BAYLIN TECHNOLOGIES INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 30, 2016

(U.S. dollars in thousands)

UNAUDITED

INDEX

Notice of No Auditor Review of Interim Condensed Consolidated Financial Statements

These interim condensed interim consolidated financial statements of the Company for the three and nine months ended September 30, 2016 have been prepared by Management and were authorized for issue in accordance with a resolution of the board of directors on October 26, 2016. The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements, in accordance with the standards established by the Chartered Professional Accounts of Canada for a review of interim financial statements by an entities auditors.

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INTERIM CONDENSED CONSOLIDATED STATMENTS OF FINANCIAL POSITION (UNAUDITED

U.S dollars in thousands

	September 30, 2016	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 6)	$ 9,471	$ 11,426
Trade receivables, net	11,794	9,942
Other accounts receivable	2,308	1,061
Inventories	7,658	5,917
	31,231	28,346
NON-CURRENT ASSETS:		
Property, plant and equipment, net	17,450	20,982
Lease deposits	86	246
	17,536	21,228
	$ 48,767	$ 49,574

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

INTERIM CONDENSED CONSOLIDATED STATMENTS OF FINANCIAL POSITION (UAUDITED)

U.S dollars in thousands

	September 30, 2016	December 31, 2015
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Credit from banks (note 6)	$ 2,702	$ 6,372
Accounts payable and accrued liabilities	15,761	11,784
Income tax payable	232	277
	18,695	18,433
NON-CURRENT LIABILITIES:		
Employee benefit liabilities, net (Note 7)	1,088	983
	1,088	983
TOTAL LIABILITIES:	19,783	19,416
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:		
Share capital	81,343	81,124
Foreign currency translation reserve	1,900	2,849
Capital reserve from transactions with non-controlling interests	101	101
Share-based payment reserve	812	531
Accumulated deficit	(55,172)	(54,447)
Total equity	28,984	30,158
	$ 48,767	$ 49,574

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

October 26, 2016			
Date of approval of the financial statements	Jeffrey C. Royer Chairman of the Board of Directors	Randy Dewey President & Chief Executive Officer	James Newell Chief Financial Officer

BAYLIN TECHNOLOGIES INC.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE LOSS (UNAUDITED)

U.S dollars in thousands

	Nine months ended September 30,		Three months ended September 30,	
	2016	**2015**	**2016**	**2015**
Revenue	$ 48,395	$ 30,045	$ 16,945	$ 12,098
Cost of revenue	35,006	24,076	12,224	9,373
Gross profit	13,389	5,969	4,721	2,725
Operating expenses:				
Selling and marketing expenses	2,321	3,348	789	1,028
Research and development expenses	5,779	4,766	2,080	1,622
General and administrative expenses	6,633	7,243	2,303	2,371
	14,733	15,357	5,172	5,021
Operating loss	(1,344)	(9,388)	(451)	(2,296)
Finance income	851	434	382	18
Finance expense	(217)	(2,275)	(24)	(665)
Loss before tax	(710)	(11,229)	(93)	(2,943)
Income tax (expense) recovery	(15)	(132)	267	-
Net (loss) income	(725)	(11,361)	174	(2,943)
Other comprehensive loss:				
Amounts not to be reclassified subsequently to profit or loss:				
Re-measurement loss from defined benefit plans	-	(105)	-	-
Amounts to be reclassified to profit or loss under specific conditions:				
Adjustments arising from translating of foreign operations	(949)	(473)	(449)	(522)
Total other comprehensive loss	(949)	(578)	(449)	(522)
Total comprehensive loss	$ (1,674)	$ (11,939)	$ (275)	$ (3,465)
Basic and diluted (loss) income per share (in US dollars)	$ (0.04)	$ (0.60)	$ 0.01	$ (0.16)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

U.S dollars in thousands

	Share capital	Accumulated deficit	Share-based payment reserve	Foreign currency translation reserve	Capital reserve from transactions with non-controlling interests	Total equity
Balance as of January 1, 2016	$81,124	($54,447)	$531	$2,849	$101	$30,158
Net loss		(725)				(725)
Total other comprehensive income (loss)				(949)		(949)
Total comprehensive income (loss)		(725)		(949)		(1,674)
Harmonized Sales tax refund on IPO related expenses	219					219
Share-based payment			281			281
Balance as of September 30, 2016	$81,343	($55,172)	$812	$1,900	$101	$28,984

	Share capital	Accumulated deficit	Share-based payment reserve	Foreign currency translation reserve	Capital reserve from transactions with non-controlling interests	Total equity
Balance as of January 1, 2015	$80,530	($39,660)	$866	$3,688	$101	$45,525
Net loss		(11,361)				(11,361)
Total other comprehensive income (loss)		(105)		(473)		(578)
Total comprehensive income (loss)		(11,466)		(473)		(11,939)
Underwriters warrants expiration	594		(594)			
Share-based payment			150			150
Balance as of September 30, 2015	$81,124	($51,126)	$422	$3,215	$101	$33,736

