generated by (used in) operating activities	7,137	(4,353)
Cash flows from investing activities		
Purchase of property, plant and equipment	\$ (6,670)	\$ (5,372)
Proceeds from sale of property, plant and equipment	497	-
Purchase of other long-term assets	(593)	-
Net cash used in investing activities	(6,766)	(5,372)
Cash flows from financing activities		
Cash received from share issuance	\$ 248	\$ 210
Receipt of credit from banks and others	2,346	12,660
Receipt (repayment) of term loan	(1,064)	27,373
Repayment of loan	-	(33,000)
Principal elements of lease payments	(1,306)	(1,377)
Net cash generated by financing activities	224	5,866
Exchange differences on balances of cash and cash equivalents	286	(499)
Increase (decrease) in cash and cash equivalents	\$ 881	\$ (4,358)
Cash and cash equivalents at the beginning of the period	13,974	20,859
Cash and cash equivalents at the end of the period	<u>\$ 14,855</u>	<u>\$ 16,501</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

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 181 Bay Street, Suite 1800, Toronto, Ontario, Canada.

Baylin, together with its subsidiaries (collectively the “Company” or the “Group”), is a leading, diversified, global wireless technology 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 VSAT through certain subsidiaries of the Company. The Company’s common shares and convertible debentures are publicly traded on the Toronto Stock Exchange (TSX: BYL and BYL.DB).

Approval of financial statements

These interim condensed consolidated financial statements of the Company for the three and nine months ended September 30, 2020 have been prepared by management of Baylin and were authorized for issue in accordance with a resolution of the board of directors on November 11, 2020.

NOTE 2: BASIS OF PREPARATION

The interim condensed consolidated financial statements for the three and nine months ended September 30, 2020 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, 2019 (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 September 30, 2020 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.

Baylin Technologies Inc.

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

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, 2020 are as follows:

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 has adopted the amendments 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 January 23, 2020, the IASB issued Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements.

NOTE 5: SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

There have been no significant changes to the Company’s critical accounting judgments, estimates and assumptions made since our annual financial reporting for the year ended December 31, 2019, except as discussed in Note 4. Impacts of the COVID-19 pandemic have been considered as of September 30, 2020 when assessing accounting judgments, estimates and assumptions.

NOTE 6: CREDIT FROM BANKS

The Group has revolving credit lines which are being drawn as needed. As at September 30, 2020, the aggregate revolving credit facilities of the Group were \$21,533 of which \$13,496 was drawn and utilized. As at December 31, 2019, the aggregate revolving credit facilities of the Group were approximately \$23,807 of which \$10,874 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 September 30, 2020, \$9,963 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

Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

Agreement. The Revolving Facility matures on March 29, 2022. Certain of Baylin's subsidiaries are guarantors of the Revolving Facility. The Revolving Facility is secured by substantially all the assets of Baylin and the guarantors. The Credit Agreement contains certain financial covenants, including 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.

On June 8, 2020, the Company and the Lenders agreed to make certain amendments to the Credit Agreement including amendments to the fixed charge coverage ratio and senior debt to EBITDA ratio calculated at the end of each quarter, adding a minimum Adjusted EBITDA covenant for the trailing twelve months ending June 30, 2020, adding a minimum liquidity covenant until December 31, 2020, a reduction of \$2,000 to the Revolving Facility, an increase of 0.5% in the rate of interest that would otherwise apply at any time the senior debt to EBITDA Ratio is more than 2.75:1.00 and an increase of 0.1% in the standby fee that would otherwise apply at any time the senior debt to EBITDA ratio is more than 2.75:1.00. The Lenders waived compliance with the financial covenants as at March 31, 2020.

As at September 30, 2020, the interest rate on the Revolving Facility was 6.00% on United States Dollar advances, 4.70% on Canadian Dollar advances and 3.40% on LIBO Rate advances. As at September 30, 2020, the standby fee on the undrawn portion of the Revolving Facility was 0.65% per annum.

- b. The Company's Chinese subsidiary has a \$3,533 Yuan equivalent (December 31, 2019 - \$3,357) short-term credit facility with the Shanghai Pudong Development Bank ("SPD") secured by the Company's Chinese subsidiary's building. As at September 30, 2020, \$3,533 was outstanding under this facility and as at December 31, 2019, there was no outstanding balance.
- c. The Company's Korean subsidiary has a \$534 (December 31, 2019 - \$450) short-term credit facility with the Shinhan Bank in United States Dollar currency equivalent. The credit facility is secured by an irrevocable letter of credit issued by Baylin to the lender in Korea. As at September 30, 2020 and December 31, 2019, there was no balance outstanding under this facility.

