BAYLIN TECHNOLOGIES INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS AT JUNE 30, 2022

(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 six months ended June 30, 2022 have been prepared by management. 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 Accountants of Canada for a review of interim financial statements by an entity's auditors.

INDEX

Date of approval of consolidated financial statements: August 10, 2022

"Jeffrey C. Royer"	*"Leighton Carroll"*	*"Dan Nohdomi"*
Jeffrey C. Royer	**Leighton Carroll**	**Dan Nohdomi**
Chairman of the Board of Directors	**Chief Executive Officer**	**Chief Financial Officer**

Baylin Technologies Inc.

Interim Condensed Consolidated Statements of Financial Position (unaudited)
Canadian dollars in thousands

	June 30, 2022	December 31, 2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 6,994	$ 19,674
Trade and other receivables	19,131	20,232
Other current assets	5,535	3,753
Assets held for sale	1,596	1,596
Inventories	21,088	15,831
	54,344	61,086
NON-CURRENT ASSETS		
Property, plant and equipment	11,504	12,491
Right of use assets	9,026	9,771
Other long-term assets	68	214
Equity method investment	38	189
Intangibles	6,771	9,282
	27,407	31,947
TOTAL ASSETS	$ 81,751	$ 93,033
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Credit from banks	$ 9,437	$ 10,787
Accounts payable and accrued liabilities	29,566	28,573
Short-term portion of long-term loans	18,834	21,072
Short-term portion of lease liability	1,454	1,389
Income tax payable	104	31
	59,395	61,852
NON-CURRENT LIABILITIES		
Long-term portion of lease liability	9,910	10,651
Convertible debentures	4,719	4,859
Employee benefit liabilities, net	2,529	2,586
Deferred tax liabilities	-	853
Other long-term liabilities	347	451
	17,505	19,400
TOTAL LIABILITIES	76,900	81,252
SHAREHOLDERS' EQUITY		
Share capital	172,743	172,700
Share-based payment reserve	4,856	4,240
Accumulated other comprehensive income	10,561	10,769
Accumulated deficit	(183,309)	(175,928)
TOTAL EQUITY	4,851	11,781
TOTAL LIABILITIES AND EQUITY	$ 81,751	$ 93,033

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 three months ended June 30, 2022	For the three months ended June 30, 2021	For the six months ended June 30, 2022	For the six months ended June 30, 2021
Revenues	$ 30,134	$ 21,622	$ 61,108	$ 45,082
Cost of sales	21,119	25,171	44,037	45,034
Gross profit (loss)	9,015	(3,549)	17,071	48
Operating expenses				
Selling and marketing expenses	2,179	2,114	4,018	4,207
Research and development expenses	3,803	5,019	6,929	8,102
General and administrative expenses	6,233	5,992	12,211	9,988
Non-current asset impairment	-	15,908	-	15,908
	12,215	29,033	23,158	38,205
Operating loss	(3,200)	(32,582)	(6,087)	(38,157)
Finance expense, net	1,049	561	1,850	1,475
Investment income (expense), net	(37)	(13)	152	(1)
Fair value adjustments	(141)	851	(141)	2,794
Loss before income taxes	(4,071)	(33,981)	(7,948)	(42,425)
Income tax expense (recovery)	237	(46)	(567)	(28)
Net loss	$ (4,308)	$ (33,935)	$ (7,381)	$ (42,397)
Items that may be reclassified to profit or loss				
Amount arising from translation of foreign operations, net of tax	(99)	(249)	(208)	(464)
Other comprehensive loss (net of tax effect)	$ (99)	$ (249)	$ (208)	$ (464)
Total comprehensive loss	$ (4,407)	$ (34,184)	$ (7,589)	$ (42,861)
Basic and diluted net loss per share	$ (0.05)	$ (0.64)	$ (0.09)	$ (0.83)
Weighted average shares outstanding	80,128,339	51,144,490	80,114,578	50,962,220

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	Accumulated deficit	Accumulated other comprehensive income (loss)	Total equity
Balance as of January 1, 2022	80,095,014	$ 172,700	$ 4,240	$ (175,928)	$ 10,769	$ 11,781
Net loss	-	-	-	(7,381)	-	(7,381)
Other comprehensive loss	-	-	-	-	(208)	(208)
Share-based payment	-	-	616	-	-	616
Share issuances	62,255	43	-	-	-	43
Balance as of June 30, 2022	80,157,269	$ 172,743	$ 4,856	$ (183,309)	$ 10,561	$ 4,851

