



BAYLIN TECHNOLOGIES INC.

CONSOLIDATED FINANCIAL STATEMENTS

AS AT DECEMBER 31, 2022

(Canadian dollars in thousands)

INDEX

	<u>Page</u>
Independent Auditor’s Report	3
Consolidated Statements of Financial Position	7
Consolidated Statements of Loss and Comprehensive Loss	8
Consolidated Statements of Changes in Equity	9
Consolidated Statements of Cash Flows	10
Notes to the Consolidated Financial Statements	11 - 56

Date of approval of consolidated financial statements: **March 8, 2023**

“Jeffrey C. Royer”

Jeffrey C. Royer

Chairman of the Board of Directors

“Leighton Carroll”

Leighton Carroll

Chief Executive Officer

“Dan Nohdomi”

Dan Nohdomi

Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Baylin Technologies Inc.

Opinion

We have audited the consolidated financial statements of Baylin Technologies Inc. (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Going Concern

The consolidated financial statements have been prepared on a going concern basis as discussed in note 4.

The Group has concluded that no material uncertainties exist which may cause significant doubt on its ability to continue as a going concern. Given management has applied judgement as to the Group's ability to (i) 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 29, 2023, the Group has included going concern as a significant judgement.

The going concern assumption is included as a key audit matter, given the high degree of subjectivity in judgements and assumptions made by the Group, when estimating future cash flows and assessing the Group's ability to execute its plans to refinance the debt maturing on September 29, 2023. These significant assumptions involve a high degree of estimation uncertainty and complexity. This has resulted in significant audit effort and a high degree of auditor judgement to assess the appropriateness of management's position.

How our audit addressed the Key Audit Matter

- Developed an understanding of management's plans for obtaining additional financing through discussions with management and review of correspondence with agents and evaluated the reasonableness of the plans and assumptions by obtaining supporting evidence.

- Assessed the cash flow requirements of the Group based on budgets and forecasts and evaluated the reasonableness of assumptions used in the cash flow forecast considering the Group's recent results of operations, including revenues, operating costs, and capital expenditures incurred.
- Evaluated management's ability to project future cash flows by comparing previous forecasts to actual results.
- Evaluated disclosures in the consolidated financial statements in accordance with IAS 1.

Valuation of Long-Lived Assets

Note 3: Significant Accounting Policies; and Note 12: Intangibles of the consolidated financial statements

The Group carries out an impairment test when events or changes in circumstances indicate that the carrying amount of an asset or cash generating unit ("CGU") may exceed its recoverable amount.

The Group performed impairment tests with assistance from an external valuation expert as a result of indicators of impairment on two of the CGU's. An impairment loss is recognized for the amount by which the CGU's carrying value exceeds its recoverable amount. To estimate the value in use of the CGU's, the Group used the discounted cash flow model based on a five-year projection period, together with a terminal value, which requires management to make significant estimates and assumptions related to the cash flow forecast, growth rate, and discount rate, based on historical results and industry data. During the year, the Group determined that the CGU's had recoverable amounts that exceeded carrying values and as such, no impairment was recognized.

We considered the valuation of long-lived assets to be a key audit matter due to the significant judgements made by management to determine the assumptions and estimates underlying the calculations of recoverable amount. Assessing the reasonableness of these assumptions, including the cash flow forecast, growth rate and the discount rate, required significant auditor judgement and increased audit effort, including the use of valuation specialists, as changes in these assumptions could have a significant impact on either value in use, the amount of any impairment charge, or both.

How our audit addressed the Key Audit Matter

- We evaluated management's ability to accurately project future cash flows from operations by comparing the Group's historical forecasts to actual results.
- We evaluated the reasonableness of the inputs used in management's cash flow forecasts by considering each of the CGU's historical revenue and results, industry growth, current customers, and the Group's backlog.
- We performed sensitivity analyses to evaluate changes in the recoverable amount of the CGU that would result from changes in the assumptions.
- We involved our valuation professionals with specialized skills and knowledge, who assisted in evaluating the appropriateness of the impairment valuation models and in particular, the discount rates used in the impairment assessment and specifically, evaluated the methodology employed by management in the determination of the discount rates used by management and compared the discount rates used by management against discount rate ranges that were independently developed using publicly available market data for comparable companies.

Other Information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Grand Lui.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
March 8, 2023
Toronto, Ontario

Baylin Technologies Inc.

Consolidated Statements of Financial Position

Canadian dollars in thousands

		December 31, 2022	December 31, 2021
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		\$ 7,379	\$ 19,674
Trade and other receivables	Note 6	20,294	20,232
Other current assets	Note 7	3,858	3,753
Assets held for sale		552	1,596
Inventories	Note 8	18,370	15,831
		<u>50,453</u>	<u>61,086</u>
NON-CURRENT ASSETS			
Property, plant and equipment	Note 9	10,344	12,491
Right of use assets	Note 10	9,114	9,771
Other long-term assets	Note 11	79	214
Equity method investment	Note 23	133	189
Intangibles	Note 12	4,261	9,282
		<u>23,931</u>	<u>31,947</u>
TOTAL ASSETS		<u><u>\$ 74,384</u></u>	<u><u>\$ 93,033</u></u>
LIABILITIES AND EQUITY (DEFICIENCY)			
CURRENT LIABILITIES			
Credit from banks	Note 14	\$ 12,688	\$ 10,787
Accounts payable and accrued liabilities	Note 15	29,963	28,573
Short-term portion of long-term loans	Note 14	16,232	21,072
Short-term portion of lease liability	Note 10	1,692	1,389
Convertible debentures	Note 16	4,604	4,859
Income tax payable	Note 20	326	31
		<u>65,505</u>	<u>66,711</u>
NON-CURRENT LIABILITIES			
Long-term portion of lease liability	Note 10	9,611	10,651
Employee benefit liabilities, net	Note 18	1,781	2,586
Deferred tax liabilities	Note 20	447	853
Other long-term liabilities		300	451
		<u>12,139</u>	<u>14,541</u>
TOTAL LIABILITIES		<u>77,644</u>	<u>81,252</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	Note 21	172,790	172,700
Share-based payment reserve	Note 22	5,525	4,240
Accumulated other comprehensive income		11,230	10,769
Accumulated deficit		(192,805)	(175,928)
TOTAL EQUITY (DEFICIENCY)		<u>(3,260)</u>	<u>11,781</u>
TOTAL LIABILITIES AND EQUITY (DEFICIENCY)		<u><u>\$ 74,384</u></u>	<u><u>\$ 93,033</u></u>

Commitments (Note 19), Related party transactions and litigation (Note 25), Subsequent events (Note 30)

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

Baylin Technologies Inc.

Consolidated Statements of Loss and Comprehensive Loss

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

		For the year ended December 31,	
		2022	2021
Revenues	Note 27	\$ 120,860	\$ 102,494
Cost of sales	Note 28	87,949	87,382
Gross profit		32,911	15,112
Operating expenses			
Selling and marketing expenses	Note 28	8,140	7,964
Research and development expenses	Note 28	13,280	13,682
General and administrative expenses	Note 28	23,933	22,370
Non-current asset impairment	Note 28	-	25,954
		45,353	69,970
Operating loss		(12,442)	(54,858)
Finance expense, net	Note 29	4,252	4,098
Investment (income) expense, net	Note 23	56	(70)
Fair value adjustments	Note 26	(256)	1,863
Loss before income taxes		(16,494)	(60,749)
Income tax expense	Note 20	383	6,671
Net loss		<u>\$ (16,877)</u>	<u>\$ (67,420)</u>
Items that may be reclassified to profit or loss			
Amount arising from translation of foreign operations, net of tax		(584)	476
Items that will not be reclassified to profit or loss			
Actuarial gain (loss), net of tax	Note 18	1,045	(492)
Other comprehensive income (loss) (net of tax effect)		<u>\$ 461</u>	<u>\$ (16)</u>
Total comprehensive loss		<u>\$ (16,416)</u>	<u>\$ (67,436)</u>
Basic and diluted net loss per share	Note 24	\$ (0.21)	\$ (1.09)
Weighted average shares outstanding	Note 24	80,165,063	61,844,708

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

Baylin Technologies Inc.

Consolidated Statements of Changes in Equity

Canadian dollars in thousands except number of shares outstanding

	Number of shares outstanding	Share capital	Share- based payment reserve	Accumulated deficit	Accumulated other comprehensive income	Total equity (deficiency)
Balance as of January 1, 2022	80,095,014	\$ 172,700	\$ 4,240	\$ (175,928)	\$ 10,769	\$ 11,781
Net loss	-	-	-	(16,877)	-	(16,877)
Other comprehensive loss	-	-	-	-	461	461
Share-based payment (note 22)	-	-	1,285	-	-	1,285
Share issuances (note 21)	209,961	90	-	-	-	90
Balance as of December 31, 2022	<u>80,304,975</u>	<u>\$ 172,790</u>	<u>\$ 5,525</u>	<u>\$ (192,258)</u>	<u>\$ 11,230</u>	<u>\$ (3,260)</u>

	Number of shares outstanding	Share capital	Share- based payment reserve	Accumulated deficit	Accumulated other comprehensive income	Total equity
Balance as of January 1, 2021	48,014,660	\$ 142,160	\$ 4,426	\$ (108,508)	\$ 10,785	\$ 48,863
Net loss	-	-	-	(67,420)	-	(67,420)
Other comprehensive income	-	-	-	-	(16)	(16)
Share-based payment (note 22)	-	250	(186)	-	-	64
Debenture conversion	10,932,429	11,650	-	-	-	11,650
Share issuances (note 21)	21,147,925	18,640	-	-	-	18,640
Balance as of December 31, 2021	<u>80,095,014</u>	<u>\$ 172,700</u>	<u>\$ 4,240</u>	<u>\$ (175,928)</u>	<u>\$ 10,769</u>	<u>\$ 11,781</u>

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

Baylin Technologies Inc.

