



BAYLIN TECHNOLOGIES INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS AT JUNE 30, 2023

(Canadian dollars in thousands)

UNAUDITED

Notice of Non-Reviewed Interim Condensed Consolidated Financial Statements

These interim condensed consolidated financial statements of Baylin Technologies Inc. ("Baylin") for the six months ended June 30, 2023 have been prepared by management. Baylin's independent auditor has not performed a review of these interim condensed consolidated financial statements, in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditors.

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Date of approval of consolidated financial statements: August 9, 2023

“Jeffrey C. Royer”

“Leighton Carroll”

“Dan Nohdomi”

Jeffrey C. Royer

Leighton Carroll

Dan Nohdomi

Chairman of the Board of Directors

Chief Executive Officer

Chief Financial Officer

Baylin Technologies Inc.

Interim Condensed Consolidated Statements of Financial Position (unaudited)

Canadian dollars in thousands

	<u>June 30, 2023</u>	<u>December 31, 2022</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 6,753	\$ 7,379
Trade and other receivables	18,947	20,294
Inventories	18,294	18,370
Assets held for sale	400	552
Other current assets	5,273	3,858
	<u>49,667</u>	<u>50,453</u>
NON-CURRENT ASSETS		
Property, plant and equipment	8,265	10,344
Right of use assets	8,333	9,114
Equity method investment	38	133
Intangibles	3,135	4,261
Other long-term assets	1,205	79
	<u>20,976</u>	<u>23,931</u>
TOTAL ASSETS	<u>\$ 70,643</u>	<u>\$ 74,384</u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Credit from banks	\$ 17,104	\$ 12,688
Accounts payable and accrued liabilities	27,280	29,963
Short-term portion of long-term loans	13,199	16,232
Short-term portion of lease liabilities	1,159	1,692
Convertible debentures	4,447	4,604
Income tax payable	333	326
	<u>63,522</u>	<u>65,505</u>
NON-CURRENT LIABILITIES		
Long-term portion of lease liabilities	7,054	9,611
Employee benefit liabilities, net	1,635	1,781
Deferred tax liabilities	509	447
Other long-term liabilities	220	300
	<u>9,418</u>	<u>12,139</u>
TOTAL LIABILITIES	<u>72,940</u>	<u>77,644</u>
SHAREHOLDERS' EQUITY (DEFICIT)		
Share capital	175,947	172,790
Share-based payment reserve	6,512	5,525
Accumulated other comprehensive income	10,458	11,230
Accumulated deficit	(195,214)	(192,805)
TOTAL EQUITY	<u>(2,297)</u>	<u>(3,260)</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 70,643</u>	<u>\$ 74,384</u>

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

Baylin Technologies Inc.

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

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

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	2023	2022
Revenues	\$ 25,271	\$ 30,134	\$ 50,398	\$ 61,108
Cost of sales	<u>17,065</u>	<u>21,119</u>	<u>34,527</u>	<u>44,037</u>
Gross profit	8,206	9,015	15,871	17,071
Operating expenses				
Selling and marketing expenses	2,307	2,179	4,047	4,018
Research and development expenses	3,647	3,803	6,497	6,929
General and administrative expenses	3,826	6,233	9,228	12,211
Lease termination gain and impairment recovery	<u>(245)</u>	<u>-</u>	<u>(2,956)</u>	<u>-</u>
	<u>9,535</u>	<u>12,215</u>	<u>16,816</u>	<u>23,158</u>
Operating loss	(1,329)	(3,200)	(945)	(6,087)
Finance expense, net	(144)	1,049	1,226	1,850
Investment expense, net	(46)	(37)	95	152
Fair value adjustments	<u>(194)</u>	<u>(141)</u>	<u>(194)</u>	<u>(141)</u>
Loss before income taxes	(945)	(4,071)	(2,072)	(7,948)
Income tax expense (recovery)	<u>298</u>	<u>237</u>	<u>337</u>	<u>(567)</u>
Net loss	<u>\$ (1,243)</u>	<u>\$ (4,308)</u>	<u>\$ (2,409)</u>	<u>\$ (7,381)</u>
Items that may be reclassified to profit or loss				
Amount arising from translation of foreign operations, net of tax	(1,131)	(99)	(772)	(208)
	<u>(1,131)</u>	<u>(99)</u>	<u>(772)</u>	<u>(208)</u>
Other comprehensive loss (net of tax effect)	<u>\$ (1,131)</u>	<u>\$ (99)</u>	<u>\$ (772)</u>	<u>\$ (208)</u>
Total comprehensive loss	<u>\$ (2,374)</u>	<u>\$ (4,407)</u>	<u>\$ (3,181)</u>	<u>\$ (7,589)</u>
Basic and diluted net loss per share	\$ (0.01)	\$ (0.05)	\$ (0.03)	\$ (0.09)
Weighted average shares outstanding	83,567,829	80,128,339	81,954,044	80,114,578