	Number of shares outstanding	Share capital	Share-based payment reserve	Accumulated deficit	Accumulated other comprehensive income (loss)	Total equity
Balance as of January 1, 2021	48,014,660	$ 142,160	$ 4,426	$ (108,508)	$ 10,785	$ 48,863
Net loss	-	-	-	(42,397)	-	(42,397)
Other comprehensive loss	-	-	-	-	(464)	(464)
Share-based payment	-	250	(746)	-	-	(496)
Share issuances	14,432,354	16,283	-	-	-	16,283
Balance as of June 30, 2021	62,447,014	$ 158,693	$ 3,680	$ (150,905)	$ 10,321	$ 21,789

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 three months ended June 30, 2022	For the three months ended June 30, 2021	For the six months ended June 30, 2022	For the six months ended June 30, 2021
Cash flows from operating activities				
Net loss	$ (4,308)	$ (33,935)	$ (7,381)	$ (42,397)
Adjustments to reconcile net loss to net cash used in operating activities				
Share-based payment	411	202	659	319
Depreciation	1,399	1,436	2,785	3,023
Amortization	1,255	1,259	2,510	2,531
Finance expense, net	1,049	561	1,850	1,475
Loss (gain) from sale of property, plant and equipment	(94)	10	(88)	10
Inventory provision	-	6,588	-	6,588
Share of net loss (income) of equity method investment	(37)	(13)	152	(1)
Income tax expense (benefit)	237	(46)	(567)	(28)
Fair value adjustment	(141)	850	(141)	2,792
Goodwill impairment	-	15,908	-	15,908
Unrealized foreign exchange loss (gain)	251	(8)	(98)	(692)
	4,330	26,747	7,062	31,925
Changes in asset and liability items				
Decrease in trade receivables	4,276	2,158	1,125	3,018
Increase in other current assets	(513)	(453)	(2,075)	(46)
Decrease (increase) in inventories	(3,300)	361	(5,329)	(2,160)
Increase (decrease) in accounts payables and accrued liabilities	(2,376)	2,883	1,104	4,611
	(1,913)	4,949	(5,175)	5,423
Cash paid and received during the year for				
Interest paid, net	(639)	(530)	(1,135)	(908)
Taxes paid, net	(55)	(56)	(128)	(183)
	(694)	(586)	(1,263)	(1,091)
Net cash used in operating activities	(2,585)	(2,825)	(6,757)	(6,140)
Cash flows from investing activities				
Purchase of property, plant and equipment	$ (589)	$ (328)	$ (1,226)	$ (519)
Proceeds from sale of property, plant and equipment	66	-	66	-
Net cash used in investing activities	(523)	(328)	(1,160)	(519)
Cash flows from financing activities				
Cash received from share issuance	$ -	$ -	$ -	$ 3,333
Proceeds (repayment) from credit from banks and other long term loans	(1,565)	(162)	(2,022)	3,686
Repayment of term loan	(967)	(930)	(1,904)	(1,873)
Principal elements of lease payments	(268)	(245)	(748)	(674)
Net cash generated by (used in) financing activities	(2,800)	(1,337)	(4,674)	4,472
Exchange differences on balances of cash and cash equivalents	160	(116)	(89)	(436)
Decrease in cash and cash equivalents	$ (5,748)	$ (4,606)	$ (12,680)	$ (2,623)
Cash and cash equivalents at the beginning of the period	12,742	13,188	19,674	11,205
Cash and cash equivalents at the end of the period	$ 6,994	$ 8,582	$ 6,994	$ 8,582

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

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 diversified global wireless technology company. Baylin focuses on research, design, development, manufacture and sales of passive and active radio frequency (“RF”) and satellite communications products, and supporting services. The Company’s products are marketed and sold under the brand names Galtronics, Advantech Wireless, Alga Microwave and Mitec VSAT. Baylin’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 six months ended June 30, 2022 have been prepared by management of Baylin and were authorized for issuance in accordance with a resolution of the board of directors passed on August 10, 2022.

NOTE 2: BASIS OF PREPARATION

The interim condensed consolidated financial statements for the three and six months ended June 30, 2022 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, 2021 (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, 2022 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, 2022 are as follows:

On May 14, 2020, the IASB issued amendments to IFRS 3 Business Combinations, which added an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

On May 14, 2020, the IASB issued amendments to IAS 16, Property, Plant and Equipment, which prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. An entity applies the amendments retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

On May 14, 2020, the IASB issued amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets, which provide guidance regarding the costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract and can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts.