NOTE 7: LOAN AND TERM LOAN

On January 17, 2018, 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. Debt issuance costs of \$3,427, including the common share purchase warrants issued in connection with the Loan, 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 thus extinguishing the debt, 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 \$28,012. 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 \$1,000 commenced on 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

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Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

Agreement) plus the applicable margin and the Company's senior debt to EBITDA ratio (as detailed in the Credit Agreement) and is payable quarterly in arrears. Certain of Baylin's subsidiaries are guarantors of the Term Loan. The Credit Agreement contains certain financial covenants including 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.

Commencing July 26, 2019, the Company entered into an interest rate swap arrangement where the LIBO Rate portion of the interest rate on the Term Loan was fixed at 2% until maturity on March 29, 2022. As at September 30, 2020, the interest rate swap contract was valued as a liability within other long-term liabilities on the balance sheet of \$296. The fair value of the interest rate swap contract was valued using a future LIBOR curve.

On June 8, 2020, the Company and the Lenders agreed to make certain amendments to the Credit Agreement including amendments to the fixed charge coverage ratio and senior debt to EBITDA ratio calculated at the end of each quarter, adding a minimum Adjusted EBITDA covenant for the trailing twelve months ending June 30, 2020, adding a minimum liquidity covenant until December 31, 2020 and an increase of 0.5% in the rate of interest that would otherwise apply at any time the senior debt to EBITDA ratio is more than 2.75:1.00. As at September 30, 2020, the interest rate on the Term Loan was 3.47%. The Lenders waived compliance with the financial covenants as at March 31, 2020. The Lenders also agreed that the scheduled principal repayments on the Term Loan on June 30, 2020 and September 30, 2020 may be deferred at the Company's option. The scheduled principal repayments on the Term Loan for June 30, 2020 and September 30, 2020 were deferred.

NOTE 8: 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 earlier of: (i) last business day before the Maturity Date; or (ii) if called for redemption, the business day 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

Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

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. No conversion of the Debentures have been exercised to date.

On May 14, 2020, the Company offered holders of the Debentures the option to receive common shares as an alternative to cash as payment of interest due for the interest payment date on June 30, 2020. Holders who exercised the option received common shares at 85% of their current market price on the June 30, 2020 interest payment date. These shares are subject to a restriction on resale for a period of four months after that date. On June 30, 2020, holders of the Debentures who exercised the option were issued 355,840 common shares for a total of \$329.

	Debentures Principal	Debentures Fair Value
Balance as of January 1, 2020	\$ 17,250	\$ 14,231
Fair value adjustment		(248)
Balance as of September 30, 2020	<u>\$ 17,250</u>	<u>\$ 13,983</u>
	Debentures Principal	Debentures Fair Value
Balance as of January 1, 2019	\$ 17,250	\$ 18,975
Fair value adjustment		(2,889)
Balance as of September 30, 2019	<u>\$ 17,250</u>	<u>\$ 16,086</u>

NOTE 9: 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 10: SHARE CAPITAL AND 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:

	<u>Number of DSUs</u>	<u>Weighted average price in CAD</u>
DSUs outstanding at January 1, 2019	325,418	\$ 2.43
DSUs granted during 2019	43,506	\$ 3.51
DSUs outstanding at September 30, 2019	<u>368,924</u>	<u>\$ 2.56</u>
DSUs outstanding at January 1, 2020	395,449	\$ 2.51
DSUs granted during 2020	137,545	\$ 1.24
DSUs redeemed during 2020	<u>(52,759)</u>	<u>\$ 2.10</u>
DSUs outstanding at September 30, 2020	<u>480,235</u>	<u>\$ 2.20</u>

The Company recognized an expense of \$171 in the nine months ended September 30, 2020 and \$152 in the nine months ended September 30, 2019 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; and, (iii) the expiry date, generally being no more than seven years after the grant date. The intrinsic value of surrendered stock options can be settled in (i) cash; (ii) common shares; or (iii) as combination of cash or common shares at the discretion of the Company.