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

Baylin Technologies Inc.

Interim Condensed Consolidated Statements of Changes in Equity (unaudited)

Canadian dollars in thousands except number of shares outstanding

	Number of shares outstanding	Share capital	Share- based payment reserve	Accumulated deficit	Accumulated other comprehensive income	Total equity (deficit)
Balance as of January 1, 2023	80,304,975	\$ 172,790	\$ 5,525	\$ (192,805)	\$ 11,230	\$ (3,260)
Net loss	-	-	-	(2,409)	-	(2,409)
Other comprehensive loss	-	-	-	-	(772)	(772)
Share-based payment	-	-	987	-	-	987
Share issuances	<u>8,140,118</u>	<u>3,157</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,157</u>
Balance as of June 30, 2023	<u>88,445,093</u>	<u>\$ 175,947</u>	<u>\$ 6,512</u>	<u>\$ (195,214)</u>	<u>\$ 10,458</u>	<u>\$ (2,297)</u>

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

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

Baylin Technologies Inc.

Interim Condensed Consolidated Statements of Cash Flows (unaudited)

Canadian dollars in thousands

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	2023	2022
Cash flows from operating activities				
Net loss	\$ (1,243)	\$ (4,308)	\$ (2,409)	\$ (7,381)
Adjustments to reconcile net loss to net cash used in operating activities				
Share-based payment	109	411	1,024	659
Depreciation	1,240	1,399	2,551	2,785
Amortization	499	1,255	1,125	2,510
Finance expense, net	(144)	1,049	1,226	1,850
Gain from sale of property, plant and equipment	-	(94)	-	(88)
Lease termination gain and impairment recovery	(6)	-	(2,713)	-
Share of net income of equity method investment	(46)	(37)	95	152
Income tax expense/(benefit)	298	237	337	(567)
Fair value adjustment	(194)	(141)	(194)	(141)
Unrealized foreign exchange gain	4,028	251	4,167	(98)
	<u>5,784</u>	<u>4,330</u>	<u>7,618</u>	<u>7,062</u>
Changes in asset and liability items				
Decrease (increase) in trade receivables	(2,488)	4,276	1,003	1,125
Increase in other current assets	(930)	(513)	(2,502)	(2,075)
Decrease (increase) in inventories	398	(3,300)	(97)	(5,329)
Increase (decrease) in trade payables and other current liabilities	(1,057)	(2,376)	(1,806)	1,104
	<u>(4,077)</u>	<u>(1,913)</u>	<u>(3,402)</u>	<u>(5,175)</u>
Cash paid and received during the year for				
Interest paid, net	(1,059)	(639)	(1,875)	(1,135)
Taxes received, net	(46)	(55)	(113)	(128)
	<u>(1,105)</u>	<u>(694)</u>	<u>(1,988)</u>	<u>(1,263)</u>
Net cash used in operating activities	(641)	(2,585)	(181)	(6,757)
Cash flows from investing activities				
Purchase of property, plant and equipment	\$ (196)	\$ (589)	\$ (275)	\$ (1,226)
Proceeds from sale of property, plant and equipment	(7)	66	(1)	66
Net cash used in investing activities	<u>(203)</u>	<u>(523)</u>	<u>(276)</u>	<u>(1,160)</u>
Cash flows from financing activities				
Cash received from share issuance	\$ 3,120	\$ -	\$ 3,120	\$ -
Repayment from credit from banks and other long term loans	(2,133)	(1,565)	(142)	(2,022)
Repayment of term loan	(1,020)	(967)	(2,041)	(1,904)
Principal elements of lease payments	(265)	(268)	(723)	(748)
Net cash generated by (used in) financing activities	<u>(298)</u>	<u>(2,800)</u>	<u>214</u>	<u>(4,674)</u>
Exchange differences on balances of cash and cash equivalents	<u>(372)</u>	<u>160</u>	<u>(383)</u>	<u>(89)</u>
Decrease in cash and cash equivalents	\$ (1,514)	\$ (5,748)	\$ (626)	\$ (12,680)
Cash and cash equivalents at the beginning of the period	<u>8,267</u>	<u>12,742</u>	<u>7,379</u>	<u>19,674</u>
Cash and cash equivalents at the end of the period	<u>\$ 6,753</u>	<u>\$ 6,994</u>	<u>\$ 6,753</u>	<u>\$ 6,994</u>