On May 14, 2020, the IASB issued amendments to IFRS 9, Financial Instruments, which clarify which fees an entity includes when it applies the “10 per cent test” in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

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), which provide 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 periods beginning on or after 1 January 2023.

On 12 February 2021, the IASB issued 'Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)' with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements. The amendments are effective for annual periods beginning on or after 1 January 2023.

On 12 February 2021, the IASB issued 'Definition of Accounting Estimates (Amendments to IAS 8)' to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after 1 January 2023.

On May 7, 2021, the IASB issued amendments to IAS 12, Income Taxes, which clarifies the accounting related to deferred taxes related to assets and liabilities arising from a single transaction. It requires the recognition of both the current tax consequences of transactions and events and the future tax consequences of the future recovery or settlement of the carrying amount of an entity's assets and liabilities. Differences between the carrying amount and tax base of assets and liabilities, and carried forward tax losses and credits, are recognized, with limited exceptions, as deferred tax liabilities or deferred tax assets, with the latter also being subject to a 'probable profits' test. The amendments are effective for annual periods beginning on or after January 1, 2023.

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

NOTE 5: SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

Management regularly reviews and makes an assessment of the Company's ability to continue as a going concern. This assessment relies on significant judgments and assumptions, taking into account known future information, including whether events or conditions create material uncertainties that may cast significant doubt on the ability to continue as a going concern.

In assessing the Company's ability to continue as a going concern, management has a reasonable expectation that the Company will be able (i) to fund operating and debt service requirements for the next 12 months and (ii) to refinance the Revolving Facility and Term Loan when they mature on September 30, 2022.

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

There have been no other significant changes to the Company's critical accounting judgments, estimates and assumptions made since the annual financial reporting for the year ended December 31, 2021, except as discussed in Note 4. Impacts of the COVID-19 pandemic have been considered as of June 30, 2022 when assessing accounting judgments, estimates and assumptions.

NOTE 6: CREDIT FROM BANKS AND LOANS

Canada

On March 29, 2019, Baylin 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 in favour of the Company:

- a revolving facility (the "Revolving Facility") for up to $15,000; and
- a term facility ("Term Loan") for up to $27,061.

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 (as defined in the Credit Agreement) and is payable monthly in arrears, as set out in the Credit Agreement. The interest rate on the Revolving Facility (which is drawn in US dollars) was 7.75% as at June 30, 2022 and was 3.59% as at December 31, 2021. The interest rate on the standby fee on the undrawn portion of the Revolving Facility was 0.70% as at June 30, 2022 and December 31, 2021.

The Group may draw on its available revolving credit lines under the Revolving Facility, the China loan (defined below) and the Korea loan (defined below) as needed. As at June 30, 2022, the aggregate revolving credit facilities of the Group were approximately $18,669, of which $9,437 was drawn and utilized. As at December 31, 2021, the aggregate revolving credit facilities of the Group were approximately $18,966, of which $10,787 was drawn and utilized. As at June 30, 2022, $7,216 was outstanding under the Revolving Facility. (December 31, 2021 - $7,100).

The principal amount under the Term Loan was fully advanced in US dollars and was used to repay existing indebtedness. Quarterly principal payments in the amount of $966 commenced on June 30, 2019 with the scheduled interest payments for June 30 and September 30, 2021 being deferred with the consent of the Lenders. As at June 30, 2022, $16,352 was outstanding under the Term Loan (December 31, 2021 - $17,956). Effective March 29, 2022, the interest rate on the Credit Facilities changed to be based on the US Base Rate (as defined in the Credit Agreement) plus the applicable margin. Prior to March 29, 2022, the interest rate on the Term Loan was determined based on the LIBO Rate (as defined in the Credit Agreement) plus the applicable margin. Effective March 29, 2022, interest on the Term Loan is payable monthly in arrears. For the interest period ending June 30, 2022, the last period for which the LIBO Rate applied to the Term Loan, the interest rate on the Term Loan was 3.72% (for the period ending December 31, 2021 – 3.63%).

The Revolving Facility and Term Loan (together, the "Credit Facilities) mature on September 30, 2022.

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 of the swap on March 29, 2022. The interest rate swap contract was valued as a liability within current liabilities on the balance sheet of $482 at December 31, 2021. The fair value of the interest rate swap contract prior to its expiry was valued using a future LIBOR curve.