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

U.S dollars in thousands

	Nine months ended September 30,	
	2016	**2015**
Cash flows from operating activities:		
Net loss	($725)	($11,361)
Adjustments to reconcile net loss to net cash used in operating activities:		
Adjustments to the profit or loss items:		
Share-based payment	281	150
Depreciation and amortization	2,391	2,661
Finance expense (income), net	(634)	1,841
(Gain) loss from sale of property, plant and equipment	(108)	132
Income taxes	15	59
Change in employee benefit liabilities, net	34	(82)
	1,979	4,761
Changes in asset and liability items:		
Decrease (increase) in trade receivables	(1,945)	(3,145)
Decrease (increase) in other accounts receivable	(1,083)	1,047
Decrease (increase) in inventories	(1,852)	819
Increase (decrease) in trade payables	4,452	264
Decrease (increase) in other accounts payable	(361)	606
	(789)	(409)
Cash paid and received during the year for:		
Interest paid	(116)	(353)
Interest received	20	91
Taxes paid	(77)	(39)
	(173)	(301)
Net cash generated by (used in) operating activities	292	(7,310)

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

U.S dollars in thousands

Cash flows from investing activities:		
Purchase of property, plant and equipment	(708)	(817)
Proceeds from sale of property, plant and equipment	1,863	140
Rental lease deposits	-	27
Net cash generate by (used in) investing activities	1,155	(650)
Cash flows from financing activities:		
Repayment of finance lease liabilities	(167)	(900)
Repayment of long-term loan from banks	-	(1,035)
Receipt of short-term loans from banks	-	2,915
Receipt (repayment) of short-term credit from banks and others, net	(2,938)	(3,290)
Harmonized Sales tax refund on IPO related expenses	218	
Net cash used in financing activities	(2,887)	(2,310)
Exchange differences on balances of cash and cash equivalents	(515)	(1,224)
Decrease in cash and cash equivalents	(1,955)	(11,494)
Cash and cash equivalents at the beginning of the year	11,426	23,747
Cash and cash equivalents at the end of the year	$9,471	$12,253

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

NOTE 1:- GENERAL

a. Corporate information

Baylin Technologies Inc. (the "Company" or "Baylin") was incorporated pursuant to the laws of the province of Ontario on September 24, 2013, for the purpose of completing the initial public offering of its shares. The Company's registered office is located Toronto, Ontario, Canada.

On November 27, 2013, the Company completed an Initial Public Offering (the "Offering" or "IPO") and issued 6,253,125 Common shares at a price of CAD $ 8.00 per share for total gross proceeds of CAD $ 50,025 (approximately $ 47,304), including the over-allotment, which was fully exercised by the underwriters concurrently with the completion of the Offering.

Immediately prior to the completion of the Offering, on November 27, 2013 (the "Closing date"), all the issued and outstanding ordinary shares of Galtronics Corporation Ltd. ("Galtronics" or "GTI"), an entity under common control with the Company, were exchanged for Common shares on the basis of ten Galtronics ordinary shares for one Common share of the Company. Holders of Galtronics ordinary shares became shareholders of Baylin and Galtronics became a wholly-owned subsidiary of Baylin (the "Pre-IPO Reorganization"). This Pre-IPO Reorganization was accounted for as a reorganization and capital transaction of Galtronics such that the consolidated financial statements of Baylin are a continuation of, and reflect, the historical financial position and results of operations of Galtronics retrospectively based on the carrying values and results of operations presented in the Galtronics' historical consolidated financial statements.

Galtronics was incorporated in Israel in October 1978. GTI's office is located at 1 Tsivonit Street, Industrial Zone, Upper Tiberias, 14115, Israel.

The Company's business is primarily carried out through GTI's wholly-owned subsidiaries, as follows: Galtronics Electronics (Wuxi) Co. Ltd. ("GTW"), incorporated in China in December 2003, which is the Company's main production facility and is located in Wuxi, China; and Galtronics Korea Ltd. ("GTK"), incorporated in South Korea in July 2003, which is the Company's technical design and product configuration services center and is located in Seoul, South Korea.

On January 16, 2014, the Company established a new wholly-owned subsidiary in Vietnam, Galtronics Vietnam Co., Limited ("GTV").

The Company and its subsidiaries (the "Group") operate in the field of research, development, manufacture and sales of a wide range of affordable antennas and communications solutions for the mobile, networking (formerly known as broadband) and wireless infrastructure markets, primarily in the Far East and North America.

b. Approval of financial statements

These interim condensed interim consolidated financial statements of the Company for the three and nine months ended September 30, 2016 have been prepared by Management and were authorized for issue in accordance with a resolution of the board of directors on October 26, 2016.