Consolidated Financial Statements of Cash Flows

Canadian dollars in thousands, unless otherwise stated

	For the year ended December 31,	
	2022	2021
Cash flows from operating activities		
Net loss	\$ (16,877)	\$ (67,420)
Adjustments to reconcile net loss to net cash used in operating activities		
Share-based payment	1,375	434
Depreciation	5,446	5,866
Amortization	5,021	5,117
Finance expense, net	4,252	4,098
Loss (gain) from sale of property, plant and equipment	(19)	62
Inventory provision	-	4,426
Share of net income of equity method investment	56	(70)
Income tax expense (benefit)	383	6,671
Fair value adjustment	(256)	1,863
Impairment of non-current assets other than goodwill	-	10,132
Goodwill impairment	-	15,908
Unrealized foreign exchange loss (gain)	1,222	(1,757)
	17,480	52,750
Changes in asset and liability items		
Decrease (increase) in trade receivables	550	532
Decrease (increase) in other current assets	(154)	4,010
Decrease (increase) in inventories	(2,394)	(507)
(Decrease) increase in trade payables and other current liabilities	(646)	6,559
	(2,644)	10,594
Cash paid and received during the year for		
Interest paid, net	(2,757)	(2,511)
Taxes paid (received), net	(183)	(290)
	(2,940)	(2,801)
Net cash used in operating activities	(4,981)	(6,877)
Cash flows from investing activities		
Purchase of property, plant and equipment	\$ (1,759)	\$ (1,412)
Proceeds from sale of property, plant and equipment	20	-
Net cash used in investing activities	(1,739)	(1,412)
Cash flows from financing activities		
Cash received from share issuance	\$ -	\$ 18,271
Proceeds (repayment) from credit from banks and other long term loans	(1,054)	3,731
Repayment of term loan	(3,900)	(3,770)
Principal elements of lease payments	(1,641)	(1,375)
Net cash generated by (used in) financing activities	(6,595)	16,857
Exchange differences on balances of cash and cash equivalents	1,020	(99)
Increase (decrease) in cash and cash equivalents	\$ (12,295)	\$ 8,469
Cash and cash equivalents at the beginning of the period	19,674	11,205
Cash and cash equivalents at the end of the period	\$ 7,379	\$ 19,674

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

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

NOTE 1: NATURE OF OPERATIONS

Corporate information

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 focused on the research, design, development, manufacture, and sale of passive and active radio frequency (“RF”) products, satellite communications products, and supporting services. The Company’s products are marketed and sold under the brand names Galtronics and Advantech Wireless. The Company’s operations are conducted through subsidiaries. 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 consolidated financial statements of the Company for the year ended December 31, 2022 have been prepared by management and were authorized for issuance in accordance with a resolution of the board of directors on March 8, 2023.

NOTE 2: BASIS OF PREPARATION

The consolidated financial statements for the year ended December 31, 2022, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board and interpretations by the IFRS Interpretations Committee.

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been applied consistently in the consolidated financial statements for all periods presented, except as discussed in Note 5. The consolidated financial statements have been prepared on a historical cost basis, except for the measurement of the convertible debentures and interest rate swap, which are presented at fair value.

Consolidated financial statements

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

Subsidiaries are all those entities over which Baylin has control. Subsidiaries are fully consolidated from the date on which control is obtained by Baylin. They are de-consolidated from the date that control ceases.

Where Baylin loses control over a subsidiary, it derecognizes the assets, including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognized in equity. Baylin recognizes the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

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

The Group's composition is made of the following principal subsidiaries:

Name of entity	Country of incorporation or registration	Ownership interest held as at December 31, 2022	Ownership interest held as at December 31, 2021
Galtronics Israel	Israel	100%	100%
Galtronics USA	United States of America	100%	100%
Galtronics Wuxi	China	100%	100%
Galtronics Korea	Korea	100%	100%
Galtronics Vietnam	Vietnam	100%	100%
Advantech Wireless Technologies	Canada	100%	100%
Advantech Wireless Technologies (USA)	United States of America	100%	100%

The subsidiaries have share capital consisting solely of common or ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

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

Functional currency and foreign currency

a. Presentation currency

These consolidated financial statements have been prepared in Canadian Dollars ("CAD"), which is the presentation currency of the Company.

b. Functional currency

The Group determines the functional currency of each subsidiary, and this currency is used to separately measure each subsidiary's financial position and operating results. The functional currency of Baylin is CAD. The functional currency of each subsidiary is the currency of its respective country of incorporation or registration except Galtronics Israel whose functional currency is the United States Dollar ("USD").

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

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned or likely to occur in the foreseeable future and which in substance is considered a net investment in the foreign operation, are recognized in accumulated other comprehensive income within equity.

c. Foreign currency

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

Cash and cash equivalents

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

Inventories

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

Revenue recognition

The Company recognizes revenue in line with IFRS 15 Revenue from contracts with customers, which utilizes a single model for recognizing revenue from contracts with customers. Revenue is recognized in a manner that depicts the transfer of promised goods or services to the customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services.

For each contract with a customer, the Company applies the following five step model:

1. Identify the contract with a customer
2. Identify the performance obligation in the contract
3. Determine the transaction price which takes into account estimates of variable consideration and the time value of money
4. Allocate the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered
5. Recognize revenue when the performance obligation is satisfied and in a manner that depicts the transfer of the goods or services promised to the customer

Sales of goods and services rendered by the Company do not contain separate performance obligations. Revenue from the sale of goods is recognized at the point in time when the customer obtains control of the goods, which is

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

at the time of shipment or delivery depending on the agreed terms with the customer. Revenue from a contract to provide services is recognized over time as the services are rendered based on either a fixed price or an hourly rate.

Government grants

The Company recognizes government grants at fair value when there is reasonable assurance that the Company will comply with the conditions attached to the grants and the grant will be received. Forgivable loans from the government are treated as a government grant when there is reasonable assurance that the Company will meet the terms for forgiveness of the loan. The Government grant is recognized in cost of goods sold and operating expenses on a systematic basis over the periods that the Company recognizes the related expenses for which the grants are intended to compensate.

Income taxes

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

a. Current taxes

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

b. Deferred taxes

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

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

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

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

Leases

To determine whether a contract contains a lease, the Company applies the definition of a lease under IFRS 16, namely if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

The Company leases assets, including buildings, machinery and equipment, vehicles and office equipment. Under IFRS 16, the Company recognizes right of use assets and lease liabilities for all leases except where the Company has elected to use the practical expedient not to recognize right-of use assets and lease liabilities for low-value assets or short-term leases under one year that are not expected to renew. The Company has recognized low-value assets and short-term lease payments as an expense on a straight-line basis over the lease term. The Company has also elected to apply the practical expedient not to separate non-lease components from lease components for which the Company is the lessee and has accounted for the combined amounts as a single lease component.

The Company recognizes a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost of the lease liability, adjusted for lease prepayments and lease incentives, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. The Company has elected to use the practical expedient of excluding initial direct costs from the measurement of the right of use asset cost at the date of initial application.

The lease liability is initially measured at the present value of the lease payments remaining unpaid at the commencement date discounted using the interest rate implicit in the lease, or if not readily determinable, the Company's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or changes in assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Property, plant and equipment

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

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

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

	Useful Life in Years
Buildings (excluding land component)	25 – 50
Machinery and equipment	3 – 10
Motor vehicles	5 – 7
Office furniture, computers and peripheral equipment	3 – 20
Leasehold improvements	Shorter of lease term and expected life

The useful life, depreciation method and residual value of an asset are reviewed at least each year-end and any changes are accounted for prospectively as a change in accounting estimate. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. An asset is derecognized on disposal or when no further economic benefits are expected from its use. The gain or loss arising from the derecognition of the asset (determined as the difference between the net disposal proceeds and the carrying amount in the consolidated financial statements) is included in profit or loss when the asset is derecognized. Assets under construction are not amortized until they are available for use in the manner intended.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

Impairment of non-financial assets

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

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

Intangibles

Intangible assets are recognized at cost, which for intangible assets acquired in a business combination is their fair value at the acquisition date. Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is recognized on a straight-line basis over the estimated

useful life of the intangible assets. The estimated useful life is reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

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

	<u>Useful Life in Years</u>
Customer relationships	5
Brands and trade names	15
Proprietary knowledge	5
Non-compete agreements	5
Customer order backlog	1
Production development	5 - 10

Business combination

The acquisition method of accounting is used to account for business combinations. The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued, or liabilities incurred by the Company to former owners of the acquired entity. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Contingent consideration to be transferred by the acquirer is recognized at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognized

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired and liabilities assumed in the acquisition and the fair value of the consideration transferred is recognized as goodwill.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Goodwill

Goodwill is initially recognized at cost, being the excess of the purchase price of an acquired business over the estimated fair value of the tangible and intangible assets acquired and liabilities assumed at the date acquired and is allocated to the cash generating unit ("CGU") expected to benefit from the acquisition. A CGU is the smallest group of assets for which there are separately identifiable cash flows.

Subsequently, goodwill assets are not amortized but are assessed at the end of each reporting period for impairment and more frequently whenever events or circumstances indicate that their carrying value may not be fully recoverable. The annual impairment test requires comparing the carrying values of the Company's CGU, including goodwill, to their recoverable amounts. The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a

pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The Company determines the value in use using estimated future cash flows discounted at an after-tax rate that reflects the risk adjusted weighted-average cost of capital. Any excess of the carrying value amount of a CGU over the recoverable amount is expensed in the period the impairment is identified. An impairment loss recorded for goodwill is not reversed in a subsequent period. Upon disposal of a business, any related goodwill is included in the determination of gain or loss on disposal.