The Credit Facilities are guaranteed by Baylin's principal operating subsidiaries (other than those in Vietnam) and are secured by substantially all the assets of Baylin and the guarantors. The Credit Agreement includes certain financial covenants, including a Senior Debt to Equity Ratio and Fixed Charge Coverage Ratio (as defined in the Credit Agreement), calculated on a quarterly basis, minimum EBITDA (as defined in the Credit Agreement) and minimum Liquidity (as defined in the Credit Agreement). The Credit Agreement also includes other customary positive and negative covenants (including limitations on dispositions, additional debt, investments, financial assistance, distributions, capital expenditures and changes to the business), and events of default.

The Credit Agreement has previously been amended, most recently as of July 11, 2022. The effect of these amendments is that:

- the maturity date of the Credit Facilities was extended from March 29, 2022 to September 30, 2022;
- the Senior Debt to EBITDA Ratio and the minimum EBITDA covenant will not apply during the extension period;

- the Lenders will neither make nor maintain, and Company will no longer be entitled to have, any borrowings with an interest rate based on the LIBO Rate. Instead, the interest rate on the Credit Facilities will be based on the US Base Rate;
- for the quarters ending December 31, 2021 and following, the Fixed Coverage Ratio remained at 1.15:1.00 but with the 12-month calculation period for determining compliance with the ratio commencing on July 1, 2021 on a cumulative basis;
- the Company is required to maintain a minimum Liquidity of $7,500;
- the maximum availability under the Revolving Facility was reduced to $15,000;
- the rate of interest that would otherwise apply at any time the Senior Debt to EBITDA Ratio was equal to or more than 2.75:1.00 was increased by 0.25%; and
- the standby fee that would have applied at any time the Senior Debt to EBITDA Ratio was equal to or more than 2.75:1.00 was increased by 0.05%.

The amendments also included waivers of compliance with certain financial covenants for the quarters ended March 31 and June 30, 2021.

China

The Company's Chinese subsidiary has a Yuan equivalent $3,271 (December 31, 2021 - $3,540) short-term credit facility in United States Dollar currency equivalent with the Shanghai Pudong Development Bank ("SPD"). The loan interest rate is set between 3.10% and 3.60% plus the Chinese Central Bank lending rate based on the denomination and loan principal amount drawn. As at June 30, 2022, $2,221 was outstanding under this facility (as at December 31, 2021, $3,540).

Korea

The Company's Korean subsidiary has a South Korean Won equivalent $398 (December 31, 2021 - $426) short-term credit facility with the Shinhan Bank. The loan interest rate is set at 1.4% plus the Korean Central Bank lending rate. The credit facility is secured by an irrevocable letter of credit issued by Baylin to the lender in Korea. As at June 30, 2022, no amount was outstanding (as at December 31, 2021, $146).

Vietnam

On October 14, 2020, one of the Company's subsidiaries in Vietnam ("GTD") entered into a credit agreement (the "Vietnam Credit Agreement") with HSBC Bank (Vietnam) Ltd. ("HSBC Vietnam") pursuant to which HSBC Vietnam established a credit facility in favour of GTD for up to the Vietnamese Dong equivalent of $3,201 (December 31, 2021 - $3,214) (the "Vietnam Loan"). As at June 30, 2022, $2,482 was outstanding, and as at December 31, 2021, $3,115 was outstanding, under the Vietnam Loan. The interest rate on the Vietnam Loan is determined based on the base lending rate in Vietnam plus a margin of up to 2% and is payable semi-annually in arrears. The Vietnam Loan Agreement requires GTD to pay quarterly principal repayments commencing on March 1, 2022. The Company's other Vietnamese subsidiary ("GTV") is a guarantor of the Vietnam Loan. The Vietnam Loan is secured by certain assets of GTD and GTV. The Vietnam Credit Agreement contains certain financial covenants, for both GTD and GTV, including a Debt Service Coverage Ratio and a Tangible Net Worth Ratio (as defined in the Vietnam Credit Agreement). The Vietnam Credit Agreement also includes other customary covenants and events of default.

The Vietnam Loan required GTD and GTV to meet certain financial covenants. Effective March 11, 2022, the Vietnam Credit Agreement was amended (i) to change the maturity date of the Vietnam Loan from February 18, 2024 to August 18, 2022; (ii) to waive the financial covenants; and, (iii) to permit GTD to sell the equipment in the massive multiple-input multiple-output unit ("MMU") facility and apply the sales proceeds in repayment of the Vietnam Loan. Separately, Baylin has provided an unsecured guarantee for the remaining balance of the Vietnam Loan in favour of HSBC Vietnam. As part of the guarantee, HSBC Vietnam has agreed not to take steps to call the guarantee until September 30, 2022.