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:

Stock option grant date	Options as at September 30, 2020				
	Stock options granted	Vested	Expired	Surrendered	Net Outstanding
Mar. 30, 2017	685,000	540,000	145,000	290,000	250,000
Aug. 8, 2017	500,000	500,000	-	-	500,000
Mar. 10, 2018	30,000	10,000	-	-	30,000
May 17, 2018	275,000	110,000	43,334	21,666	210,000
May 22, 2018	25,000	5,000	25,000	-	-
Jul. 11, 2018	197,500	65,000	35,000	-	162,500
Nov. 9, 2018	250,000	83,333	-	-	250,000
Mar. 25, 2019	325,000	35,000	150,000	-	175,000
May 21, 2019	270,000	90,000	-	-	270,000
Aug. 16, 2019	60,000	20,000	-	-	60,000
	<u>2,617,500</u>	<u>1,458,333</u>	<u>398,334</u>	<u>311,666</u>	<u>1,907,500</u>

Stock option grant date	Options as at December 31, 2019				
	Stock options granted	Vested	Expired	Surrendered	Net Outstanding
Mar. 30, 2017	685,000	456,666	145,000	290,000	250,000
Aug. 8, 2017	500,000	333,333	-	-	500,000
Mar. 10, 2018	30,000	10,000	-	-	30,000
May 17, 2018	275,000	81,666	43,334	21,666	210,000
May 22, 2018	25,000	5,000	-	-	25,000
Jul. 11, 2018	197,500	39,500	-	-	197,500
Nov. 9, 2018	250,000	83,333	-	-	250,000
Mar. 25, 2019	325,000	-	150,000	-	175,000
May 21, 2019	270,000	-	-	-	270,000
Aug. 16, 2019	60,000	-	-	-	60,000
	<u>2,617,500</u>	<u>1,009,498</u>	<u>338,334</u>	<u>311,666</u>	<u>1,967,500</u>

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	Option expiry date	Stock options granted	Exercise price	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	Aug. 24, 2020	925,000	\$ 1.51	44.42 – 45.29	0.90	2.67 – 3.25	\$ 0.44 – 0.48
Mar. 30, 2017	Mar. 30, 2022	685,000	\$ 1.98	50.48	1.10	5.0	\$ 0.89
Aug. 8, 2017	Aug. 8, 2022	500,000	\$ 2.00	48.69	1.55	5.0	\$ 0.89
Mar. 10, 2018	Mar. 10, 2023	30,000	\$ 3.51	50.68	1.98	5.0	\$ 1.42
May 17, 2018	May 17, 2023	275,000	\$ 3.34	50.20	2.04	5.0	\$ 1.89
May 22, 2018	May 22, 2023	25,000	\$ 3.34	50.29	2.30	5.0	\$ 1.45
Jul. 11, 2018	Jul. 11, 2023	197,500	\$ 3.50	48.87	2.07	5.0	\$ 1.36
Nov. 9, 2018	Nov. 9, 2023	250,000	\$ 3.84	48.29	2.48	5.0	\$ 1.78
Mar. 25, 2019	Mar. 25, 2024	325,000	\$ 3.89	48.42	1.44	5.0	\$ 1.76
May 21, 2019	May 21, 2024	270,000	\$ 3.57	47.88	1.65	5.0	\$ 1.67
Aug. 16, 2019	Aug. 16, 2024	60,000	\$ 3.18	46.32	1.19	5.0	\$ 1.48
		<u>2,617,500</u>					

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The Company recognized expenses during the nine months ended September 30, 2020 due to the stock options under the Stock Option Plan in the amount of \$487 as general and administrative expenses and \$775 during the nine months ended September 30, 2019.

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.

In August 2019, 290,000 stock options were surrendered. The intrinsic value of the options, \$179, was paid by the issuance of 56,319 common shares of the Company.

In August 2019, another 21,666 stock options were surrendered but with no intrinsic value at the time of surrender.

As of September 30, 2020, 398,334 stock options have expired and 338,334 stock options have expired as of December 31, 2019.

- c. The Company provides for the issuance of common shares to certain employees of the Company (“Participants”) under the terms of the Employee Purchase Plan (“EPP”). The Company grants each Participant a number of shares equal to each Participant’s annual share purchase commitment. The Company did not recognize an expense for the nine months ended September 30, 2020 and for the nine months ended September 30, 2019 with regards to the EPP.
- 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. 50% of the common shares vest 12 months subsequent to the date of grant and 50% vest 24 months subsequent to the date of the grant. The Company recognized \$8 and \$40 in general and administrative expenses for the nine months ended September 30, 2020 and September 30, 2019, respectively.