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

Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

NOTE 1: NATURE OF OPERATIONS

Baylin Technologies Inc. (“Baylin”) was incorporated pursuant to the laws of the Province of Ontario on September 24, 2013. Baylin's registered office is located at 181 Bay Street, Suite 1800, Toronto, Ontario, Canada.

Baylin, together with its subsidiaries (collectively, the “Company” or the “Group”), is a diversified global wireless technology company focused on the research, design, development, manufacture and sales of passive and active radio frequency (“RF”) products and 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 interim condensed consolidated financial statements of the Company for the three and six months ended June 30, 2023 have been prepared by management of Baylin and were authorized for issuance in accordance with a resolution of the board of directors passed on August 9, 2023.

NOTE 2: BASIS OF PREPARATION

The interim condensed consolidated financial statements for the three and six months ended June 30, 2023 have been prepared in accordance with IAS 34, Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual audited consolidated financial statements for the year ended December 31, 2022 (the “Annual Financial Statements”), which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

As of June 30, 2023 there have been no material changes to the significant accounting policies as outlined in Note 3 of the Annual Financial Statements, except as disclosed in Note 4.

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

New standards and amendments adopted

Certain new standards and amendments that have an impact on the interim condensed consolidated financial statements of the Company and became effective on January 1, 2023 are as follows:

Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

On January 23, 2020, the IASB issued Classification of Liabilities as Current or Non-Current (Amendments to IAS 1), which provides a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date.

On February 12, 2021, the IASB issued Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) with amendments that are intended to help entities in deciding which accounting policies to disclose in their financial statements.

On February 12, 2021, the IASB issued Definition of Accounting Estimates (Amendments to IAS 8) to help entities to distinguish between accounting policies and accounting estimates.

On May 7, 2021, the IASB issued amendments to IAS 12, Income Taxes, which clarify 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.

New standards and interpretations not yet adopted

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

On September 22, 2022, the IASB issued Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) with amendments that clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments are effective for annual periods beginning on or after January 1, 2024.

On October 31, 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1) to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments are effective for reporting periods beginning on or after January 1, 2024.

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

NOTE 5: SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

In assessing the Company's ability to continue as a going concern, management has a reasonable expectation that the Company will be able (i) to fund operating and debt service requirements for the next 12 months and (ii) to refinance or extend the Revolving Facility and Term Loan when they mature on September 29, 2023.

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

There have been no other significant changes to the Company's accounting judgments, estimates and assumptions made since the annual financial reporting for the year ended December 31, 2022.