NOTE 2:- BASIS OF PREPARATION

The interim condensed consolidated financial statements for the nine months ended September 30, 2016, 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 as of December 31, 2015.

NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES

As of September 30, 2016 there have been no material changes to the significant accounting policies as outlined in Note 2 of the audited consolidated financial statements dated December 31, 2015.

NOTE 4:- SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUPMTIONS USED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

There have been no significant changes to our critical accounting estimates and accounting policies subsequent to the disclosure made in our annual financial reporting for the year ended December 31, 2015.

NOTE 5:- DISCLOSURE OF NEW STANDARDS IN THE PERIOD PRIOR TO THEIR ADOPTION

In Note 4 to the audited consolidated financial statements dated December 31, 2015, the following are new standards that have been issued but are not yet in effect and which are relevant to the Group:

(a) IFRS 15, "Revenue from contracts with customers"
(b) IFRS 9 – “Financial Instruments”
(c) Amendments to IAS7, “Statement of Cash Flows”, regarding additional disclosures of financial liabilities, and
(d) IFRS 16 – “Leases”

We will assess the impact once the standards have been completed.

NOTE 6:- CASH AND CASH ON HAND

In the first quarter of fiscal 2016 the Company entered into a new $4,000 revolving credit facility with Hong Kong Shanghai Bank Corporation (“HSBC”, and the “HSBC Facility”). Any drawing on the HSBC Facility are required to be fully collateralized by cash, which is deposited in a restricted account with HSBC (“Restricted Cash”), the only use of which is to repay any borrowings under the HSBC Facility. There were no borrowing under this facility as at September 30, 2016, and accordingly there is no Restricted Cash.

Our ability to utilize our bank credit facilities is dependent on being able to provide collateral in accordance with the requirements of the banks providing credit facilities to our subsidiaries. Bank credit facilities are for working capital and are secured by our building in China and account receivable from our customers in China and Korea. The company is in compliance with all of its financial covenants.

U.S dollars in thousands

NOTE 7:- EMPLOYEE BENEFIT ASSETS AND 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 8:- CONTINGENT LIABILITIES, GUARANTEES, COMMITMENTS AND CHARGES

Legal claims:

In 2009 GTI received a notice for possible indemnification by one of its major customers (the "customer"), for a claim filed against the customer in relation to several U.S. patent infringements. A jury judgment against the customer for about $ 27,000 was issued and is currently under appeal. During the relevant period subject to the claim, GTI was not the major antennas supplier for the customer. Since the notice for possible indemnification in 2009, GTI has not received any demand for payment from the customer and it is not clear whether such a demand will ever be received and if so what would be the amount of such demand. The Company's management and its legal counsels are unable to assess what the outcome of the claim against the customer might be and the effect, if any, on the Company. Accordingly, no provision was recorded in respect of this demand.

NOTE 9:- SHARE-BASED PAYMENT

a. Pursuant to the Company's Deferred Share Unit Plan for directors of the Company (the "DSU Plan"), the Company granted 64,635 deferred share units ("DSUs") to directors during the nine months ended September 30, 2016.

   The following table lists the number of DSUs issued during the period

	Number of DSUs	Weighted average price in CAD $
DSUs outstanding at beginning of the period (January 1, 2016)	139,423	3.50
DSUs granted during the period	64,635	2.01
DSUs outstanding at end of the period (September 30, 2016)	204,048	2.35

b. As part of the IPO, the Company issued to the underwriters 375,187 nontransferable warrants to purchase up to an aggregate of 375,187 Common Shares (the "warrants"), at an exercise price per share of CAD $ 8.00, exercisable over 18 months. The warrants expired during the second quarter of 2015.

U.S dollars in thousands

c. On August 24, 2015 the Company's board of directors resolved to grant the Company's President and Chief Executive Officer 925,000 share options subject to the Company's Stock Option Plan. 260,000 share options shall vest as to fifty percent on the first anniversary of the grant date and fifty percent on the second anniversary of the grant date. 240,000 share options and 425,000 share options shall vest at the discretion of the board of directors, upon recommendation from the Corporate Governance and Compensation Committee, following final review of the performance of the Company for the fiscal years 2015 and 2016, respectively. The exercise price is the average closing price of the common shares on the Toronto Stock Exchange for the 5 trading days ending on the last day before the grant date and shall expire 5 years following their grant date.

   In the event of change of control over the Company, all unvested share options will be vested immediately.

   As for September 30, 2016 the number of share options outstanding is 925,000, with weighted average exercise price of CAD 1.51. The remaining weighted average contractual life of the share options is 3.6 years.