In February 2019, the Company issued an additional 64,863 shares and recognized \$270 in general and administrative expenses for the nine months ended September 30, 2019 under the ESCP.

In March 2019, the Company issued 64,263 restricted common shares of which 50% vest 12 months subsequent to the date of grant and 50% vest 24 months subsequent to the date of grant. The Company recognized \$78 in general and administrative expenses for the nine months ended September 30, 2020 in terms of the ESCP. The Company recognized an expense of \$47 for the nine months ended September 30, 2019 in terms of the ESCP.

- e. On September 26, 2019, Baylin received approval from the Toronto Stock Exchange (“TSX”) for a normal course issuer bid (“NCIB”). Under the NCIB, Baylin may purchase for cancellation up to 2,016,532 of its common shares, representing 5% of its then-outstanding common shares. Baylin may purchase up to 7,780 common shares each trading day, subject to the TSX’s rules permitting block purchases. Purchases may be made through the facilities of the TSX and alternative trading systems in Canada at prevailing market prices or other prices as permitted. The NCIB commenced on September 30, 2019 and will continue until the earlier of the date

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Baylin has completed its purchases and September 29, 2020, when the bid expires. As at September 30, 2020, Baylin had purchased 99,559 shares for \$240 under the NCIB. Baylin did not renew the NCIB when it expired on September 29, 2020.

- f. On June 30, 2020, the Company issued 355,840 common shares to holders of the Debentures for \$329 to partially pay the June 30, 2020 interest payment on the Debentures. The Company also completed a private placement of 267,566 common shares for proceeds of \$248. A portion of the proceeds were used to pay interest on the Debentures on the June 30, 2020 interest payment date. The remaining portion of the proceeds will be used to pay interest on the Debentures on the December 31, 2020 interest payment date.
- g. On August 13, 2020, the shareholders of Baylin approved a new Omnibus Equity Incentive Plan (the “Omnibus Plan”). The Omnibus Plan is intended to provide additional flexibility to structure a wide variety of incentives to allow long-term compensation to be tied to performance-based vesting. The Omnibus Plan replaces the DSU Plan, Stock Option Plan and ESCP. The Omnibus Plan permits a variety of awards to be issued, including deferred share units (“DSUs”), performance share units (“PSUs”), restricted share units (“RSUs”) and stock options. Awards granted after August 13, 2020 will be governed by the Omnibus Plan. Existing awards will continue to be governed by the plan under which they were granted.

The Omnibus plan permits DSUs, PSUs and RSUs to be settled (i) in common shares issued from treasury, (ii) in common shares purchased in the market, (iii) in cash or, (iv) a combination of common shares and cash. Holders of stock options may exercise their options, (i) by paying the option exercise price or (ii) with the consent of Baylin, through a cashless exercise or by receiving a cash payment in lieu of shares.

Vesting periods are determined in accordance with the Omnibus Plan at the time an award is granted.

- h. On September 30, 2020, the Company issued 284,177 RSUs to certain employees in consideration for deferred salary from April 2020 to September 2020.

NOTE 11: EQUITY METHOD INVESTMENT

Baylin’s equity-method investments consist of a 19% interest in Galtronics Canada Ltd. (“GTC”), a Canadian technology company that provides innovative antenna designs and RF test services for wireless communication products, and a 19% 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 nine months ended September 30, 2020, transactions between the Company and GTC totaled \$1,266 and between the Company and AWR totaled \$3,418 consisting primarily of R&D expenses related to the services agreements the Company has with GTC and AWR. As at September 30, 2020, the Company was owed \$1,848 from GTC and \$363 from AWR. For the nine months ended September 30, 2019, transactions between the Company and GTC totaled \$3,327 and between the Company and AWR totaled \$3,105. As at December 31, 2019, the Company was owed \$5,977 from GTC and owed AWR \$83.