NOTE 6: CREDIT FROM BANKS AND LOANS

Canada

On March 29, 2019, Baylin entered into a credit agreement (the "Credit Agreement") with Royal Bank of Canada and HSBC Bank Canada (collectively, the "Lenders") pursuant to which the Lenders established in favour of the Company:

- a revolving facility (the "Revolving Facility") for up to \$15,000; and
- a term facility ("Term Loan") for up to \$27,804.

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 11.25% as at June 30, 2023 and 10.50% as at December 31, 2022. 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 June 30, 2023 and December 31, 2022.

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 June 30, 2023, the aggregate revolving credit facilities of the Group were approximately \$20,877, of which \$17,104 was drawn and utilized. 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 June 30, 2023, \$12,301 was outstanding under the Revolving Facility (December 31, 2022 - \$8,957).

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 \$993 commenced on June 30, 2019 with the scheduled interest payments for June 30 and September 30, 2021 being deferred with the consent of the Lenders. As at June 30, 2023, \$12,909 was outstanding under the Term Loan (December 31, 2022 - \$15,241).

Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

Effective March 29, 2022, the interest rate on the Credit Facilities changed to be based on the US Base Rate (as defined in the Credit Agreement) plus the applicable margin. Prior to March 29, 2022, the interest rate on the Term Loan was determined based on the LIBO Rate (as defined in the Credit Agreement) plus the applicable margin. Effective March 29, 2022, interest on the Term Loan is payable monthly in arrears. For the interest period ending March 31, 2022, the last period for which the LIBO Rate applied to the Term Loan, the interest rate on the Term Loan was 3.72%.

Commencing July 26, 2019, the Company entered into an interest rate swap arrangement where the LIBO Rate portion of the interest rate on the Term Loan was fixed at 2% until maturity of the swap on March 29, 2022.

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

The Credit Agreement has previously been amended, most recently as of May 2, 2023. The effect of these amendments is that:

- the maturity date of the Credit Facilities was extended from September 30, 2022 to September 29, 2023;
- the interest rate on the Credit Facilities is based on the US Base Rate;
- the Senior Debt to EBITDA Ratio and Fixed Charge Coverage Ratio will not apply during the remaining period of the loan;
- the Company is required to maintain a minimum Liquidity of \$4,000;
- the Company is required to maintain a minimum EBITDA for the twelve month period ending on September 30, 2022, December 31, 2022, March 31, 2023 and June 30, 2023;
- the maximum availability under the Revolving Facility was reduced to \$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%.

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

China

In May 2023, the Company's Chinese subsidiary arranged a Yuan equivalent \$4,471 short-term multiple tranche credit facility with the Bank of Ningbo. The loan interest rate is set at a fixed rate of 4.15%. As at June 30, 2023, \$4,471 was outstanding under this facility. As at December 31, 2022, the Company's Chinese subsidiary had \$3,337 available under its credit facility with Shanghai Pudong Development Bank which was fully drawn.

Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

Korea

The Company's Korean subsidiary has a South Korean Won equivalent \$402 (December 31, 2022 - \$431) short-term credit facility with the Shinhan Bank. The loan interest rate is set at 1.4% plus the Korean Central Bank lending rate. The credit facility is secured by an irrevocable letter of credit issued by Baylin to the lender in Korea. As at June 30, 2023, \$258 was outstanding (as at December 31, 2022, \$346).

Vietnam

Galtronics Vietnam Dai Dong Co. Ltd., one of the Company's Vietnamese subsidiaries ("GTD"), 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 the Vietnamese Dong equivalent of \$3,245 (December 31, 2022 - \$3,313) (the "Vietnam Loan"). As at June 30, 2023, \$290 was outstanding, and as at December 31, 2022, \$891 was outstanding, under the Vietnam Loan. The interest rate on the Vietnam Loan is determined based on the base lending rate in Vietnam plus a margin of up to 2% and is payable semi-annually in arrears. The remaining principal amount of the Vietnam Loan is due on August 18, 2023. 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.