NOTE 7: 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 "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, each Subscription Receipt was converted into one common share. In connection with the Offering, 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.

The Debentures are convertible at the holder's option into common shares of Baylin 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").

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 receipt of any required 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.

Canadian dollars in thousands, except per share amounts

Upon a Change of Control (as defined in the Indenture) 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.

Following approval of the holders of Debentures on April 8, 2021 and of the shareholders of the Company on May 11, 2021, the Indenture was amended (the "Amendment") to reduce, for a period of 30 days, the Conversion Price from $3.85 to $1.11, the market price of the common shares at the time the Amendment become effective on May 19, 2021 determined in accordance with the Amendment (the "New Conversion Price"). The terms of the Debentures otherwise remained unchanged. As a result of the Amendment, holders of $12,135,000 principal amount of the Debentures converted their Debentures into 10,932,429 common shares of the Company at the New Conversion Price, leaving $5,115,000 of the Debentures outstanding. The 30-day period during which the New Conversion Price remained in effect ended on June 18, 2021, following which the Conversion Price reverted to $3.85.

During the six months ended June 30, 2022, no principal amount of the Debentures was converted.

	Debentures Principal	Debentures Fair Value
Balance as of January 1, 2022	$ 5,115	$ 4,859
Fair value adjustment		(141)
Balance as of June 30, 2022	$ 5,115	$ 4,718

	Debentures Principal	Debentures Fair Value
Balance as of January 1, 2021	$ 17,250	$ 14,178
Fair value adjustment		2,842
Conversion of convertible debentures to common shares	(12,135)	(12,135)
Balance as of June 30, 2021	$ 5,115	$ 4,885

NOTE 8: 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.

Canadian dollars in thousands, except per share amounts

NOTE 9: SHARE CAPITAL AND SHARE-BASED PAYMENTS

a. On August 13, 2020, the shareholders of the Company approved a new Omnibus Equity Incentive Plan (as amended and restated as of March 9, 2022, the “Omnibus Plan”). The Omnibus Plan permits the board of directors to grant a wide range of long-term incentive awards to participants. The awards include deferred share units (“DSUs”), which are for directors only, performance share units (“PSUs”), restricted share units (“RSUs”) and stock options. The Omnibus Plan replaced the separate Deferred Share Unit Plan (“DSU Plan”), Stock Option Plan and Employee Share Compensation Plan (“ESCP”). Awards granted after August 13, 2020 are governed by the Omnibus Plan. Awards granted before that date will continue to be governed by the plan under which they were granted. The number of common shares issuable under the Omnibus Plan, and any other security-based compensation arrangements, including the DSU Plan, Stock Option Plan and ESCP, may not exceed 10% of the number of common shares outstanding from time to time. However, the Omnibus Plan is an “evergreen plan”, meaning that any awards that are exercised or settled or terminated without being exercised or settled are available for subsequent grant and do not reduce the number of common shares available to be granted. There are also limitations on the number of common shares that may be issued to insiders.

b. The Company may settle DSUs, PSUs and RSUs in (i) common shares issued from treasury, (ii) common shares purchased in the market, (iii) 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 the Company, through a cashless exercise or by receiving a cash payment in lieu of shares.

c. Unless otherwise approved by the board of directors, eligible directors must elect to receive at least 50% and up to 100% of their annual retainers in DSUs or restricted common shares of Baylin. The DSUs and restricted common shares are issued on a monthly basis while the director serves as a board member and vest immediately. The DSUs are settled after the member ceases to be a director.

During the six months ended June 30, 2022 certain directors elected to receive a portion of their annual retainer in restricted common shares. The Company recorded $43 in share capital during the six months ended June 30, 2022, related to this election.