Financial instruments

The Company's financial assets and liabilities are classified and measured as follows:

Financial asset or financial liability	Classification and Measurement
Cash and cash equivalents	Amortized cost
Trade and other receivables	Amortized cost
Credit from banks	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Term Loan	Amortized cost
Swap Contract	Fair value through profit or loss
Convertible debentures	Fair value through profit or loss

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

The Company recognizes financial assets and financial liabilities when the Company becomes party to the contractual provisions of the financial instrument.

a. Classification of financial assets and financial liabilities

Financial assets

The Company classifies financial assets as subsequently measured at amortized cost, fair value through other comprehensive income ("FVTOCI") or fair value through profit or loss ("FVTPL") based on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

A financial asset is measured at amortized cost if the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on a specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is measured at FVTOCI if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company does not have financial assets classified as subsequently measured at FVTOCI.

A financial asset is measured at FVTPL if the financial assets is neither classified as amortized cost nor FVTOCI or can be designated FVTPL at initial recognition. The Company does not have financial assets classified as subsequently measured at FVTPL.

Financial liabilities

The Company classifies all financial liabilities as subsequently at amortized costs except for financial liabilities at FVTPL which include the convertible debentures, swap contracts and contingent consideration in a business combination or financial liabilities that have been designated FVTPL on initial recognition.

b. Initial recognition

Financial asset or financial liability classified as amortized cost are initially recognized by the Company at its fair value less transaction costs that are directly attributable to the acquisition of issuance of the financial assets or financial liability, except for transaction cost on financial assets or liability designed as FVTPL which are expensed. Trade receivables though, are initially recognized at their transaction price if the trade receivable does not contain a significant financing component.

c. Subsequent measurement

The Company will subsequently measure a financial instrument based on its classification. Financial assets and financial liabilities classified as subsequently measured at amortized cost will be measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance. The amortization of the effective interest is recognized in profit or loss. Financial assets at FVTOCI will have subsequently measured changes in fair value recognized in other comprehensive income. Transaction costs of financial liabilities classified as FVTPL are expensed as incurred.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

Gains and losses of financial assets and financial liabilities classified as subsequently measured at FVTPL are recognized in net profit and loss.

d. Derecognition of financial instruments

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

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

e. Impairment of financial asset

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

For financial assets classified at amortized cost, the Company, at each reporting date, measures the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses given the credit risk on the financial instrument has not increased significantly since initial recognition. The Company recognizes in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date. The Company has applied the simplified approach to measuring expected credit losses of trade receivables, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Fair value measurement

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

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

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

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

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Only convertible debentures (Note 16) were recognized and measured at fair value as at December 31, 2022 and convertible debentures and swap contracts (Note 14) as at December 31, 2021.

Provisions

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

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

Employee benefits liabilities

The Company has several employee benefits:

a. Short-term employee benefits

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

b. Post-employment benefits

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

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

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

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

c. Termination benefits

Employee termination benefits are recognized as an expense when the Group has committed, without realistic possibility of withdrawal, to terminate employees before the normal retirement date according to a detailed formal plan. Benefits to employees in respect of voluntary retirement are provided for when the Group has offered the employees a plan that encourages voluntary redundancy, it is expected that the offer will be accepted, and the number of respondents can be reliably measured. Re-measurement arising from defined benefit plans comprises of actuarial gains and losses which are recognized immediately in other comprehensive income (loss). The Group recognizes all other expenses related to the defined benefit plans, including past service costs, in employee benefits expenses in profit or loss.

Share-based payments

The cost of equity-settled transactions with employees are measured at the fair value of the equity instruments granted in exchange for the rendering of services on the grant date. The fair value is determined based on market prices if available, taking into account terms and conditions upon which the equity instruments are granted. If market prices are not available, an acceptable option pricing model is used to determine fair value.

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

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

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

The fair value of stock options and warrants are independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the relevant party to receive payment. No account is taken of any other vesting conditions.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

Loss per share

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

Research and development

Research and development costs are expensed except in cases where development costs meet the definition of an intangible asset and the recognition criteria for intangible assets as prescribed in IAS 38. Development costs are related to the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use. Development costs having a future benefit are recognized only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

An intangible asset arising from development should be recognized only if the Company can demonstrate all of the following:

1. the technical feasibility of completing the intangible asset so that it will be available for use or sale;
2. its intention to complete the intangible asset and use or sell it;
3. its ability to use or sell the intangible asset;
4. how the intangible asset will generate probable future economic benefits;
5. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
6. its ability to measure reliably the expenditure attributable to the intangible asset during its development

Development costs representing intangible assets are initially measured at cost and then amortized over their expected useful life. The Company reviews the amortization method and estimate of the useful life of an intangible asset at least annually.

An estimate of investment tax credits ("ITC") on scientific research and experimental development ("SRED") expenditures is recorded in the year the expenditures are incurred provided there is reasonable assurance that the ITC will be recovered or realized. The expenditures are reduced by the amount of the estimated investment tax credit. SRED ITCs include refundable and non-refundable tax credits. Refundable ITCs are refunded to the Company once assessed by the Canada Revenue Agency and Revenue Quebec, which is generally within a year from applying for the ITC. Unused non-refundable ITCs are carried forward to reduce taxes payable of future years and expire 20 years from the year they were granted.

Equity method investments

Investments in which the Company has significant influence, defined as the power to participate in the financial and operating policy decisions of the investee but not control or joint control of those policies, are accounted for using the equity method of accounting.

Under the equity method of accounting, the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

Dividends received or receivable from associates are recognized as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

Convertible debentures

The proceeds received on issuance of the Company's convertible debentures have been recorded as a liability. The convertible debentures contain more than one embedded derivative, and therefore the Company designated the entire hybrid contract as a financial liability at fair value through profit or loss. The Company values the convertible debentures using the fair value of the convertible debentures traded in an active market.

The convertible debentures are revalued each reporting period with changes in the fair value recorded through profit or loss. On conversion of the convertible debentures to common shares the value of the convertible option is taken into share capital.

NOTE 4: SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Operating segments

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

Impairment of non-financial assets

Impairment exists when the carrying amount of an asset exceeds its recoverable amount. In evaluating impairment, the Company determines recoverable amount based on value in use. The fair value of property plant and equipment and finite-life intangible assets is determined using the discounted cash flow ("DCF") approach for certain assets. The value in use of indefinite life intangibles and goodwill are based on estimated discounted future cash flows.

Discounted future cash flows include a number of estimates and assumptions surrounding assumed growth rates, number of years in discounted future cash flow models and the discount rate.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

The determination of CGUs or groups of CGUs for the purpose of impairment testing requires judgement.

Leases

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

Income taxes

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

Business combination

Management applies IFRS 3, Business Combinations, to account for business acquisitions. Significant judgement is required in identifying and determining the fair value of assets and liabilities acquired, including intangible assets and residual goodwill, if any.

Share-based payments

The Company generally utilizes the Black-Scholes option pricing model to determine the fair values of stock options and warrants. The Company uses significant judgement in the determination of the input variables in the Black-Scholes calculation, which include: risk free interest rate, expected stock price volatility, expected life, and expected dividend yield.

Deferred tax assets and liabilities

The Company makes significant judgements in interpreting tax rules and regulations when calculating deferred tax assets and liabilities. Judgement is used to evaluate whether a deferred tax asset can be recovered based on our assessment of existing tax laws, estimates of future profitability, and tax planning strategies.

Intercompany net investment

Long-term receivables or loans from the Company's foreign operations may have exchange gains and losses. Judgement is required to determine if the long-term loan or receivable form part of the Company's net investment in the foreign operation based on whether settlement is neither planned nor likely to occur in the foreseeable future. In this case exchange differences are recognized in other comprehensive income rather than net loss.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

Provision for impairment of inventories

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.

Going Concern

The Company regularly reviews and makes an assessment of its ability to continue as a going concern. This assessment relies on significant judgements 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 applied judgement as to the Company's ability, and has a reasonable expectation it 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, 2023.

NOTE 5: DISCLOSURES OF NEW STANDARDS ADOPTED AND PRIOR TO THEIR ADOPTION

New standards and amendments adopted

On May 14, 2020, the IASB issued amendments to IFRS 3 Business Combinations that added an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company did not have a business combination in the year, but the Company will adopt the amendment to be applied for future business combinations.

New standards and interpretations not yet adopted

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

The following new standard that has been issued but is not yet in effect and which is relevant to the Group:

On January 23, 2020, the IASB issued amendments to IAS 1 Presentation of Financial Statements to clarify the requirements for classifying liabilities as current or non-current. The amendments include specifying the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists and expectations about events after the balance sheet date are not relevant. The amendments are effective for annual reporting periods beginning on or after January 1, 2024. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements.

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

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

annual periods beginning on or after 1 January 2023. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements.

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 the standard on its consolidated financial statements.