NOTE 7: CONVERTIBLE DEBENTURES

On July 10, 2018, the Company issued \$17,250 principal amount of convertible unsecured debentures (the "Debentures"). The Debentures are governed by an indenture (the "Indenture") dated July 10, 2018 between the Company and Computershare Trust Company of Canada, as trustee. The Debentures originally had an interest rate of 6.5% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, matured on July 10, 2023 and had a conversion price (the "Conversion Price") of \$3.85 per common share.

On May 19, 2021, the Indenture was amended to reduce, for a period of 30 days, the Conversion Price from \$3.85 to \$1.11 (the "New Conversion Price"), the market price of the common shares at the time the amendment became effective. As a result of this amendment, holders of \$12,135 principal amount of the Debentures converted their Debentures into 10,932,429 common shares at the new Conversion price, leaving \$5,115 principal amount 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.

On June 21, 2023, the Indenture was further amended to (i) extend the maturity date of the Debentures from July 10, 2023 to June 30, 2026 (the "Maturity Date"), (ii) increase the interest rate on the Debentures from 6.5% to 8.5%, effective June 30, 2023, (iii) reduce the Conversion Price from \$3.85 to \$1.00 per common share, and (iv) change the definition of "Change of Control" to permit the Company's Chairman, Jeffrey C. Royer, and related parties, to acquire 66 2/3% or more of the common shares of the Company without it constituting a Change of Control.

Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

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 \$1.00 per common share, subject to adjustment in certain events in accordance with 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.

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

During the six months ended June 30, 2023 and the six months ended June 30, 2022, there were no conversions of Debentures.

	<u>Debentures Principal</u>	<u>Debentures Fair Value</u>
Balance as of January 1, 2023	\$ 5,115	\$ 4,604
Fair value adjustment		(118)
Deferred finance costs		(39)
Balance as of June 30, 2023	<u>\$ 5,115</u>	<u>\$ 4,447</u>
	<u>Debentures Principal</u>	<u>Debentures Fair Value</u>
Balance as of January 1, 2022	\$ 5,115	\$ 4,859
Fair value adjustment		(141)
Balance as of June 30, 2022	<u>\$ 5,115</u>	<u>\$ 4,718</u>

Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

NOTE 8: EMPLOYEE BENEFIT LIABILITIES

The Group accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in qualifying insurance policies.

The liability for employee benefits shown in the statement of financial position reflects the present value of the defined benefit obligation less the fair value of the plan assets. The present value of the benefits is determined at year end, based on actuarial valuations.

NOTE 9: SHARE CAPITAL AND SHARE-BASED PAYMENTS

- a. On August 13, 2020, the shareholders of the Company approved a new Omnibus Equity Incentive Plan (as amended and restated, 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”), stock options and common shares (with or without restrictions). 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 12% of the number of common shares outstanding from time to time. However, the Omnibus Plan is an “evergreen plan”, meaning that any awards that are exercised or settled or terminated without being exercised or settled are available for subsequent grant and do not reduce the number of common shares available to be granted. There are also limitations on the number of common shares that may be issued to insiders.
- b. The Company may settle DSUs, PSUs and RSUs in (i) common shares issued from treasury, (ii) common shares purchased in the market, (iii) cash or (iv) a combination of common shares and cash. Holders of stock options may exercise their options, (i) by paying the option exercise price or (ii) with the consent of the Company, through a cashless exercise or by receiving a cash payment in lieu of shares.
- c. Unless otherwise approved by the board of directors, eligible directors must elect to receive at least 50% and up to 100% of their annual retainers in DSUs or restricted common shares of Baylin. The DSUs and restricted common shares are issued on a monthly basis while the director serves as a board member and vest immediately. The DSUs are settled after the member ceases to be a director.

