BAYLIN TECHNOLOGIES INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 2018

(Canadian dollars in thousands)

UNAUDITED

INDEX

Date of approval of consolidated financial statements: **October 31, 2018**

"Harold Wolkin"	*"Don Simmonds"*	*"Stockwell Day"*
Harold Wolkin	**Don Simmonds**	**Stockwell Day**
Chairman of the Audit Committee	**Audit Committee Member**	**Audit Committee Member**

Baylin Technologies Inc.

Interim Condensed Consolidated Statements of Financial Position (unaudited)

Canadian dollars in thousands

	September 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 19,054	$ 35,156
Trade receivables	31,739	16,091
Other current assets	7,664	4,252
Inventories	20,320	9,167
	78,777	64,666
NON-CURRENT ASSETS		
Property, plant and equipment, net	25,569	20,151
Other long-term assets	65	65
Equity method investments (note 12)	15	-
Goodwill and intangibles (note 6)	62,477	-
	88,126	20,216
TOTAL ASSETS	$ 166,903	$ 84,882
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Credit from banks (note 7)	$ 353	$ 4,159
Accounts payable and accrued liabilities	29,402	22,552
Mortgage payable (note 6)	2,952	-
Income tax payable	621	162
	33,328	26,873
NON-CURRENT LIABILITIES		
Long-term portion of credit from banks (note 7)	-	347
Term loan (note 8)	29,916	-
Convertible debentures (note 9)	21,045	-
Employee benefit liabilities, net (note 10)	1,936	1,836
Other long-term liabilities	1,029	-
	53,926	2,183
TOTAL LIABILITIES	87,254	29,056
SHAREHOLDERS' EQUITY		
Share capital	136,555	109,210
Share-based payment reserve	3,531	1,446
Accumulated other comprehensive income	11,719	11,212
Accumulated deficit	(72,156)	(65,947)
	79,649	55,921
Non-Controlling Interest	-	(95)
TOTAL EQUITY	79,649	55,826
TOTAL LIABILITIES AND TOTAL EQUITY	$ 166,903	$ 84,882

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

Baylin Technologies Inc.

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

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

	Nine months ended September 30,		Three months ended September 30,	
	2018	2017	2018	2017
Revenues (note 15)	$ 100,205	$ 67,290	$ 38,189	$ 27,140
Cost of sales	60,427	46,123	22,021	18,716
Gross profit	39,778	21,167	16,168	8,424
Operating expenses				
Selling and marketing expenses	9,418	3,965	3,414	1,362
Research and development expenses	10,635	8,568	3,749	2,391
General and administrative expenses	13,914	10,421	4,094	3,059
Acquisition expenses	3,632	-	1,206	-
	37,599	22,954	12,463	6,812
Operating income (loss)	2,179	(1,787)	3,705	1,612
Finance expense, net	4,422	1,731	2,121	701
Share of net income of equity method investments (note 12)	(15)	-	(15)	-
Derecognition of subsidiary (note 12)	(1,092)	-	(1,092)	-
Fair value adjustment expense (note 9)	3,795	-	3,795	-
	7,110	1,731	4,809	701
Income (loss) before income taxes	(4,931)	(3,518)	(1,104)	911
Income tax expense	1,183	435	695	15
Net income (loss)	$ (6,114)	$ (3,953)	$ (1,799)	$ 896
Net income (loss) attributable to shareholders	(5,321)	(3,900)	(1,799)	949
Net income (loss) attributable to non-controlling interest	(793)	(53)	-	(53)
Amounts arising from translation of foreign operations	507	(778)	(1,111)	(1,459)
Other comprehensive income (loss), net of tax:	$ 507	$ (778)	$ (1,111)	$ (1,459)
Total comprehensive loss	$ (5,607)	$ (4,731)	$ (2,910)	$ (563)
Total comprehensive loss attributable to shareholders	(4,814)	(4,678)	(2,910)	(510)
Total comprehensive income (loss) attributable to non-controlling interest	(793)	(53)	-	(53)
Basic and diluted income (loss) per share	$ (0.16)	$ (0.18)	$ (0.05)	$ 0.04
Weighted average shares outstanding	33,819,860	21,916,813	39,068,708	21,916,813