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

	As of September 30, 2020			As of December 31, 2019		
	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total
Cash	\$ 87	\$ 54	\$ 141	\$ 334	\$ 102	\$ 436
Other current assets	30	1,374	1,404	28	848	876
Accounts receivables	1,692	1,429	3,121	1,142	1,201	2,343
Property, plant and equipment	1,092	426	1,518	1,134	491	1,625
Accounts payables and accrued liabilities	(2,900)	(2,771)	(5,671)	(2,570)	(2,300)	(4,870)
Net assets	\$ 2	\$ 511	\$ 513	\$ 68	\$ 342	\$ 410
Share of equity method investment net assets	\$ -	\$ 97	\$ 97	\$ 13	\$ 65	\$ 78

	For the nine months ended September 30, 2020			For the nine months ended September 30, 2019		
	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total
Revenue	\$ 2,212	\$ 3,418	\$ 5,630	\$ 3,337	\$ 3,330	\$ 6,667
Expenses	2,391	3,249	5,640	3,043	3,141	6,184
Net income (loss)	\$ (179)	\$ 168	\$ (11)	\$ 294	\$ 189	\$ 483
Share of equity method investment net income (loss)	(34)	32	(2)	56	36	92
Unrecognized share of equity method investment net loss	21	-	21	-	-	-
Share of equity method investment net income (loss)	\$ (13)	\$ 32	\$ 19	\$ 56	\$ 36	\$ 92

NOTE 12: 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 plans and are recognized within general and administrative expenses.

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.

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Private Placement

On June 30, 2020, management and directors purchased 267,566 common shares through a private placement. The common shares were all issued at \$0.9259 per common share, representing 85% of the volume-weighted average price of the common shares on the Toronto Stock Exchange for the five trading days ended June 29, 2020. A portion of the proceeds were used by the Company to pay interest on the Debentures on the June 30, 2020 interest payment date. The remaining amount will be used to pay interest on the Debentures on the December 31, 2020 interest payment date.

Advantech Wireless Inc.

On January 17, 2018, through a wholly-owned subsidiary, the Company acquired from Advantech Wireless Inc. and certain of its affiliates 100% of the assets (the “Advantech Acquisition”) of their radio frequency, terrestrial microwave and antenna equipment divisions. Advantech Wireless Inc. (now known as SpaceBridge Inc. (“SpaceBridge”)) is owned and controlled by David Gelerman, a director of the Company until April 3, 2020.

Pursuant to the terms of the Advantech Acquisition, SpaceBridge was 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 targets were not met in 2018 and 2019. On June 1, 2020 SpaceBridge contested that the 2019 EBITDA targets were not met. The Company is opposing the objection.

In connection with the Advantech Acquisition, SpaceBridge entered into a consulting agreement (the “Consulting Agreement”) with the Company payable in cash and common shares. \$468 was recognized in general and administrative expenses for the nine months ended September 30, 2019.

SpaceBridge and certain of its affiliates acted as an agent for the Company and as at September 30, 2020, \$2,421 was due to the Company and was included in trade receivables and \$1,495 due to the agent was included in accounts payable and accrued liabilities.

The Company did not provide services to SpaceBridge or its affiliates during the nine months ended September 30, 2020 and the nine months ended September 30, 2019. As of September 30, 2020 and December 31, 2019, \$397 was included within trade receivables.

Legal Proceedings

The Company is both a plaintiff and defendant in various claims arising out of the Advantech Acquisition.

In October 2018, the Company received a payment from the escrow agent of approximately \$1,800 as a result of a 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 SpaceBridge failed to contest the indemnity claim within the prescribed time period. After the payment was made, SpaceBridge filed an application for relief from forfeiture to have the payment returned to the escrow agent. The Company is opposing the application. No date has been set to hear the application.

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The Company has filed statements of claim claiming damages against SpaceBridge for various breaches of the asset purchase agreement for the Advantech Acquisition. The claims, in the aggregate, total approximately \$5,600. SpaceBridge has filed statements of defence as well as statements of counterclaim totaling approximately \$1,600. In July 2019, SpaceBridge 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 has contested the indemnity claims.

In the second quarter of 2019, the vendor of Advantech 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. SpaceBridge 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 related to claims for compensation. The issue of whether the Company is entitled to assert set-off on the common shares was argued on October 29, 2019. In January 2020, the court found that Mr. Gelerman is entitled to complete his term as director and the set-off shares must be released. The Company has appealed the ruling. The appeal is scheduled to be heard in December 2020.