During the six months ended June 30, 2023 certain directors elected to receive a portion of their annual retainer in restricted common shares. The Company recorded \$39 in share capital during the six months ended June 30, 2023, and \$19 during the six months ended June 30, 2022 related to this election.

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The following table lists the number of DSUs outstanding as at June 30, 2023 and 2022:

	<u>Number of DSUs</u>	<u>Weighted average price</u>
DSUs outstanding as at January 1, 2023	1,537,514	\$ 1.04
DSUs granted during the six months ended June 30, 2023	<u>340,834</u>	<u>\$ 0.41</u>
DSUs outstanding as at June 30, 2023	<u>1,878,348</u>	<u>\$ 0.93</u>
DSUs outstanding as at January 1, 2022	923,315	\$ 1.45
DSUs granted during the six months ended June 30, 2022	<u>182,038</u>	<u>\$ 0.71</u>
DSUs outstanding as at June 30, 2022	<u>1,105,353</u>	<u>\$ 1.33</u>

The Company recognized an expense of \$140 in the six months ended June 30, 2023 and \$130 in the six months ended June 30, 2022 within general and administrative expenses with regards to the DSU Plan.

- d. In the case of stock options, at the time of granting a stock option, the board of directors determines (i) the exercise price, being not less than the fair market value of the common shares, (ii) the vesting provisions, generally being three years, with an equal number of common shares vesting on each anniversary of the grant date, and (iii) the expiry date, generally being no more than seven years after the grant date.

The following table summarizes grants of stock options:

<u>Stock option grant date</u>	<u>Stock options granted</u>	<u>Vested</u>	<u>Options as at June 30, 2023 Exercised, expired, surrendered or cancelled</u>	<u>Net Outstanding</u>
Jul. 11, 2018	197,500	81,200	197,500	-
Nov. 9, 2018	250,000	250,000	-	250,000
May 21, 2019	270,000	180,000	20,000	250,000
Nov. 23, 2020	150,000	-	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	133,333	400,000	-
March 21, 2022	2,285,000	-	2,125,000	160,000
May 23, 2022	150,000	54,182	95,818	54,182
Sep. 26, 2022	5,000	-	-	5,000
Nov 21, 2022	14,000	-	-	14,000
May 23, 2023	3,000	-	-	3,000
Jun. 30, 2023	3,306,000	-	-	3,306,000
	<u>8,005,500</u>	<u>1,023,715</u>	<u>3,963,318</u>	<u>4,042,182</u>

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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>

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

Stock option grant date	Stock options granted	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
March 21, 2022	2,285,000	\$ 0.79	77.90	2.18	5.0	\$ 0.49
May 23, 2022	150,000	\$ 0.59	66.20	2.70	5.0	\$ 0.35
Sep. 26, 2022	5,000	\$ 0.33	66.16	3.50	5.0	\$ 0.17
Nov. 21, 2022	14,000	\$ 0.21	79.47	3.32	5.0	\$ 0.21
May 23, 2023	3,000	\$ 0.33	80.90	3.41	5.0	\$ 0.26
Jun. 30, 2023	<u>3,306,000</u>	\$ 0.36	81.67	3.68	5.0	\$ 0.27
	<u>4,696,500</u>					

The Company recognized expenses related the Stock Option Plan during the six months ended June 30, 2023 in the amount of \$848 as general and administrative expenses and \$159 during the six months ended June 30, 2022.

Effective March 29, 2023, 3,606,000 stock options were cancelled and \$589 was recorded as a general and administrative expense included within the \$834 expenses related to the Stock Option Plan during the three months ended March 31, 2023. 3,606,000 replacement stock options were issued on June 30, 2023.

- e. During the three months ended June 30, 2023, 1,856,410 RSUs were issued with a value of \$724.

NOTE 10: EQUITY METHOD INVESTMENT

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

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For the six months ended June 30, 2023, transactions between the Company and GTC totaled \$536, consisting primarily of R&D expenses related to the services agreements the Company has with GTC. As at June 30, 2023, the Company was owed \$620 from GTC.