NOTE 6: TRADE AND OTHER RECEIVABLES

The following comprise the balance of trade receivables, net:

	December 31,	
	2022	2021
Trade receivables, gross	\$ 20,526	\$ 20,562
Less: Allowance for doubtful accounts	(232)	(330)
Trade receivables, net	<u>\$ 20,294</u>	<u>\$ 20,232</u>

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

	2022	2021
Balance as at January 1	\$ 330	\$ 344
Allowance for doubtful accounts taken during the year	62	190
Receivables written off during the year as uncollectible	(163)	(180)
Effects of translation from changes in foreign exchange	3	(24)
Balance as at December 31	<u>\$ 232</u>	<u>\$ 330</u>

The following is the aging of trade receivables, net:

	December 31,	
	2022	2021
Current trade receivables, net	\$ 15,180	\$ 14,762
Past due but not impaired trade receivables, net		
under 30 days	3,761	2,447
30 - 60 days	489	708
60 - 90 days	5	177
over 90 days	859	2,138
Total trade receivables, net	<u>\$ 20,294</u>	<u>\$ 20,232</u>

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

The Company has recognized a loss of \$62 in profit or loss in respect of the expected credit losses for the year ended December 31, 2022 and \$190 for the year ended December 31, 2021.

NOTE 7: OTHER CURRENT ASSETS

The following comprise the balance of other current assets:

	December 31,	
	2022	2021
Due from government authorities	\$ 1,657	\$ 2,087
Advance to suppliers	277	303
Prepaid expenses	1,029	1,329
Other receivables	895	34
Total other current assets	<u>\$ 3,858</u>	<u>\$ 3,753</u>

NOTE 8: INVENTORIES

The following comprise the balance of inventories:

	December 31,	
	2022	2021
Raw materials	\$ 8,944	\$ 5,509
Work in progress	2,219	1,570
Finished good	7,207	8,752
Total inventory	<u>\$ 18,370</u>	<u>\$ 15,831</u>

The inventory reserve taken against inventory amounted to \$5,270 and \$6,858 as at December 31, 2022 and December 31, 2021 respectively. The release of inventory reserve taken to income was \$1,358 for the year ended December 31, 2022 and the inventory reserve expensed was \$3,195 for the year ended December 31, 2021.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

NOTE 9: PROPERTY, PLANT AND EQUIPMENT

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

	Land and building	Machinery and equipment	Motor Vehicles	Office furniture, computers, peripheral equipment	Leasehold improvement	Construction in progress	Total
Cost							
Balance as at January 1, 2022	\$ 7,782	\$ 26,253	\$ (3)	\$ 6,818	\$ 4,552	\$ 588	\$ 45,990
Additions	-	1,440	-	319	-	-	1,759
Transfers	(11)	636	-	-	11	(636)	-
Disposals	-	(3,636)	-	(600)	(107)	-	(4,343)
Effects of translation	(76)	457	3	49	152	48	633
Balance as at December 31, 2022	\$ 7,695	\$ 25,150	\$ -	\$ 6,586	\$ 4,608	\$ -	\$ 44,039
Accumulated depreciation							
Balance as at January 1, 2022	\$ 3,887	\$ 20,934	\$ 1	\$ 5,714	\$ 2,963	\$ -	\$ 33,499
Additions	349	2,246	-	899	498	-	3,992
Disposals	-	(3,611)	-	(600)	(105)	-	(4,316)
Effects of translation	(140)	529	(1)	24	108	-	520
Balance as at December 31, 2022	\$ 4,096	\$ 20,098	\$ -	\$ 6,037	\$ 3,464	\$ -	\$ 33,695
Carrying amount							
Balance as at December 31, 2022	\$ 3,599	\$ 5,052	\$ -	\$ 549	\$ 1,144	\$ -	\$ 10,344

	Land and building	Machinery and equipment	Motor Vehicles	Office furniture, computers, peripheral equipment	Leasehold improvement	Construction in progress	Total
Cost							
Balance as at January 1, 2021	\$ 7,545	\$ 26,323	\$ 40	\$ 6,737	\$ 4,503	\$ 8,002	\$ 53,150
Additions	69	445	-	174	79	645	1,412
Disposals	-	(75)	(9)	(82)	-	-	(166)
Impairments	-	(84)	-	(1)	-	(6,805)	(6,890)
Moved to assets held for sale	-	(297)	-	(4)	-	(1,239)	(1,540)
Effects of translation	168	(59)	(34)	(6)	(30)	(15)	24
Balance as at December 31, 2021	\$ 7,782	\$ 26,253	\$ (3)	\$ 6,818	\$ 4,552	\$ 588	\$ 45,990
Accumulated depreciation							
Balance as at January 1, 2021	\$ 3,581	\$ 18,607	\$ 22	\$ 4,812	\$ 2,470	\$ -	\$ 29,492
Additions	339	2,479	5	909	501	-	4,233
Disposals	-	(75)	(9)	(18)	-	-	(102)
Moved to assets held for sale	-	(52)	-	(3)	-	-	(55)
Effects of translation	(33)	(25)	(17)	14	(8)	-	(69)
Balance as at December 31, 2021	\$ 3,887	\$ 20,934	\$ 1	\$ 5,714	\$ 2,963	\$ -	\$ 33,499
Carrying amount							
Balance as at December 31, 2021	\$ 3,895	\$ 5,319	\$ (4)	\$ 1,104	\$ 1,589	\$ 588	\$ 12,491

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

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

	December 31,	
	2022	2021
China	\$ 2,288	\$ 2,767
Vietnam	3,539	5,150
Korea	915	1,223
Canada	1,971	2,056
United States of America	1,631	1,295
	<u>\$ 10,344</u>	<u>\$ 12,491</u>

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

	For the year ended December 31,	
	2022	2021
Cost of goods sold	\$ 2,548	\$ 2,875
Research and development	362	324
General and administrative	1,082	1,034
	<u>\$ 3,992</u>	<u>\$ 4,233</u>

The Company did not record an impairment charge of property, plant and equipment during the year ended December 31, 2022. The Company recorded an impairment charge of property, plant and equipment of \$6,890 during the year ended December 31, 2021. \$6,805 of the impairment charge was related to property, plant and equipment of the Company's subsidiary, Galtronics Vietnam Dai Dong.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

NOTE 10: LEASES

The balance sheet shows the following amounts related to right of use assets:

	Building	Equipment	Vehicles	Office furniture, computers	Total right of use asset
Cost					-
Balance as at January 1, 2022	\$ 14,294	\$ 418	\$ 131	\$ 185	\$ 15,028
Additions	528	19	-	10	557
Disposals	(267)	(21)	-	-	(288)
Effects of translation	520	5	2	(21)	506
Balance as at December 31, 2022	15,075	421	133	174	15,803
Accumulated depreciation					
Balance as at January 1, 2022	\$ 5,063	\$ 94	\$ 42	\$ 58	\$ 5,257
Additions	1,351	56	29	17	1,453
Disposals	(252)	(21)	-	-	(273)
Effects of translation	333	(35)	(29)	(17)	252
Balance as at December 31, 2022	6,495	94	42	58	6,689
Carrying amount					
Balance as at December 31, 2022	<u>\$ 8,580</u>	<u>\$ 327</u>	<u>\$ 91</u>	<u>\$ 116</u>	<u>\$ 9,114</u>
	Building	Equipment	Vehicles	Office furniture, computers	Total right of use asset
Cost					
Balance as at January 1, 2021	\$ 16,071	\$ 200	\$ 163	\$ 185	\$ 16,619
Additions	647	328	75	-	1,050
Disposals	(111)	(102)	(91)	-	(304)
Impairment	(2,302)	-	-	-	(2,302)
Effects of translation	(11)	(8)	(16)	-	(35)
Balance as at December 31, 2021	14,294	418	131	185	15,028
Accumulated depreciation					
Balance as at January 1, 2021	\$ 3,598	\$ 125	\$ 110	\$ 117	\$ 3,950
Additions	1,495	70	32	36	1,633
Disposals	111	102	91	-	304
Effects of translation	(141)	(203)	(191)	(95)	(630)
Balance as at December 31, 2021	5,063	94	42	58	5,257
Carrying amount					
Balance as at December 31, 2021	<u>\$ 9,231</u>	<u>\$ 324</u>	<u>\$ 89</u>	<u>\$ 127</u>	<u>\$ 9,771</u>

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

The balance sheet shows the following amounts related to lease liabilities:

	December 31, 2022	December 31, 2021
Short-term lease liability	\$ 1,692	\$ 1,389
Long-term lease liability	9,611	10,651
	<u>\$ 11,303</u>	<u>\$ 12,040</u>

The statement of loss shows the following amounts related to leases:

	For the year ended December 31, 2022	2021
Interest cost on lease liability	675	696
Expense related to short-term leases and leases of low value	20	33
Expense related to variable lease payments not included in lease liabilities	260	225

The total cash outflow for leases for the year ended December 31, 2022 was \$2,316 and for the year ended December 31, 2021 was \$2,071.

The Company recorded an impairment expense of \$2,302 during the year ended December 31, 2021. The impairment was related to a right of use asset leased by the Company's subsidiary, Galtronics Vietnam Dai Dong, as described in Note 12.

The Group leases buildings, equipment, computer and peripheral equipment and vehicles. Rental contracts are typically made for fixed periods between 1 year and 10 years but may have extension options.

Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximize operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercised only by the Group and not by the respective lessor. As at December 31, 2022, potential future cash outflows of \$9,078 (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

The Group did not provide residual value guarantees in relation to leases.