The following table lists the number of DSUs outstanding as at June 30, 2022 and 2021:

	Number of DSUs	Weighted average price
DSUs outstanding as at January 1, 2022	923,315	$ 1.45
DSUs granted during the six months ended June 30, 2022	182,038	$ 0.71
DSUs outstanding as at June 30, 2022	1,105,353	$ 1.33
DSUs outstanding as at January 1, 2021	583,106	$ 1.96
DSUs granted during the six months ended June 30, 2021	152,090	$ 1.25
DSUs settled during the six months ended June 30, 2021	(24,936)	$ 3.15
DSUs outstanding as at June 30, 2021	710,260	$ 1.65

Canadian dollars in thousands, except per share amounts

The Company recognized an expense of $130 in the six months ended June 30, 2022 and $191 in the six months ended June 30, 2021 within general and administrative expenses with regards to the DSU Plan. DSUs of $78 were settled in the six months ended June 30, 2021.

d. In the case of stock options, at the time of granting a stock option, the board of directors determines (i) the exercise price, being not less than the fair market value of the common shares, (ii) the vesting provisions, generally being 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 following table summarizes grants of stock options:

			Options as at June 30, 2022	
Stock option grant date	**Stock options granted**	**Vested**	**Exercised, expired, surrendered or cancelled**	**Net Outstanding**
Aug. 8, 2017	500,000	500,000	200,000	300,000
Jul. 11, 2018	197,500	81,200	185,000	12,500
Nov. 9, 2018	250,000	250,000	-	250,000
May 21, 2019	270,000	180,000	20,000	250,000
Nov. 23, 2020	150,000	50,000	-	150,000
Jun. 21, 2021	900,000	300,000	-	900,000
Aug. 23, 2021	75,000	-	-	75,000
Jan. 4, 2022	400,000	-	-	400,000
March 21, 2022	2,285,000	-	-	2,285,000
May 23, 2022	150,000	-	-	150,000
	5,177,500	1,361,200	405,000	4,772,500

			Options as at December 31, 2021	
Stock option grant date	**Stock options granted**	**Vested**	**Exercised, expired, surrendered or cancelled**	**Net Outstanding**
Mar. 30, 2017	685,000	456,666	685,000	-
Aug. 8, 2017	500,000	500,000	200,000	300,000
Mar. 10, 2018	30,000	20,000	30,000	-
May 17, 2018	275,000	181,666	275,000	-
May 22, 2018	25,000	5,000	25,000	-
Jul. 11, 2018	197,500	81,200	151,500	46,000
Nov. 9, 2018	250,000	250,000	-	250,000
Mar. 25, 2019	325,000	70,000	325,000	-
May 21, 2019	270,000	180,000	20,000	250,000
Aug. 16, 2019	60,000	40,000	60,000	-
Nov. 23, 2020	150,000	50,000	-	150,000
Jun. 21, 2021	900,000	-	-	900,000
Aug. 23, 2021	75,000	-	-	75,000
	3,742,500	1,834,532	1,771,500	1,971,000

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

Canadian dollars in thousands, except per share amounts

Stock option grant 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
Aug. 8, 2017	500,000	$ 2.00	48.69	1.55	5.0	$ 0.89
Jul. 11, 2018	197,500	$ 3.50	48.87	2.07	5.0	$ 1.36
Nov. 9, 2018	250,000	$ 3.84	48.29	2.48	5.0	$ 1.78
May 21, 2019	270,000	$ 3.57	47.88	1.65	5.0	$ 1.67
Nov. 23, 2020	150,000	$ 0.87	77.47	0.44	5.0	$ 0.55
Jun. 21, 2021	900,000	$ 1.05	86.46	0.97	5.0	$ 0.73
Aug. 23, 2021	75,000	$ 0.78	87.43	0.82	5.0	$ 0.49
Jan. 4, 2022	400,000	$ 0.86	86.28	1.39	5.0	$ 0.57
March 21, 2022	2,285,000	$ 0.79	77.90	2.18	5.0	$ 0.49
May 23, 2022	150,000	$ 0.59	66.20	2.70	5.0	$ 0.35
	5,177,500					

The Company recognized expenses related the Stock Option Plan during the six months ended June 30, 2022 in the amount of $487 as general and administrative expenses and $172 during the six months ended June 30, 2021.

e. On December 15, 2020, the Company completed a private placement of 6,666,700 Units (the "Units") at a price of $0.75 per Unit, each Unit comprised of one common share in the capital of Baylin and one-half of one common share purchase warrant (each whole warrant, a "Common Warrant"). Each Common Warrant was exercisable for one common share at an exercise price of $1.05 per common share. In connection with the private placement, the agents received a cash commission of $266 and 200,001 broker warrants ("Broker Warrants"). Each Broker Warrant entitles the holder to acquire one common share at an exercise price of $0.87 per common share with an exercise period of two years from the closing of the private placement and were valued at $51. On February 22, 2021, the Company exercised its right to accelerate the expiry date of the Common Warrants to 30 days after delivery of the notice. As of the expiry date, 3,175,450 of the 3,333,350 Common Warrants were exercised for proceeds of $3,333.