For the six months ended June 30, 2022, transactions between the Company and GTC totaled \$1,428. As at December 31, 2022, the Company was owed \$876 from GTC.

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

	As of June 30, 2023		As of December 31, 2022		
	Galtronics Canada Ltd.	Total	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total
Cash	\$ 124	\$ 124	\$ 46	\$ -	\$ 46
Other current assets	39	39	29	-	29
Accounts receivables	1,696	1,696	1,692	-	1,692
Property, plant and equipment	2,407	2,407	2,514	-	2,514
Accounts payables and accrued liabilities	(4,066)	(4,066)	(3,581)	-	(3,581)
Net assets	\$ 200	\$ 200	\$ 700	\$ -	\$ 700
	<u>\$ 38</u>	<u>\$ 38</u>	<u>\$ 133</u>	<u>\$ -</u>	<u>\$ 133</u>

	For the six months ended June 30, 2023		For the six months ended June 30, 2022		
	Galtronics Canada Ltd.	Total	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total
Revenue	\$ 1,183	\$ 1,183	\$ 1,440	\$ -	\$ 1,440
Expenses	1,684	1,684	1,738	608	2,346
Net income (loss)	\$ (501)	\$ (501)	\$ (298)	\$ (608)	\$ (906)
Share of equity method investment net income (loss)	(95)	(95)	(57)	(116)	(173)
Unrecognized share of equity method investment net loss	-	-	-	21	21
	<u>\$ (95)</u>	<u>\$ (95)</u>	<u>\$ (57)</u>	<u>\$ (95)</u>	<u>\$ (152)</u>

NOTE 11: RELATED PARTY TRANSACTIONS

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.

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Employee Purchase Plan

These amounts represent the costs of grants under the EPP and are recognized within general and administrative expenses.

Advantech Wireless Inc.

Legal Proceedings

The Company is both a plaintiff and defendant in various claims arising out of the acquisition in January 2018 by the Company (through a wholly-owned subsidiary) from Advantech Wireless Inc. and certain of its affiliates of 100% of the assets (the "Advantech Acquisition") of their radio frequency, terrestrial microwave and antenna equipment business. Advantech Wireless Inc. has since been renamed SpaceBridge Inc. ("SpaceBridge").

Pursuant to the terms of the Advantech Acquisition, SpaceBridge was entitled to additional compensation of between \$750 and \$3,000 per year in each of 2018 and 2019 conditional on the Advantech Wireless business meeting certain EBITDA targets in those years. The EBITDA targets were not met in 2018 and 2019. On June 1, 2020 SpaceBridge contested that the 2019 EBITDA targets were not met. The Company is opposing the objection.

In 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 an "Escrow Agreement" that also governed the procedure for making indemnity claims against the escrowed funds. The escrow agent released the amount because SpaceBridge failed to object to the indemnity claim within the 30-day period prescribed by the Escrow Agreement. SpaceBridge then filed an application in the Superior Court of Justice (Ontario) to have the amount repaid to the escrow on various grounds. The application was heard in May 2023 and the judgment of the Court was rendered in July 2023. In the judgment, the Court found that the Company's indemnity claim was not validly delivered in accordance with the notice provisions of the Escrow Agreement and therefore SpaceBridge's objections to the claim was not late because the 30-day period was never triggered. The Court did not rule on the other grounds argued by SpaceBridge. The Court has ordered the Company to repay the 1,800, together with interest, to the escrow agent. The Company has filed notice of its intention to appeal the judgment. The Court's order is stayed, pending hearing of the appeal.

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 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 is defending the allegations. No date has been set for

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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, including in the case of the previously described escrow indemnity claim due to the Company's right of appeal. Accordingly, no provision has been recorded in respect of the claims or counter claims other than certain rent amounts.

Alga Microwave Inc.

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”).

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 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 parties have completed oral discoveries, but no date had been set for a trial of the claims.