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	Non-controlling interests	Total equity
Balance as of January 1, 2018	30,512,912	$ 109,210	$ 1,446	$ (65,947)	$ 11,212	$ (95)	$ 55,826
Net loss	-	-	-	(5,321)	-	(793)	(6,114)
Other comprehensive income	-	-	-	-	507	-	507
Share-based payment (note 8, 11)	-	-	1,990	-	-	-	1,990
Employee Share Purchase Plan (note 11)	(86,260)	(265)	95	-	-	-	(170)
Issuance of shares, net of share issuance costs (note 6, 9, 11)	9,530,826	27,610	-	-	-	-	27,610
Derecognition of subsidiary	-	-	-	(888)	-	888	-
Balance as of September 30, 2018	39,957,478	$ 136,555	$ 3,531	$ (72,156)	$ 11,719	$ -	$ 79,649

	Number of shares outstanding	Share capital	Share-based payment reserve	Accumulated deficit	Accumulated other comprehensive income (loss)	Non-controlling interest	Total equity
Balance as of January 1, 2017	21,916,813	$ 90,929	$ 1,087	$ (62,208)	$ 11,515	$ 107	$ 41,430
Net Loss	-	-	-	(3,900)	-	(53)	(3,953)
Other comprehensive loss	-	-	-	-	(778)	-	(778)
Share-based payment (note 11)	-	-	338	-	-	-	338
Balance as of September 30, 2017	21,916,813	$ 90,929	$ 1,425	$ (66,108)	$ 10,737	$ 54	$ 37,037

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

	Nine months ended September 30, 2018		2017	
Cash flows from operating activities				
Net loss	$	(6,114)	$	(3,953)
Adjustments to reconcile loss to net cash used in operating activities				
Share-based payment		2,085		338
Depreciation and amortization		3,076		3,114
Finance expense, net		4,422		1,731
Share of net income of equity method investments (note 12)		(15)		-
Derecognition of subsidiary		(1,092)		-
Fair value adjustment expense		3,795		-
Loss from sale of property, plant and equipment		656		129
Income taxes		1,183		435
Unrealized foreign exchange (gains) losses		(726)		-
		13,384		5,747
Changes in asset and liability items				
Increase in trade receivables		(7,592)		(6,552)
Increase in other current assets		(3,202)		(1,219)
Decrease (increase) in inventories		1,302		(855)
(Decrease) increase in trade payables and liabilities		(1,795)		2,934
		(11,287)		(5,692)
Cash paid and received during the year for				
Interest paid, net		(1,847)		(166)
Taxes paid, net		(723)		(368)
		(2,570)		(534)
Net cash used in operating activities		(6,587)		(4,432)
Cash flows from investing activities				
Purchase of property, plant and equipment	$	(2,407)	$	(1,649)
Proceeds from sale of property, plant and equipment		(10)		173
Business acquisition		(68,113)		-
Net used in investing activities		(70,530)		(1,476)
Cash flows from financing activities				
Net proceeds from share issuance	$	21,005	$	-
Proceeds from convertible debenture issuance		17,250		-
Net borrowings (repayment) of loans and credit from banks		(6,942)		919
Net borrowings under the term loan		29,548		-
Net cash generated in financing activities		60,861		919
Exchange difference on balances of cash and cash equivalents		154		(272)
Decrease in cash and cash equivalents	$	(16,102)	$	(5,261)
Cash and cash equivalents at the beginning of the year		35,156		18,480
Cash and cash equivalents at the end of the period	$	19,054	$	13,219

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

NOTE 1: NATURE OF OPERATIONS

Baylin Technologies Inc. ("Baylin" or the "Company") was incorporated pursuant to the laws of the province of Ontario on September 24, 2013. The Company's registered office is located at 4711 Yonge Street, Suite 500, Toronto, Ontario, Canada. The Company's shares are publicly traded on the Toronto Stock Exchange (TSX: BYL).