   The Company entered into an agency agreement dated September 1, 2021, as amended, with Paradigm Capital Inc. and Raymond James Ltd, as agents, in connection with a "best efforts" private placement financing (the "Private Placement") of a minimum of 11,765,000 common shares and up to a maximum of 17,648,000 common shares at a subscription price of $0.85 per common share. On September 1, 2021, the Company completed the first tranche of the Private Placement of 11,765,000 common shares resulting in proceeds to the Company of $10,000. On October 21, 2021, the Company completed the final tranche of the Private Placement of 5,883,000 common shares, resulting in proceeds to the Company of $5,000. The Company incurred $5-6 in issuance costs related to the Private Placement. All 17,648,000 common shares were purchased by insiders of the Company, with 2385796 Ontario Inc., the Company's largest shareholder, purchasing 17,225,192 common shares.

NOTE 10: 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 communications products, and a 19% interest in Advantech Wireless Research Inc. ("AWR"), a Canadian technology company that formerly designed terrestrial and satellite communications solutions for wireless broadband communication companies. For the six months ended June 30, 2022, transactions between the Company and GTC totaled $1,428, consisting primarily of R&D expenses related to the services agreements the Company has with GTC, and between the Company and AWR totaled nil. As at June 30, 2022, the Company was owed $876 from GTC and nil from AWR.

Canadian dollars in thousands, except per share amounts

For the six months ended June 30, 2021, transactions between the Company and GTC totaled $1,193 and between the Company and AWR totaled $1,798. As at December 31, 2021, the Company was owed $1,455 from GTC and was owed $22 by AWR.

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

	As of June 30, 2022			As of December 31, 2021		
	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total
Cash	$ 69	$ 24	$ 93	$ 145	$ 24	$ 169
Other current assets	34	(101)	(67)	28	1,355	1,383
Accounts receivables	1,689	59	1,748	1,688	3,598	5,286
Property, plant and equipment	2,622	-	2,622	2,740	218	2,958
Accounts payables and accrued liabilities	(4,255)	(52)	(4,307)	(4,143)	(4,657)	(8,800)
Net assets	$ 159	$ (70)	$ 89	$ 458	$ 538	$ 996
Share of equity method investment net assets (liability)	30	(13)	17	87	102	189
Unrecognized equity method losses	-	21	21	-	-	-
	$ 30	$ 8	$ 38	$ 87	$ 102	$ 189

	For the six months ended June 30, 2022			For the six months ended June 30, 2021		
	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total
Revenue	$ 1,440	$ -	$ 1,440	$ 1,296	$ 1,798	$ 3,094
Expenses	1,738	608	2,346	1,640	1,704	3,344
Net income (loss)	$ (298)	$ (608)	$ (906)	$ (344)	$ 94	$ (250)
Share of equity method investment net income (loss)	(57)	(116)	(173)	(65)	18	(47)
Unrecognized share of equity method investment net loss	-	21	21	48	-	48
	$ (57)	$ (95)	$ (152)	$ (17)	$ 18	$ 1

NOTE 11: 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 of DSUs under the Company's equity compensation plans 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.

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")) was 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.

SpaceBridge and certain of its affiliates acted as an agent for the Company. As at June 30, 2022, no balance was included in trades receivable or accounts payables and accrued liabilities related to the agent. As at December 31, 2021, $1,353 due to the Company was included in trade receivables and $1,172 due to the agent was included in accounts payable and accrued liabilities.

During the six months ended June 30, 2022, the Company did not recognize any amount related to the sale of goods to SpaceBridge for its affiliates. During the six months ended June 30, 2021, the Company recognized revenue in the amount of $86 related to the sale of goods to SpaceBridge.

The Company did not provide services to SpaceBridge or its affiliates during the six months ended June 30, 2022 or the six months ended June 30, 2021 and as of June 30, 2022, no balance was included within trade receivables and as of December 31, 2021, $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 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 SpaceBridge failed to contest the indemnity claim within the prescribed time period. After the payment, SpaceBridge filed an application for relief from forfeiture to have the sum returned to the escrow agent. The Company is opposing the application. No date has been set to hear the application.