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

Expected volatility of the share prices (%)	44.42-45.29
Risk-free interest rate (%)	0.9
Expected life of share options (years)	2.67-3.25
Share price (CAD)	1.50
Option fair value at the grant date (CAD)	0.44-0.48

NOTE 10:- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Foreign exchange risk:

The major portion of revenue is earned in USD, as such, the financial statements of the Company are reported in USD. The other portions are earned in other currencies such as Chinese Yuan Renminbi ("RMB") and South Korean Won ("KRW"). However, these portions are USD driven since customers total product costing is USD based. A portion of the operating costs are realized in currencies other than the functional currencies of relevant entities. As a result, we are exposed to currency risk on these operations. Also, additional earnings volatility arises from the translation of monetary assets and liabilities denominated in foreign currencies at the rate of exchange at the end of each reporting period, the impact of which is reported as a foreign exchange gain or loss in finance expenses.

Credit risk:

A significant portion of our products are sold to major equipment manufacturers of consumer electronics products. These major customers are located primarily in North America, Europe and East Asia. We perform ongoing credit evaluations of the customers. We have a policy of selling our products to customers with an appropriate credit history.

We extend 30-90 day credit terms to our customers and regularly monitor the credit extended to such customers and their general financial condition but do not require collateral as security for these receivables. We provide an allowance for doubtful accounts based on the factors that affect the credit risk of certain customers, past experience and other information.

We maintain cash and cash equivalents and other financial instruments in various financial institutions. These financial institutions are located in different geographical areas near our subsidiaries. Accord to our policy, the relative credit stability of the various financial institutions is evaluated on a regular basis.

We recognize a significant portion of our revenue from a limited number of customers. The loss of, or a significant reduction in, orders from one or more of our major customers would adversely affect our business, results of operations and financial condition. In particular, we received 43% and 54% of revenue, directly and indirectly, from Samsung and its subcontractors for the year ended December 31, 2015 and for the three quarters ended September 30, 2016, respectively.

Liquidity risk:
We monitor our liquidity risk through use of quarterly budgets and cash flow projection tools. The objective is to maintain sufficient liquidity by a combination of cash on hand, borrowings under our Credit Facilities, and generating operating cash flow.

NOTE 11:- RELATED PARTY TRANSACTIONS

The nature of the related party transactions are described as follows, and have not materially changed since the disclosure in the audited consolidated financial statements dated December 31, 2015.

a) In 2012 GTI signed a shared services agreement with (B.Y.) Medimor Ltd. (Medimor), a company controlled by the controlling shareholder, under which GTI provides finance, human resources, information technology services and rents office space to Medimor. Medimor provides GTI with logistics, quality assurance and patents services. The agreement is automatically renewable on annual basis. Additionally, the Company sold products to Medimor. These revenues were conducted at market price. Balances that have yet to be repaid by the end of the period are not guaranteed, bear no interest and their settlement will be in cash. No guarantees were received or given for sums receivable or payable.

b) The Company had entered into service agreements with a company controlled by the controlling shareholder. The service provider will make available for the Company certain office space, service of certain employees, administrative support and supplies, computers and communication equipment. The agreement continued in effect until December 31, 2015 and was automatically renewed until December 31, 2016. The monthly fee is currently $13 and may change from month to month as usage of the services received changes.

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

U.S dollars in thousands

Short-term benefits, pension and post-retirement benefits

These amounts comprise 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.

Directors' remuneration

These amounts represent fees and expenses reimbursement paid to directors.

Share-based payment for executive officers

These amounts represent the costs of the Company’s President and Chief Executive Officer grants under the Company’s stock option plan.

Share-based payment for directors

These amounts represent the costs of directors' grants under the DSU Plan.

Consulting services

During 2014 the Company entered into consulting agreement with the Vice Chairman of the Board of Directors, for a monthly consideration of CAD $21 thousands plus reimbursment of expenses. The agreement ended on August 24, 2015 when the director was appointed as President and Chief Executive Officer.

On March 27, 2015, the Company announced that its Board of Directors has appointed Board member Randy Dewey as Interim President and Chief Executive Officer, effective from that date. This appointment follows the departure of Ephraim Ulmer as the Company’s President and Chief Executive Officer and all roles related to affiliates of the Company. On August 24, 2015, the Company announced that Randy Dewey will take over the role of President and Chief Executive Officer on a permanent basis.

NOTE 12:- OTHER EVENTS DURING THE REPORTING PERIOD

During the reporting period ending September 30, 2016, the Group completed the sale of its Israel-based facility for gross proceeds of $1,863. The Group subsequently leased back approximately 968 square meters, for a 36 month term commencing on August 1, 2016, with minimum annual operating lease payments of $108.

The future minimum lease fees payable for the Company, as of September 30, 2016, are as follows:

First year	$ 936
Second through fourth years	1,011
	$ 1,947