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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 \$125 either in cash or securities of the Company as mutually agreed between the Company and Mr. Royer. For each of the six months ended June 30, 2023 and six months ended June 30, 2022 the Company paid Mr. Royer \$63 in cash.

On May, 26, 2023, the Company's principal shareholder, 2385796 Ontario Inc., a corporation over which the Company's Chairman of the Board of Directors, Jeffery C. Royer, exercises control and direction over investment decisions, subscribed on a private placement basis for 8,000,000 common shares of the Company for proceeds to the Company of \$3,120.

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.

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

	For the three months ended June 30,		For the six months ended June 30,	
	2023	2022	2023	2022
Short-term benefits, pension and post-retirement benefits	2,141	1,431	\$ 3,451	\$ 2,719
Directors' remuneration	78	73	158	133
Share-based payment for executive management	14	328	848	487
Share-based payment for directors	70	61	139	130

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

NOTE 12: FAIR VALUE MEASUREMENTS

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

The Company has implemented a program to reduce the impact of foreign exchange rate volatility on its net income. The Company utilizes derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange risk. Therefore, the Company may purchase foreign exchange forward contracts to hedge net US dollar cash flows. The Company does not utilize derivative financial instruments for trading or speculative purposes.

The Company will consider whether to apply hedge accounting on a case by case basis and if the instrument is not designated as a hedge, the instrument is adjusted to fair value and marked to market each accounting period, with changes recorded in net income. During the year-to-date period ended June 30, 2023, the Company entered into foreign exchange forward contracts to sell US dollars in order to partially mitigate its foreign currency risk. At June 30, 2023, the Company had forward contracts in place to sell an aggregate US \$4,333 (June 30, 2022: US \$nil). A net gain of \$76 was recognized on contracts which matured during the year-to-date period ended June 30, 2023 (2022: \$nil), which is included in the consolidated statement of comprehensive income.

The following table presents the Company's financial liabilities measured and recognized at fair value:

	As at June 30, 2023			
	Level 1	Level 2	Level 3	Total
Foreign Exchange Forward Contracts	\$ -	\$ 76	\$ -	\$ 76
Convertible Debentures	\$ (4,485)	\$ -	\$ -	\$ (4,485)

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

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

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

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

NOTE 13: REVENUES

Revenues by geographic destination are as follows:

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2023	2022	2023	2022
Vietnam	\$ 3,396	\$ 7,960	\$ 8,217	\$ 17,237
United States of America	7,971	6,665	13,440	13,202
China	1,245	3,454	3,901	7,568
India	378	1,466	1,173	4,062
Thailand	2,006	2,078	3,842	3,441
South Korea	417	662	922	1,477
Canada	555	1,090	3,108	1,834
Sweden	329	1,376	1,705	2,516
Indonesia	2,933	1,718	4,326	2,527
Hungary	-	255	-	485
Taiwan	326	343	719	630
Philippines	360	7	645	161
Portugal	212	171	283	297
Brazil	390	63	521	311
Israel	102	32	439	46
Singapore	138	15	662	25
Australia	270	282	464	350
France	66	-	612	359
Germany	9	41	70	206
Other	4,168	2,456	5,349	4,374
	<u>\$ 25,271</u>	<u>\$ 30,134</u>	<u>\$ 50,398</u>	<u>\$ 61,108</u>

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NOTE 14: FINANCE INCOME AND EXPENSE

	For the three months ended		For the six months ended	
	June 30,	June 30,	June 30,	June 30,
	2023	2022	2023	2022
Interest income	\$ -	\$ (3)	\$ (1)	\$ (6)
Interest expense	966	723	1,864	1,316
Interest cost on lease liabilities	112	164	256	332
Bank charge expense	22	18	46	35
Changes from foreign exchange rate changes	(1,244)	147	(939)	173
Finance expense, net	<u>\$ (144)</u>	<u>\$ 1,049</u>	<u>\$ 1,226</u>	<u>\$ 1,850</u>