Baylin, together with its subsidiaries, inclusive of the current year acquisitions of Advantech Wireless and Alga Microwave Inc. (the "Group"), is a leading, diversified, global wireless technology management company. Baylin focuses on research, design, development, manufacturing and sales of passive and active radio frequency ("RF") and terrestrial microwave products and services. The Company's products are marketed and sold under the brand names Galtronics, Advantech Wireless, Alga Microwave and Mitec through certain subsidiaries of the Company.

Approval of financial statements

These interim condensed consolidated financial statements of the Company for the three and nine months ended September 30, 2018 have been prepared by management of Baylin and were authorized for issue in accordance with a resolution of the audit committee on October 31, 2018.

NOTE 2: BASIS OF PREPARATION

The interim condensed consolidated financial statements for the three and nine months ended September 30, 2018, 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, 2017 (the "Annual Financial Statements") which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

NOTE 3: SIGNIFICANT ACCOUNTING POLICIES

As of September 30, 2018 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 5 and as noted below.

Equity Method

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. 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 has 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 with any gain or loss flowing through profit or loss.

NOTE 4: SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

There have been no significant changes to our critical accounting judgments, estimates and assumptions made since our annual financial reporting for the year ended December 31, 2017, except for the following:

Management applies IFRS 3, Business Combinations, to account for business acquisitions. Significant judgment is required in identifying and determining the fair value of assets and liabilities acquired, including assets and residual goodwill, if any. As at September 30, 2018, the final purchase price allocations for the business combinations disclosed in Note 6 were not complete as further information was required. Provisional amounts are reported and disclosed in Note 6. New information obtained during the measurement period may result in an adjustment to some or all of the provisional amounts.

As disclosed in Note 6, Advantech Wireless Inc. may be entitled to additional compensation between $750 and $3,000 conditional on Advantech (as defined in Note 6) meeting certain performance targets in each of 2018 and 2019. Further, as disclosed in Note 6, the vendors of Alga Microwave Inc. may be entitled to receive additional compensation of up to $2,000 conditional on Alga meeting certain performance targets in 2018 and each of 2019 and 2020. The Company's liability for the additional compensation to Advantech Wireless Inc. and to the vendors of Alga Microwave Inc. is carried at fair value. Management uses current and historical operational results, estimates and probabilities of future earnings and discounted cash flows to estimate the additional compensation. Significant judgement and estimation was applied in arriving at the discount rate used to determine the fair value of the time based 385,802 share release portion of the consulting agreement as disclosed in Note 6. Changes in these estimates may affect the carrying values of the Company's liability and the related gain or loss in the statement of loss and comprehensive loss as reported under finance expense, net.

The Company generally utilizes the Black-Scholes option pricing model to determine the fair values of stock-based payments, warrants and deferred share units. The Company uses significant judgement in the calculation 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.

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

New standards and amendments adopted

Certain new standards and amendments became effective on January 1, 2018 including IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. The Company has applied IFRS 15 on a modified retrospective basis such that the cumulative effect of initially applying this standard is recognized at the date of initial application. Comparative information has not been restated and is accounted for under IAS 18.

Revenue from Contracts with Customers is recognized when a customer obtains control of the promised asset and the Company satisfies its performance obligation. Revenue is allocated to each performance obligation.

The Company considers the terms of the contract in determining the transaction price. The transaction price is based upon the amount the entity expects to be entitled to in exchange for the transferring of promised goods. The Company earns revenue from contracts with customers related to its product sales. The Company satisfies its performance obligations for its product sales based upon specified contract terms which are generally upon shipment or upon delivery. Revenue from sales is recorded based upon agreed prices of the expected shipment.