The Company subleased a portion of its facility in Quebec, Canada during the year ended December 31, 2021. Lease income of \$117 was recorded for the year ended December 31, 2021.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

NOTE 11: OTHER LONG-TERM ASSETS

The following comprise the balance of other long-term assets:

	December 31,	
	2022	2021
Deposits on capital expenditures	\$ 79	\$ 214
Total other long-term assets	<u>\$ 79</u>	<u>\$ 214</u>

NOTE 12: INTANGIBLES

The following comprise the balance of intangibles:

	Customer relationships	Brands and trade names	Proprietary knowledge	Non- compete agreements	Production development	Total
Cost						
Balance as at January 1, 2022	\$ 20,600	\$ 4,800	\$ 2,250	\$ 1,200	\$ -	\$ 28,850
Additions	-	-	-	-	-	-
Impairment	-	-	-	-	-	-
Balance as at December 31, 2022	\$ 20,600	\$ 4,800	\$ 2,250	\$ 1,200	\$ -	\$ 28,850
Accumulated amortization						
Balance as at January 1, 2022	15,492	1,231	1,820	1,025	-	19,568
Additions	4,120	320	416	165	-	5,021
Balance as at December 31, 2022	\$ 19,612	\$ 1,551	\$ 2,236	\$ 1,190	\$ -	\$ 24,589
Carrying amount						
Balance as at December 31, 2022	<u>\$ 988</u>	<u>\$ 3,249</u>	<u>\$ 14</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ 4,261</u>
	Customer relationships	Brands and trade names	Proprietary knowledge	Non- compete agreements	Production development	Total
Cost						
Balance as at January 1, 2021	\$ 20,600	\$ 4,800	\$ 2,250	\$ 1,200	\$ 846	\$ 29,696
Additions	-	-	-	-	94	\$ 94
Impairment	-	-	-	-	(940)	(940)
Balance as at December 31, 2021	\$ 20,600	\$ 4,800	\$ 2,250	\$ 1,200	\$ -	\$ 28,850
Accumulated amortization						
Balance as at January 1, 2021	11,372	910	1,459	710	-	14,451
Additions	4,120	321	361	315	-	5,117
Balance as at December 31, 2021	\$ 15,492	\$ 1,231	\$ 1,820	\$ 1,025	\$ -	\$ 19,568
Carrying amount						
Balance as at December 31, 2021	<u>\$ 5,108</u>	<u>\$ 3,569</u>	<u>\$ 430</u>	<u>\$ 175</u>	<u>\$ -</u>	<u>\$ 9,282</u>

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

Amortization of intangibles presented within General and Administrative expenses on the consolidated statement of loss was \$5,021 and \$5,117 during the years ended December 31, 2022 and 2021, respectively.

The Company performed an impairment analysis of its three CGUs, which are business operations, Asia Pacific CGU (essentially Galtronics Korea and Galtronics Vietnam), Satcom CGU (formerly known as the Advantech and Alga Group CGU) and Americas CGU (essentially Galtronics USA and Galtronics Wuxi), during the fourth quarter of 2022 as indicators of impairment were identified in Asia Pacific CGU and Satcom CGU. As a result of its analysis, the Company determined that the Americas CGU had a recoverable amount that exceeded its carrying value, and thus no impairment was recorded. As at December 31, 2022, the Company determined that the Satcom CGU had a recoverable amount that exceeded its carrying value. The Company recorded an impairment of its Satcom CGU during the second quarter of 2021 as discussed in Note 13.

Over the course of the COVID-19 pandemic, sales of the Company's customer's massive multiple-input multiple-output unit ("MMU"), part of APAC CGU, product softened considerably, leading the Company to assess the long-term options for its dedicated MMU facility in Vietnam. The Company concluded that the facility will not enter production for its intended purpose and decided to liquidate the assets of the facility and apply the sales proceeds to repayment of the Vietnam Loan. In conducting its impairment analysis, the Company determined that the MMU facility and assets would only be generating cash flows on sale at the liquidation price. The MMU facility and assets were valued at fair value less costs of disposal assuming an orderly liquidation and are categorized as Level 3 within the fair value hierarchy.

During the year ended December 31, 2021, the Company determined that the carrying value of the MMU assets exceeded its recoverable amount by \$10,046. Thus, the Company recorded an aggregate impairment expense of \$10,046, consisting of \$940 impairment of intangible assets, \$2,301 impairment of right of use assets and \$6,805 impairment of fixed assets. Fixed assets of \$1,596 were classified as assets held for sale related to MMU assets during the year ended December 31, 2021. \$552 of assets were held for sale as at December 31, 2022.

As at December 31, 2022, the Company determined that the Asia Pacific CGU had a recoverable amount that exceeded its carrying value.

Sensitivity

Management have made judgements and estimates in respect of impairment testing. Should these judgements and estimates not occur the resulting carrying amounts of assets may decrease. The sensitivities during the forecast period, including the terminal year for the discounted cashflows which would result in an carrying amount above recoverable amount assuming all other assumptions remain the same are as follows:

<u>Key Assumption</u>	<u>Satcom CGU</u>	<u>APAC CGU</u>
Revenue decline	2.1%	0.6%
Gross Margin decline	0.9%	0.2%
Discount rate increase	1.3%	0.8%

Management believes that other reasonable changes in the key assumptions on which the recoverable amounts are based would not cause the CGUs carrying amounts to exceed their recoverable amounts.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

NOTE 13: GOODWILL

During the year ended December 31, 2021, the COVID-19 pandemic caused a reduction in sales volumes, delayed project deployment and delayed expected growth of the Company. It also caused uncertainty in predicting the future impact of the virus on the Satcom CGU and the timing of recovery of its financial performance that management believed it was capable of achieving. This uncertainty had a negative impact on the impairment analysis and judgment was applied in developing the key assumptions. Based on the impairment analysis performed, the Company concluded the recoverable amount of the Satcom CGU, which has been determined by a value-in-use calculation using a discounted cash flow model for the Satcom CGU, is less than the carrying value, resulting in a goodwill impairment charge. The Company recorded an impairment expense of \$15,908 during the year ended December 31, 2021 within operating expenses bringing the balance of Goodwill to nil.

The Company performed an impairment test analysis during the second quarter of 2021 as indicators of impairment were identified during the period. The recoverable amount of the Company's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 5-year projection period, together with a terminal value. Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the discounted cash flow model for the Satcom CGU for 2021:

- i. 19.1% pre-tax discount rate;
- ii. 14.0% per annum growth rate for year 1;
- iii. 15.0% per annum growth rate for years 2 and 3;
- iv. 10.0% per annum growth rate for year 4;
- v. 5.0% per annum growth rate for year 5; and
- vi. 2.0% per annum growth rate for year 6 and subsequent to year 6.

The pre-tax discount rate reflected management's estimate of the time value of money and the Company's weighted average cost of capital adjusted for the Satcom CGU, the risk-free rate and the volatility of the Company's share price relative to market movements. Management believed the projected growth rate for Satcom was prudent and justified, based on the growth in the wireless technology market, inflation rate and efforts by the consolidated entity to contain costs.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

NOTE 14: CREDIT FROM BANKS AND LOANS

The following comprise the balance of credit from banks:

	As at December 31,	
	2022	2021
Revolving Facility	\$ 8,957	\$ 7,100
Chinese Yuan Facility	-	998
Chinese USD Facility	3,386	2,544
Korean Won Facility	345	145
	<u>\$ 12,688</u>	<u>\$ 10,787</u>

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 \$28,442

The Revolving Facility and Term Loan are referred to as the “Credit Facilities”.

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 10.50% as at December 31, 2022 and 3.59% as at December 31, 2021. Effective March 29, 2022, the basis for determining the interest rate charged on the Revolving Facility changed – see below. The interest rate on the standby fee on the undrawn portion of the Revolving Facility was 0.70% as at December 31, 2022 and December 31, 2021.

The Group may draw on its available revolving credit lines under the Revolving Facility, the China loan (described below) and the Korea loan (described below) as needed. As at December 31, 2022, the aggregate revolving credit facilities of the Group were approximately \$18,768, of which \$12,688 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 December 31, 2022, \$8,957 was outstanding, and as at December 31, 2021, \$7,100 was outstanding, under the Revolving Facility.

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 \$1,016 commenced on June 30, 2019 with the scheduled interest payments for June 30, 2020 and September 30, 2020 being deferred with the consent of the Lenders. The interest rate on the Term Loan was determined based on the LIBO Rate (as defined in the Credit Agreement) plus the applicable margin and the Company’s senior debt to EBITDA Ratio (as defined in the Credit Agreement) and was payable quarterly in arrears. As at December 31, 2022, the interest rate on the Term Loan was

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

10.50% (December 31, 2021 - 3.63%). As at December 31, 2022, \$15,241 was outstanding under the Term Loan and \$17,956 was outstanding as at December 31, 2021.

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. The interest rate swap contract was valued as a liability within other long-term liabilities on the balance sheet of nil on December 31, 2022 and \$15 as at December 31, 2021. The fair value of the interest rate swap contract 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 included 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 September 14, 2022. The effect of these amendments is that:

- the maturity date of the Credit Facilities is September 29, 2023;
- the interest rate on the Credit Facilities is based on the US Base Rate (as defined in the Credit Agreement);
- the Senior Debt to EBITDA Ratio and Fixed Charge Coverage Ratio does not apply during the remaining term of the Credit Facilities;
- the Company is required to maintain a minimum Liquidity of \$7,500 until December 31, 2022 and \$4,000 thereafter;
- the Company is required to maintain a minimum EBITDA for the twelve months ending September 30, 2022, December 31, 2022, March 31, 2023 and June 30, 2023;
- the maximum availability under the Revolving Facility is \$15,000; and,
- at any time the Senior Debt to EBITDA Ratio is equal to or more than 2.75:1.00, the margin on US Base Rate loans is 2.50% and the standby fee is 0.70%.

China

The Company's Chinese subsidiary has a multiple tranche short-term credit facility with the Shanghai Pudong Development Bank. The facility is available to be drawn in Chinese Yuan or United States Dollars and is secured by the subsidiary's building. The amount drawn under the facility was \$3,698 at December 31, 2022 (\$3,542 at December 31, 2021). The loan interest rate is set between 1.60% and 5.30% plus the Chinese Central Bank lending rate based on the denomination and loan principal amount drawn. As at December 31, 2022 and 2021, the full balance was outstanding under this facility.