In January 2020, SpaceBridge filed a statement of claim claiming damages against the Company for various breaches of the asset purchase and other agreements related to the Advantech Acquisition. These claims include the multiple indemnity claims previously made by SpaceBridge as well as additional claims for breach of an agreement governing transitional services following the Advantech Acquisition and the Consulting Agreement. The claims include loss of business opportunities, improper use of SpaceBridge's books and records, unpaid rent on premises subleased from SpaceBridge as part of the Advantech Acquisition, diminution in the value of Baylin common shares payable as part of the consulting fees under the Consulting Agreement and conversion of inventory after completion of the Advantech Acquisition. Where specified, the amount of damages claimed is at least \$7,200.

In the case of the Company's claims under the asset purchase agreement for breaches of representations related to working capital and closing inventory levels, documentary discovery is currently being conducted and oral discovery is expected to occur, once scheduled, in the first half of 2021.

The Company is unable to determine at this time whether it will be entitled to recover or required to pay any amounts related to these legal proceedings. Accordingly, no provision has been recorded in respect of the claims.

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").

For the nine months ended September 30, 2020 and the nine months ended September 30, 2019, \$117 was recognized in revenue for premises leased to a company partly owned by Michael Perelshtein, an employee of Alga.

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Legal Proceedings

In the third quarter of 2019, the vendors of Alga Microwave filed an application asserting that an event occurred which triggered the payment of an earnout in the amount of \$1,000 as detailed in the share purchase agreement. The Company does not agree that the payment has been triggered and has contested the application. No date has been set for the application. The Company is unable to determine at this time whether it will be required to pay any amounts related to these legal proceedings. Accordingly, no provision has been recorded in respect of the claim.

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. 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 Company as mutually agreed between the Company and Mr. Royer. For the nine months ended September 30, 2020, the Company paid \$25 to Mr. Royer and \$113 for the nine months ended September 30, 2019. In March 2020, Mr. Royer agreed to forego the fee for an unspecified period.

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.

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

	For the nine months ended September 30,	
	2020	2019
Short-term benefits, pension and post-retirement benefits	\$ 4,487	\$ 6,397
Directors' remuneration	38	116
Share-based payment for executive management	573	1,132
Share-based payment for directors	171	153

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

NOTE 13: 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:

	As at September 30, 2020			
	Level 1	Level 2	Level 3	Total
Convertible Debentures	\$ 13,983	\$ -	\$ -	\$ 13,983
Interest Rate Swap	\$ -	\$ 296	\$ -	\$ 296

	As at December 31, 2019			
	Level 1	Level 2	Level 3	Total
Convertible Debentures	\$ 14,231	\$ -	\$ -	\$ 14,231
Interest Rate Swap	\$ -	\$ 186	\$ -	\$ 186

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 market 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.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. The present value of future cash flows based on observable yield curves was the valuation technique used to determine the fair value of the interest rate swap.

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NOTE 14: REVENUE

Revenues by geographic destination are as follows:

	For the nine months ended September 30,		For the three months ended September 30,	
	2020	2019	2020	2019
United States of America	\$ 19,201	\$ 30,626	\$ 2,528	\$ 7,887
Vietnam	25,954	34,047	13,372	11,020
China	16,188	20,759	6,497	4,627
South Korea	3,357	3,999	947	1,165
Singapore	3,729	7,373	2,558	2,373
Sweden	2,653	3,410	738	1,213
United Kingdom	1,179	2,305	1,002	548
Canada	4,325	2,248	596	792
Taiwan	745	2,310	444	822
Russia	2,703	1,809	1,459	1,013
India	610	1,073	423	306
Romania	1,524	231	0	231
Other	11,980	13,105	6,013	4,434
	<u>\$ 94,148</u>	<u>\$ 123,294</u>	<u>\$ 36,577</u>	<u>\$ 36,430</u>

NOTE 15: FINANCE INCOME AND EXPENSE

	For the nine months ended September 30,		For the three months ended September 30,	
	2020	2019	2020	2019
Interest income	\$ (22)	\$ (33)	\$ (2)	\$ (3)
Interest expense	2,406	2,896	854	804
Interest cost on lease liabilities	598	313	199	189
Prepayment fee (Note 7)	-	990	-	-
Expense of unamortized deferred financing cost (Note 7)	-	2,777	-	-
Bank charge expense	77	102	30	39
Changes from foreign exchange rate changes	1,451	(686)	48	(81)
Finance expense, net	<u>\$ 4,510</u>	<u>\$ 6,359</u>	<u>\$ 1,129</u>	<u>\$ 948</u>