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. The adoption of IFRS 9 from January 1, 2018 resulted in changes in accounting policies. In accordance with the transitional provisions in IFRS 9 comparative figures have not been restated. The new accounting policies are set out below.

As of January 1, 2018 (the date of initial application of IFRS 9), the Company's management has assessed that the Company has a business model whose objective is to hold financial assets held by the Group in order to collect contractual cash flows and has determined that amortized cost is the appropriate IFRS 9 category. The Company was required to revise its impairment methodology under IFRS 9. There was no additional impairment loss identified. There was no impact from the IFRS 9 adoption on the Company's financial liabilities as these continued to be accounted as financial liabilities at amortized cost.

Financial liabilities at fair value through profit and loss (FVTPL) are liabilities which include contingent consideration and cannot be classified as at amortized cost. Cash flows from the Company's contingent consideration liability incorporate estimates and probabilities of future earnings and discounting of the cash flows. Financial liabilities at FVTPL are initially recognized at fair value with changes to fair value recognized in the consolidated statements of loss and other comprehensive loss.

New standards and interpretations not yet adopted

In Note 5 to the Annual Financial Statements, the following are new standards that have been issued but are not yet in effect and which are relevant to the Group:

(a) IFRS 16 Leases, effective for annual periods beginning on or after January 1, 2019. The Company has commenced activities to adopt the new standard.

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

NOTE 6: ACQUISITIONS

Advantech

On January 17, 2018, through a wholly-owned subsidiary, the Company acquired (the "Advantech Acquisition") the assets of the radio frequency, terrestrial microwave and antenna equipment divisions of Advantech Wireless Inc. and certain of its affiliates (collectively, "Advantech"). Advantech is a leading designer and manufacturer of customizable radio frequency, terrestrial microwave and antenna products for highly specialized wireless communications markets. The Advantech Acquisition provides entry into the satellite connectivity market broadening the Company's product offering and expanding the Company's geographical footprint.

The purchase price paid for the Advantech Acquisition was $49,000, subject to customary adjustments, of which $48,000 was paid in cash and $1,000 was satisfied through the issuance of 308,642 common shares of the Company at a deemed price of $3.24 per share. The provisional recorded amount of the Advantech Acquisition was $48,531 due to the additional amount recorded as contingent consideration and included within other long-term liabilities (Note 14), offset by amounts expected to be received as a result of working capital adjustments.
The purchase price for the Advantech Acquisition is subject to customary post-closing adjustments and Advantech Wireless Inc. may be entitled to additional compensation between $750 and $3,000 conditional on Advantech meeting certain performance targets in each of 2018 and 2019. The fair value of the additional compensation was determined by applying a probability metric to expected compensation and is recorded within Other long term liabilities.

The Advantech Acquisition was financed using the Company's available cash and the Loan (as defined in Note 8).

In connection with the Advantech Acquisition, Advantech Wireless Inc. entered into a consulting agreement with the Company, pursuant to which Advantech Wireless Inc. agreed to provide the services of its principals David and Stella Gelerman for a period of two years following closing of the Advantech Acquisition. In consideration for these services, Advantech Wireless Inc. will receive a fee of $2,500, payable, as to one-half, in cash in quarterly instalments and, as to one-half, through the issuance of 385,802 common shares at closing of the Advantech Acquisition at a deemed price of $3.24 per share. The trading of such shares is subject to certain time release restrictions for a period of up to 24 months following the closing of the Advantech Acquisition.

Canadian dollars in thousands, except per share amounts

This transaction qualifies as a business combination and was accounted for in accordance with IFRS 3 Business Combinations using the acquisition method of accounting. To account for the transaction, the Company has performed a preliminary business valuation of Advantech at the date of acquisition and a preliminary purchase price allocation. At the time of issuance of these financial statements, certain aspects of the valuation, including working capital adjustments, are not finalized and the business valuation and the purchase price allocations are subject to change.