Korea

The Company's Korean subsidiary has a \$431 (December 31, 2021 - \$426) short-term credit facility with the Shinhan Bank in South Korean Won currency equivalent. The loan interest rate is set at 1.4% plus the Korean

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

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 December 31, 2022, \$345 was outstanding under this facility (December 31, 2021 – \$145).

Vietnam

Galtronics Vietnam Dai Dong Company Limited (“GTD”), one of the Company’s subsidiaries in Vietnam, and HSBC Bank (Vietnam) Ltd. (“HSBC Vietnam”), are parties to a credit agreement dated October 14, 2020, as amended (the “Vietnam Credit Agreement”), pursuant to which HSBC Vietnam established a credit facility in favour of GTD for up to \$3,313 (December 31, 2021 - \$3,214) in Vietnamese Dong currency equivalent (the “Vietnam Loan”). As at December 31, 2022, \$891 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 the interest is payable semi-annually in arrears. The Vietnam Loan matures on August 18, 2023. It is repayable in four equal quarterly amounts, of which there are two payments of \$300 remaining due on May 18, 2023 and on maturity. The Company’s other Vietnamese subsidiary, Galtronics Vietnam Co., Ltd. (“GTV”), is a guarantor of the Vietnam Loan. The Vietnam Loan is secured by certain assets of GTD and GTV. The Vietnam Credit Agreement includes customary covenants and events of default. Baylin is a guarantor of the Vietnam Loan.

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

	Cash and cash equivalents	Credit from banks	Long Term loans	Convertible Debentures	Total
Net debt as at January 1, 2021	\$ 11,205	\$ (10,129)	\$ (21,757)	\$ (14,178)	\$ (34,859)
Cash flows	(9,703)	(633)	672	-	(9,664)
Share issuance	18,271	-	-	-	18,271
Debenture conversion	-	-	-	11,650	11,650
Foreign exchange and other adjustments	(99)	(25)	13	(2,331)	(2,442)
Net debt as at December 31, 2021	\$ 19,674	\$ (10,787)	\$ (21,072)	\$ (4,859)	\$ (17,044)
Cash flows	(13,315)	(1,194)	6,148	-	(8,361)
Share issuance	-	-	-	-	-
Foreign exchange and other adjustments	1,020	(707)	(1,308)	255	(740)
Net debt as at December 31, 2022	<u>\$ 7,379</u>	<u>\$ (12,688)</u>	<u>\$ (16,232)</u>	<u>\$ (4,604)</u>	<u>\$ (26,145)</u>

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

NOTE 15: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	December 31,	
	2022	2021
Trade payables	\$ 18,552	\$ 20,220
Employee payroll and short-term benefits	2,791	1,425
Accrued expenses	2,684	4,588
Advance from customers	5,434	1,561
Other	502	779
Total accounts payables and accrued liabilities	<u>\$ 29,963</u>	<u>\$ 28,573</u>

NOTE 16: CONVERTIBLE DEBENTURES

On July 10, 2018, the Company issued \$17,250 of extendible convertible unsecured debentures (the “Debentures”). The Debentures bear interest at a rate of 6.5% per annum, payable semi-annually in arrears on June 30 and December 31 of each year and mature on July 10, 2023 (the “Maturity Date”).

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) the 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 the convertible debenture indenture dated July 10, 2018 (the “Indenture”).

The Company may, at its option, subject to receipt of any required regulatory approvals, elect to satisfy its obligation to repay the principal amount of the Debentures 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 40 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 (which will be calculated based on the 20 consecutive trading days ending five trading days before the Maturity Date). Current Market Price means the volume-weighted average trading price of the common shares on the Toronto Stock Exchange for the 20 consecutive trading days ending five trading days preceding the applicable date.

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 became 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 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 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.

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.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

During the year ended December 31, 2022, \$332 of interest was paid in cash and during the year ended December 31, 2021, \$693 of interest was paid in cash. During the year ended December 31, 2021, \$12,135 principal amount of Debentures were converted, and none were converted in the year ended December 31, 2022.

	<u>Debentures Principal</u>	<u>Debentures Fair Value</u>
Balance as at January 1, 2021	\$ 17,250	\$ 14,178
Debenture conversion (Note 21)	(12,135)	(11,650)
Fair value adjustment		2,331
	<u>5,115</u>	<u>2,331</u>
Balance as of December 31, 2021	\$ 5,115	\$ 4,859
Fair value adjustment		(255)
	<u>5,115</u>	<u>4,604</u>
Balance as of December 31, 2022	<u>\$ 5,115</u>	<u>\$ 4,604</u>

NOTE 17: FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

	December 31, 2022	2021
Financial assets		
Cash and cash equivalents	\$ 7,379	\$ 19,674
Trade and other receivables	20,294	20,232
	<u>\$ 27,673</u>	<u>\$ 39,906</u>
Financial liabilities		
Credit from banks	12,688	10,787
Accounts payable and accrued liabilities	29,963	28,573
Term Loan	16,232	21,072
Convertible debentures	4,604	4,859
Interest rate swap	-	15
	<u>\$ 63,487</u>	<u>\$ 65,306</u>

The carrying amount of cash and cash equivalents, trade receivables and other receivables, credit from banks, accounts payables, accrued liabilities and term loan approximates their fair value. The convertible debentures and interest rate swap are carried at their fair value.

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

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

Market risk

a. Foreign exchange risk

A portion of the Group's transactions are denominated in currencies other than the functional currency of the respective subsidiary. As a result, the Group is exposed to currency risk on these transactions. The Company's objective in managing its currency risk is to minimize its exposure to currencies other than its functional currency. Gains and losses are primarily derived from changes in the Canadian dollar exchange rate in relation to the U.S. dollar.

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

	December 31,	
	2022	2021
Gain (loss) from change in U.S. dollar exchange rate:		
5% increase in exchange rate	\$ 840	\$ 806
5% decrease in exchange rate	\$ (840)	\$ (806)

b. Interest rate risk

The Company has exposure to interest rate risks on credit from banks with variable interest rate. The Company manages its exposure to this risk by monitoring the respective mix of fixed and floating rate debt and by taking action as necessary to maintain an appropriate balance considering current market conditions. The impact on future interest expenses as a results of future changes in interest rates will depend largely on the amount of our borrowings at the time.

Credit risk

A significant portion of products are sold to a limited number of major customers located primarily in North America and Asia. The top three customers in any given year may not be the same top three customers in a previous or subsequent year. The loss of, or a significant reduction in, orders from one or more major customers would adversely affect the Company's business, results of operations and financial condition. In particular, the Company received 34% and 37% of revenue, directly and indirectly, from the Company's largest customer and its subcontractors for the years ended December 31, 2022 and December 31, 2021, respectively. The Company's strategy in managing this risk is to diversify its customer base by expanding its product portfolio and enhancing its sales and marketing efforts.

Below are the Company's top three customers including their subcontractors based on sales value:

	For the year ended December 31,	
	2022	2021
Customer A	34%	37%
Customer B	7%	7%
Customer C	6%	3%

The Company and its subsidiaries typically extend 30-90 day credit terms to their customers and regularly monitor the credit extended to such customers and their general financial condition but do not require collateral as security

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

for these receivables. The Group provides an allowance for expected credit losses based on the factors that affect the credit risk of certain customers, past experience and other information during the year.

Liquidity risk

The Group monitors its liquidity risk through the use of quarterly budgets, weekly cash flow projections, and close monitoring of accounts receivable balances, inventory build and payment of suppliers. The objective is to maintain sufficient liquidity in its operating entities through a combination of cash on hand, borrowings under Credit Facilities, and generating operating cash flow. The Group also regularly monitors the amounts owing to Galtronics Wuxi by other subsidiaries to ensure compliance with China's State of Administration of Foreign Exchange requirement.

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

December 31, 2022			
	Less than one year	Over one year	Total
Credit from banks	\$ 12,688	\$ -	\$ 12,688
Accounts payable and accrued liabilities	29,963	-	29,963
Lease liabilities	1,692	9,611	11,303
Term loan	16,232	-	16,232
Convertible debentures	5,115	-	5,115

December 31, 2021			
	Less than one year	Over one year	Total
Credit from banks	\$ 10,787	\$ -	\$ 10,787
Accounts payable and accrued liabilities	28,573	-	28,573
Lease liabilities	1,389	14,699	16,088
Term loan	21,072	-	21,072
Convertible debentures	-	5,115	5,115

NOTE 18: EMPLOYEE BENEFIT ASSETS AND LIABILITIES

The Group accounts for the 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 applicable Group company 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 Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

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

	December 31,	
	2022	2021
Balance as at January 1	\$ 2,586	\$ 2,314
Amount recognized in net loss:		
Interest expense	71	52
Current service cost	293	281
	364	333
Amounts recognized in Other Comprehensive Income:		
Experience loss (gain) adjustments	(1,050)	336
Actuarial losses from changes in financial assumptions	5	156
	(1,045)	492
Benefits paid by the plan	(166)	(347)
Effect of movement in exchange rates	42	(206)
Balance as at December 31	\$ 1,781	\$ 2,586

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

	December 31,	
	2022	2021
Discount rate	5.83%	3.28%
Future salary increases	2.00%	5.00%

c. Sensitivity analysis of underlying assumptions

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

	December 31,	
	2022	2021
Change in discount rate		
+1%	\$ (109)	\$ (244)
-1%	125	286
Future salary increases		
+1%	\$ 129	\$ 278
-1%	(114)	(242)

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

NOTE 19: COMMITMENTS

Capital Expenditures

Significant capital expenditures contracted as of December 31, 2022 but not recognized as liabilities for property, plant and equipment were \$201 (December 31, 2021 - \$336).