The Company has filed statements of claim for certain other indemnity obligations of SpaceBridge pursuant to the terms of the Advantech Acquisition. The claims, in the aggregate, total approximately $5,596. SpaceBridge has filed statements of defence as well as statements of counterclaim. 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 June 2019, SpaceBridge 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 the subject of an appeal by the Company from a lower court ruling. In February 2021, the Ontario Court of Appeal found in favour of the Company, overturning the lower court's ruling and confirming that the Company is entitled to a right of set-off on the shares. On July 29, 2021, the Supreme Court of Canada denied (with costs) SpaceBridge's application for leave to appeal the judgment of the Court of Appeal.

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 provided by the Company following the Advantech Acquisitions and the Consulting Agreement. The claims include loss of business opportunities, improper use of SpaceBridge's books and records, unpaid rent on premise 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 by SpaceBridge under all claims is at least $7,165.

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 has been completed and oral discovery is to occur in the third quarter of 2022.

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 other than certain rent amounts.

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 six months ended June 30, 2022 no amount was recognized and the six months ended June 30, 2021, $39 was recognized in revenue for premises leased to a company partly owned by Michael Perelshtein, a former employee of Alga.

Legal Proceedings

In the third quarter of 2019, the former shareholders of Alga 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.

In December 2020, a former employee of Alga filed an application asserting he had been constructively dismissed and claiming damages of $543. The Company is opposing the application and has cross-claimed against the former employee. Alga has also made a separate claim against the employee and others, claiming damages for approximately $2 million, alleging, among other things, a conspiracy to damage Alga's business, wrongful interference with Alga's economic relations and breach of fiduciary duty. The defendants in the previous action have started a separate proceeding against Alga and others claiming the previous action is an abuse of procedure. These actions have now been joined in one proceeding. 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 Chairman of the board of directors, Mr. Royer is entitled an annual fee of $125. For the six months ended June 30, 2022, the Company paid Mr. Royer $63 in cash and no amount was paid for the six months ended June 30, 2021.

2385796 Ontario Inc. (the "Insider"), the Company's largest shareholder, purchased 17,225,192 common shares in the Private Placement. Mr. Royer exercises control and direction over investment decisions of the Insider.

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 stock option grants and cost of ESCP, EPP and RSUs.

d. Share-based payment for directors

   These amounts represent the costs of DSU grants.

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

Canadian dollars in thousands, except per share amounts

	For the three months ended June 30,		For the six months ended June 30,	
	2022	**2021**	**2022**	**2021**
Short-term benefits, pension and post-retirement benefits	1,431	1,443	$ 2,719	$ 2,616
Directors' remuneration	73	6	133	6
Share-based payment for executive management	328	75	487	172
Share-based payment for directors	61	68	130	113

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

NOTE 12: 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 June 30, 2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Convertible Debentures	$ 4,719	$ -	$ -	$ 4,719

	As at December 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
Convertible Debentures	$ 4,859	$ -	$ -	$ 4,859
Interest Rate Swap	$ -	$ 15	$ -	$ 15

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.

NOTE 13: REVENUES

Canadian dollars in thousands, except per share amounts

Revenues by geographic destination are as follows:

	For the three months ended June 30, 2022	For the three months ended June 30, 2021	For the six months ended June 30, 2022	For the six months ended June 30, 2021
Vietnam	$ 7,960	$ 5,261	$ 17,237	$ 13,644
United States of America	6,665	7,788	13,202	13,948
China	3,454	1,881	7,568	4,899
India	1,466	563	4,062	1,453
Thailand	2,078	963	3,441	1,910
South Korea	662	1,135	1,477	2,208
Canada	1,090	397	1,834	902
Sweden	1,376	504	2,516	732
Indonesia	1,718	390	2,527	710
Hungary	255	265	485	710
Taiwan	343	199	630	362
Philippines	7	278	161	452
Portugal	171	427	297	427
Brazil	63	-120	311	4
Israel	32	128	46	149
Singapore	15	62	25	168
Australia	282	161	350	257
France	-	164	359	186
Germany	41	70	206	121
Russia	-	166	25	202
Other	2,456	940	4,349	1,638
	$ 30,134	$ 21,622	$ 61,108	$ 45,082

NOTE 14: FINANCE INCOME AND EXPENSE

	For the three months ended June 30, 2022	For the three months ended June 30, 2021	For the six months ended June 30, 2022	For the six months ended June 30, 2021
Interest income	$ (3)	$ (2)	$ (6)	$ (3)
Interest expense	723	721	1,316	1,556
Interest cost on lease liabilities	164	172	332	346
Bank charge expense	18	20	35	40
Changes from foreign exchange rate changes	147	(350)	173	(464)
Finance expense, net	$ 1,049	$ 561	$ 1,850	$ 1,475