The following table summarizes closing date provisional fair values of the net identifiable assets acquired pursuant to the Advantech Acquisition:

	Provisional Fair Values January 17, 2018
Trade receivables	$ 3,441
Inventory	7,129
Other current assets	161
Property, plant and equipment	874
Goodwill and intangibles	43,194
Accounts payables and accrued liabilities	(6,268)
	$ 48,531

Trade receivables have been reflected at fair value which represent gross contractual amounts receivable.

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”). Alga is a leading supplier of RF and microwave solid state power amplifiers, pulsed amplifiers for radar applications, transmitter and transceiver products as well as RF passive components and systems. The Alga Acquisition enhances the Company’s satellite connectivity product offering, provides a modern facility for expansion and adds experienced employees to the Company’s management team.

The purchase price for the Alga Acquisition was $25,000, subject to customary adjustments. The purchase price was satisfied by the payment of $21,000 in cash and the issuance of $4,000 in common shares of the Company at a deemed price of $3.40 per share. Pursuant to the terms of the Alga Acquisition, the vendors may be entitled to receive additional compensation of up to $2,000 conditional on Alga meeting certain performance targets in 2018 and each of 2019 and 2020. The fair value of the additional compensation was determined by applying a probability metric to expected compensation and is recorded within Other long-term liabilities and Accounts payable and accrued liabilities.

Canadian dollars in thousands, except per share amounts

Concurrent with the closing of the Alga Acquisition, Baylin acquired, through a wholly-owned subsidiary, the premises in which Alga's operations are primarily conducted (the "Alga Facility") for a purchase price of $6,200. The purchase price for the Alga Facility was satisfied in part by the assumption of existing debt, with the balance of the purchase price payable to the vendor one year after closing and bearing interest at 8% per annum, payable quarterly, and repayable at any time without penalty. The Company repaid the amount owing to the vendor on September 12, 2018. The existing debt, assumed by the Company, due to a Canadian chartered bank, had a principal amount of $2,991 at the closing of the acquisition of the Alga Facility, bears interest at 3.24% and matures on December 19, 2018. Blended payments of principal and interest are payable in the amount of $22 monthly. The Company and certain of its subsidiaries are guarantors of the loan and granted and pledged certain security in favour of the lender including the Alga Facility. The loan agreement contains certain covenants that the Company must comply with. The loan agreement also includes other customary covenants and events of default. The Company is in compliance with all of the covenants under the loan agreement as at the date of these Interim Condensed Consolidated Financial Statements.

A portion of the net proceeds of the Offering (as defined in Note 9), was used to satisfy payment of the cash purchase price for the Alga Acquisition.

This transaction qualifies as a business combination and was accounted for in accordance with IFRS 3 Business Combinations using the acquisition method of accounting. To account for the transaction, the Company has performed a preliminary business valuation of Alga at the date of acquisition and a preliminary purchase price allocation. At the time of issuance of these financial statements, certain aspects of the valuation are not finalized and the business valuation and the purchase price allocations are subject to change.

	Provisional Fair Values July 11, 2018
Cash & Bank	$ 887
Trade receivables	4,515
Other current assets	47
Inventories	4,980
Property, plant and equipment	6,950
Goodwill and intangibles	19,283
Accounts payable and accrued liabilities	(2,885)
Long-term liabilities	(6,200)
	$ 27,577

Trade receivables have been reflected at fair value which represent gross contractual amounts receivable.

If the Advantech Acquisition and Alga Acquisition had occurred on January 1, 2018, consolidated pro-forma revenue and net loss for the nine months ended September 30, 2018 would have been $109,176 and $3,831.

Transaction costs of $3,632 were expensed during the nine months ended September 30, 2018 and are included in Acquisition expenses.