Limitations on dividend distribution from Galtronics Wuxi

In accordance with applicable Chinese laws, Galtronics Wuxi is only permitted to distribute up to 90% of its after-tax earnings. As of December 31, 2022, amounts restricted from distribution, which constitute 10% of Galtronics Wuxi's retained earnings, amounted to approximately \$1,125 and was \$469 as of December 31, 2021.

NOTE 20: INCOME TAXES

Income tax expense included in profit or loss:

	For the year ended December 31,	
	2022	2021
Current income tax expense, net	\$ 670	\$ 221
Deferred tax expense (recovery), net	\$ (287)	\$ 6,450
	<u>\$ 383</u>	<u>\$ 6,671</u>

The Company is subject to tax rates applicable in Canada. The combined federal and provincial rate for 2022 and 2021 is 26.5%. The Company's subsidiaries are in tax jurisdictions that have tax rates ranging from 15% to 27% (15% to 27% in 2021).

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

	For the year ended December 31,	
	2022	2021
Loss before income taxes	\$ (16,494)	\$ (60,749)
Statutory tax rate in Canada	26.5%	26.5%
Tax recovery computed at the statutory tax rate	\$ (4,371)	\$ (16,098)
Increase (decrease) in taxes on income resulting from the following factors:		
Non-deductible expenses	356	2,390
Tax exemption	(80)	(400)
Utilization of prior period unrecognized losses	(681)	-
Deferred tax assets not recognized	4,681	20,698
Effect of different tax rates of subsidiaries	(644)	1,091
Taxes in respect of previous years	(110)	(1,302)
Withholding tax	1,070	338
Other	162	(46)
Taxes expense (recovery) on income	<u>\$ 383</u>	<u>\$ 6,671</u>

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

Recognized deferred tax liabilities

	For the year ended December 31,	
	2022	2021
Carry forward tax losses	-	(55)
Tax credits	858	-
Inventories	(29)	-
Property plant and equipment	(373)	4
Right of use assets	(3)	-
Intangibles	-	904
Current liabilities	(26)	-
Other	20	-
Net deferred tax liability	<u>\$ 447</u>	<u>\$ 853</u>

All deferred tax movements were recognized to profit and loss except for currency translation which was recognized to other comprehensive income.

Unrecognized deferred tax assets

The group has additional deferred tax assets relating to carry-forward losses and other temporary differences which have not been recognized because the recovery of the deferred tax assets in the foreseeable future is not probable.

The Group had the following carry-forward losses:

			For the year ended December 31,	
Region	Expiry		2022	2021
Canada - operating	Between 2029 and 2042	\$	57,220	\$ 48,763
Israel - operating	No expiry		31,171	33,171
Israel - capital	No expiry		13,931	14,824
Korea - operating	Between 2023 and 2031		17,324	18,580
China - operating			-	3,817
USA - operating	No expiry		15,025	9,973
Vietnam - operating	Between 2024 and 2027		14,738	11,118
Other - operating	Various		2,265	2,191
		\$	<u>151,674</u>	<u>\$ 142,437</u>

The Company had other unrecognized deferred tax related to timing differences of \$12,909 as at December 31, 2022 and \$8,889 as at December 31, 2021.

The Company has recognized non-refundable investment tax credits not yet utilized of nil as of December 31, 2022 and \$661 as of December 31, 2021.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

Amounts recognized directly in other comprehensive income

The Company had the following amounts recognized in other comprehensive income:

	December 31,	
	2022	2021
Effects of foreign currency translation		
Income tax	\$ (134)	\$ 1
Deferred tax	(177)	40
Balance as at Year	<u>\$ (311)</u>	<u>\$ 41</u>

NOTE 21: SHARE CAPITAL

Authorized share capital

The company is authorized to issue the following share capital:

- An unlimited number of preferred shares
- An unlimited number of common shares

Movement in share capital

Included in the movement in share capital are the following:

On February 22, 2021, the Company gave notice that it had elected to exercise its right to accelerate the expiry date of previously issued common share purchase warrants. As of the expiry date, 3,175,450 of the 3,333,350 common warrants were exercised for proceeds of \$3,333. Any unexercised warrants were cancelled.

The Company entered into an agency agreement dated September 1, 2021, as amended, with Paradigm Capital Inc. and Raymond James Ltd, as agents (collectively, the “Agents”), in connection with a “best efforts” private placement financing (the “Private Placement”) of a minimum of 11,765,000 common shares and 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 \$506 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.

During the year ended December 31, 2021, \$12,135 principal amount of Debentures were converted to 10,932,429 common shares.

During the year ended December 31, 2022, 209,961 shares were issued having a value of \$90 to certain members of the Company’s Board of Directors as part of their compensation.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

The following table lists the share capital issued and outstanding:

	Number of shares issued and outstanding	Share capital
Balance as at January 1, 2021	48,014,660	\$ 142,160
Issued during 2021, net of share issue costs	32,080,354	30,540
Balance as at December 31, 2021	80,095,014	\$ 172,700
Issued during 2022, net of share issue costs	209,961	90
Balance as at December 31, 2022	<u>80,304,975</u>	<u>\$ 172,790</u>

Capital management

The Company's capital management objectives are:

- To preserve the Group's ability to ensure business continuity, thereby creating a return for the shareholders, investors and other interested parties.
- To ensure adequate return for the shareholders by pricing of products and services that is adjusted to the level of risk in the Group's business activity.
- To maintain healthy capital ratios in order to support business activity and maximize shareholder value. In managing the capital structure, the Company takes into consideration various factors, including the growth of the business and related infrastructure and the up-front cost of taking on new customers. The Company's officers and senior management are responsible for managing the capital and do so through monthly meetings and regular review of financial information. The board of directors is responsible for overseeing this process. The Company manages capital to ensure that there are adequate capital resources while maximizing the return to shareholders through the optimization of the cash flows from operations and capital transactions. There has been no change in capital management during 2022.

NOTE 22: SHARE-BASED PAYMENTS

- On August 13, 2020, the shareholders of the Company approved a new Omnibus Equity Incentive Plan (as amended and restated, 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.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

- 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.

The following table lists the number of DSUs outstanding as at December 31, 2022 and 2021:

	Number of DSUs	Weighted average price
DSUs outstanding at January 1, 2021	583,106	\$ 1.96
DSUs granted during 2021	370,144	\$ 1.00
DSUs redeemed during 2021	<u>(29,935)</u>	<u>\$ 3.15</u>
DSUs outstanding at December 31, 2021	923,315	\$ 1.45
DSUs granted during 2022	<u>614,199</u>	<u>\$ 0.43</u>
DSUs outstanding at December 31, 2022	<u><u>1,537,514</u></u>	<u><u>\$ 1.04</u></u>

The Company recognized an expense of \$266 in the year ended December 31, 2022 and \$368 in the year ended December 31, 2021 within general and administrative expenses. In the first quarter of 2020, 52,759 DSUs (Note 21), having a value of \$111, were settled for common shares, of which 27,817 common shares were issued from treasury and the remaining common shares were purchased from the market.

- d. In the case of stock options, at the time of granting a stock option, the board of directors will determine (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.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

The following tables summarize grants of stock options:

Stock option grant date	Stock options granted	Vested	Options as at December 31, 2022		Net Outstanding
			Exercised, expired, surrendered or cancelled		
Jul. 11, 2018	197,500	81,200	187,500		10,000
Nov. 9, 2018	250,000	250,000	-		250,000
May 21, 2019	270,000	250,000	20,000		250,000
Nov. 23, 2020	150,000	100,000	-		150,000
Jun. 21, 2021	900,000	300,000	-		900,000
Aug. 23, 2021	75,000	25,000	-		75,000
Jan. 4, 2022	400,000	-	-		400,000
Mar. 21, 2022	2,285,000	-	14,000		2,271,000
May 23, 2022	150,000	24,996	-		150,000
Sep. 26, 2022	5,000	-	-		5,000
Nov. 21, 2022	14,000	-	-		14,000
	<u>4,696,500</u>	<u>1,031,196</u>	<u>221,500</u>		<u>4,475,000</u>

Stock option grant date	Stock options granted	Vested	Options as at December 31, 2021		Net Outstanding
			Exercised, expired, surrendered or cancelled		
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		150,000
Nov. 23, 2020	150,000	50,000	-		900,000
Jun. 21, 2021	900,000	-	-		75,000
Aug. 23, 2021	75,000	-	-		-
	<u>3,742,500</u>	<u>1,834,532</u>	<u>1,771,500</u>		<u>1,971,000</u>

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

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
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
Mar. 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
Sep. 26, 2022	5,000	\$ 0.33	66.16	3.50	5.0	\$ 0.17
Nov. 21, 2022	14,000	\$ 0.33	79.47	3.32	5.0	\$ 0.21
	<u>4,696,500</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.

The weighted average exercise price was \$1.17 and \$1.90 for stock options outstanding as at December 31, 2022 and December 31, 2021, respectively.

The Company recognized an expense of \$1,020 in the year ended December 31, 2022 and an expense of \$554 in the year ended December 31, 2021 as general and administrative expenses.

During the year ended December 31, 2021, 745,000 stock options were cancelled by the Company and an expense of \$65 was recognized in general and administrative expense.

NOTE 23: EQUITY METHOD INVESTMENT

Baylin's equity-method investments consist of a 19 percent interest in Galtronics Canada Ltd. ("GTC"), a Canadian technology company providing innovative antenna designs and RF test services for wireless communication products, and a 19 percent interest in Advantech Wireless Research Inc. ("AWR"), a Canadian technology company that designs terrestrial and satellite communications solutions for wireless broadband communication companies. AWR was dissolved on December 29, 2022.

For the year ended December 31, 2022, transactions between the Company and GTC totaled \$2,566 and between the Company consisting primarily of research and development expenses related to the services agreements the Company has with GTC. As at December 31, 2022, the Company was owed \$1,033 by GTC.

For the year ended December 31, 2021, transactions between the Company and GTC totaled \$2,218 and between the Company and AWR totaled \$3,540 consisting primarily of R&D expenses related to the services agreements the Company has with GTC and AWR. As at December 31, 2021, the Company was owed \$2,839 by GTC and was owed \$1,193 by AWR.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

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

	As of December 31, 2022			As of December 31, 2021		
	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total
Cash	\$ 46	\$ -	\$ 46	\$ 145	\$ 24	\$ 169
Other current assets	29	-	29	28	1,355	1,383
Accounts receivables	1,692	-	1,692	1,688	3,598	5,286
Property, plant and equipment	2,514	-	2,514	2,740	218	2,958
Accounts payables and accrued liabilities	(3,581)	-	(3,581)	(4,143)	(4,657)	(8,800)
Net assets	\$ 700	\$ -	\$ 700	\$ 458	\$ 538	\$ 996
Share of equity method investment net assets	133	-	133	87	102	189

	For the year ended December 31, 2022			For the year ended December 31, 2021		
	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total
Revenue	\$ 3,506	\$ 1	\$ 3,507	\$ 3,445	\$ 3,540	\$ 6,985
Expenses	3,293	504	3,797	3,076	3,540	6,616
Net income	\$ 213	\$ (503)	\$ (290)	\$ 369	\$ -	\$ 369
Share of equity method investment net income	40	(96)	(56)	70	-	70

NOTE 24: NET LOSS PER SHARE

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

	For the year ended December 31,	
	2022	2021
Net loss	\$ (16,877)	\$ (67,420)
Weighted number of shares (in thousands of units)	80,165	61,845
Net loss per common share	\$ (0.21)	\$ (1.09)

To compute diluted net loss per common share, outstanding DSUs, RSUs, stock options, warrants and convertible debentures have not been considered since their effect is anti-dilutive.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

NOTE 25: RELATED PARTY TRANSACTIONS AND LITIGATION

Share-based payment for executive officers

These amounts represent the costs of the grants to key executives and employees 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 grants to directors of DSUs and are recognized within general and administrative expenses.

Employee Purchase Plan

These amounts represent the costs of grants under the EPP 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 (collectively, "Advantech"). 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 Advantech 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.

Legal Proceedings

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

In October 2018, as a result of an indemnity claim by the Company, the Company received a payment from the escrow agent of approximately \$1,800, out of part of the cash purchase price being held in escrow pursuant to the terms of the Advantech Acquisition. The escrow agent released the amount because SpaceBridge failed to contest the indemnity claim within the prescribed time period. SpaceBridge has filed an application for relief from forfeiture to have the amount 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 against SpaceBridge for certain other indemnity obligations of SpaceBridge arising out of the Advantech Acquisition under the "Asset Purchase Agreement". The claims, in the aggregate, total approximately \$5,480. 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 common shares in the

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

Company for which set-off has been claimed by the Company. SpaceBridge alleges that Mr. Gelerman, a principal of SpaceBridge and a former director of the Company, 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 decision and confirming that the Company is entitled to a right of set-off on the common shares. SpaceBridge applied for leave to appeal the ruling to the Supreme Court of Canada but in July 2021 the application was denied.

In January 2020, SpaceBridge filed a statement of claim claiming damages against the Company for various breaches of the Asset Purchase Agreement and two other agreements that were part of the Advantech Acquisition – a “Consulting Agreement” and a “Transitional Services Agreement”. These claims include the multiple indemnity claims previously made by SpaceBridge, as well as additional claims for breach of the other two agreements. 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 the 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 \$8,520. Documentary productions and examinations are ongoing.

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 or counter 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 year ended December 31, 2022, nil (December 2021 - \$117) was recognized in revenue for premises leased to a company partly owned by Michael Perelshtein, a former employee of Alga.

Legal Proceedings

In June 2019, the former shareholders of Alga filed an application against the Company asserting that an event had occurred under the “Share Purchase Agreement” relating to the Alga Acquisition that triggered the payment of an earnout in the amount of \$1,000. The Company does not agree that the payment has been triggered and is contesting the application. The parties have completed oral discoveries, but no date has been set for a trial of the application.

In December 2020, a former employee of Alga filed an application against Alga asserting he had been constructively dismissed and claiming damages of approximately \$543. Alga is opposing the application and has counter claimed against the former employee.

In May 2021, Alga made a separate claim against the former employee and others, claiming damages for approximately \$2,150, alleging, among other things, a conspiracy to damage Alga's business, wrongful interference with its economic relations and breach of fiduciary duty. The defendants in the previous action then

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

commenced (in June 2021) a separate proceeding against Alga and others claiming the previous action is an abuse of procedure. In July 2021, Alga and the others counter-claimed against those defendants for abuse of procedure. All these actions have now been joined in one proceeding.

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 or counter claims.

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 \$94 either in cash or securities of the Company as mutually agreed between the Company and Mr. Royer. For the year ended December 31, 2022 and 2021 the Company paid \$125 and \$44, respectively, to Mr. Royer under this agreement.

During the year ended December 31, 2021, 2385796 Ontario Inc., the Company's largest shareholder, purchased 17,225,192 common shares in the Private Placement (Note 21). Mr. Royer exercises control and direction over investment decisions of the shareholder.

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.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

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

	For the year ended December 31,	
	2022	2021
Short-term benefits, pension and post-retirement benefits	\$ 5,594	\$ 4,885
Directors' remuneration	284	61
Share-based payment for executive management	1,020	554
Share-based payment for directors	266	291

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

NOTE 26: FAIR VALUE MEASUREMENTS

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

The following table presents the Company's financial liabilities measured and recognized at fair value at December 31, 2022

As at December 31, 2022	Level 1	Level 2	Level 3	Total
Convertible Debentures	\$ (4,604)	\$ -	\$ -	\$ (4,604)

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 marked price used for financial assets held by the Group is the current bid price. As at December 31, 2022 and December 31, 2021, the Company held a convertible debenture instrument in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. As at December 31, 2021 the Company held an interest rate swap instrument in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. As at December 31, 2022 and as at December 31, 2021, the Company did not hold any instruments in level 3.

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

NOTE 27: REVENUE

Revenues by geographic destination are as follows:

	For the year ended December 31,	
	2022	2021
Vietnam	\$ 32,410	\$ 30,406
United States of America	28,857	29,069
China	13,959	12,463
India	6,860	4,137
Thailand	8,706	4,349
South Korea	2,673	3,905
Canada	5,153	2,296
Sweden	4,267	2,222
Indonesia	6,538	2,436
Hungary	751	1,044
Taiwan	745	681
Philippines	275	1,086
Portugal	313	936
Romania	144	847
Japan	186	615
Brazil	1,252	452
Israel	600	402
Singapore	274	391
Australia	1,259	358
France	688	504
Germany	592	347
Other	4,358	3,548
	<u>\$ 120,860</u>	<u>\$ 102,494</u>

Timing of satisfaction of its performance obligation and revenue recognition and collection of consideration receivable are typically within 30 to 90 days.

NOTE 28: NATURE OF EXPENSES

The nature of cost of sales expenses are as below:

	For the year ended December 31,	
	2022	2021
Compensation and benefits	\$ 17,271	\$ 15,412
Depreciation	2,980	3,346
Materials	59,821	61,385
Overhead and Freight	7,877	7,239
	<u>\$ 87,949</u>	<u>\$ 87,382</u>

Baylin Technologies Inc.

Notes to the Consolidated Financial Statements

Canadian dollars in thousands, unless otherwise stated

The nature of operating expenses are as below:

	For the year ended December 31,	
	2022	2021
Compensation and benefits	\$ 25,386	\$ 23,841
Professional services	2,841	1,995
Office and IT costs	3,230	1,747
Depreciation and amortization	7,483	7,637
Impairment of non-current assets	72	25,954
Other	6,341	8,796
	<u>\$ 45,353</u>	<u>\$ 69,970</u>

During the year ended December 31, 2021, \$1,079 and \$2,009 of government grants and assistance are included within cost of sales and operating expenses, respectively.

NOTE 29: FINANCE INCOME AND EXPENSES

The following table summarizes finance income and expenses:

	For the year ended December 31,	
	2022	2021
Interest income	\$ (18)	\$ (5)
Interest expense	3,043	2,774
Interest cost on lease liabilities (Note 10)	675	696
Bank charge expense	85	89
Changes from foreign exchange rate changes	467	544
Finance expense, net	<u>\$ 4,252</u>	<u>\$ 4,098</u>

Included within finance expense during the year ended December 31, 2022 are \$100 loss on modification of debt related to the amendments to the Term Loan.

NOTE 30: SUBSEQUENT EVENTS

On February 28, 2023, the Company announced that GTD had completed the transfer of the lease of its MMU facility in Vietnam to a third party, which has assumed responsibility for GTD's obligations under the lease. The facility was originally intended to be an MMU antenna contract manufacturing facility, but never became operational, in part due to the COVID-19 pandemic. The original term of the lease ran until May 29, 2029. The rental and related costs associated with the lease over its remaining term were expected to total approximately \$2,700. The transfer of the lease substantially completes the liquidation of GTD's assets.