NOTE 7: CREDIT FROM BANKS

The Group has revolving credit lines which are being drawn as needed. As at September 30, 2018, the aggregate credit facility of the Group was approximately $10,768 of which $353 was drawn and utilized. As at December 31, 2017, the aggregate credit facility of the Group was approximately $10,338 of which $4,506 was drawn and utilized.

a. The Company has a revolving credit facility with Hong Kong Shanghai Bank Corporation for up to $5,267. This facility is collateralized by the Company's accounts receivables and inventory. There were no borrowings under the facility as at September 30, 2018 and December 31, 2017.

b. The Company's Chinese subsidiary has a Renminbi equivalent $3,580 short-term credit facility with the Shanghai Pudong Development Bank secured by the Company's Chinese subsidiary building. As at September 30, 2018, there was no outstanding balance under this facility. As at December 31, 2017, the full balance was outstanding under this facility.

c. The Company's Vietnamese subsidiary entered into a $1,448 credit facility with a Vietnamese bank in United States Dollar equivalent. This facility is collateralized by certain equipment owned by the Company's Vietnamese subsidiary. As at September 30, 2018, there was $353 outstanding under this facility due in 2019. As at December 31, 2017, there was $1,036 outstanding under this facility.

d. The Company's Korean subsidiary has a $473 short-term credit facility with the Shinhan Bank in South Korean Won currency equivalent. The credit facility is secured by an irrevocable letter of credit issued by Baylin to the lender in Korea. As at September 30, 2018 and December 31, 2017, no balance was outstanding under this facility.

The Group's ability to utilize bank credit facilities is dependent on being able to provide collateral in accordance with the requirements of the banks providing credit facilities. Bank credit facilities are for working capital and are secured by the Group's building in China, accounts receivable, inventory and certain equipment owned by the Company's Vietnamese subsidiary. The company is in compliance with all of its covenants.

NOTE 8: TERM LOAN

On January 17, 2018, in connection with the Advantech Acquisition (Note 6), the Company entered into a term loan ("Loan") with Crown Capital Fund IV, LP ("Lender") with a principal amount of $33,000, an annual interest rate of 9% and a maturity date of January 17, 2023. Interest on the Loan is payable monthly in arrears. Baylin and certain of its subsidiaries are guarantors of the Loan and granted and pledged certain security in favour of the Lender including, without limitation, a general security agreement, as well as executing and delivering in favour of the Lender various other loan documents. The credit agreement applicable to the Loan contains certain covenants that the Company must comply with including the following financial covenants: a fixed charge coverage ratio and net debt to trailing twelve month ("TTM") EBITDA ratio (as defined in the Loan agreement dated January 17, 2018, as amended) calculated at the end of each quarter. The credit agreement also includes other customary covenants and events of default. The Company is in compliance with all of the covenants under the credit agreement as at September 30, 2018.

In connection with the Loan, the Company issued warrants to acquire 682,500 common shares at an exercise price of $3.37 per common share and valued at $1,065 included in Share-based payment reserve (using the following Black-Scholes model inputs: expected volatility of the stock prices % of 50.50, risk-free interest rate % of 0.90, 5 year expected life and $1.56 warrant fair value at the grant date) expiring on January 17, 2023.

Debt issuance costs of $3,452, including the warrants, were incurred and have been capitalized against the Loan. During the period from January 18, 2018 to September 30, 2018, $368 of amortization of debt issuance costs was recognized in finance expense.

NOTE 9: CONVERTIBLE DEBENTURES

On July 10, 2018, the Company completed a bought deal public offering of 7,419,355 subscription receipts ("Subscription Receipts") at $3.10 per subscription receipts and $17,250 principal amount of 6.5% extendible convertible unsecured debentures ("Debentures") for aggregate gross proceeds of $40,250 (the "Offering"). The Debentures bear interest at a rate of 6.5% per annum, payable in arrears semi-annually on June 30 and December 31 of each year, and mature on July 10, 2023 (the "Maturity Date"). On July 11, 2018, upon satisfaction of certain escrow release conditions, each Subscription Receipt was converted into one common share.

The Debentures are convertible at the holder's option into common shares at any time prior to the close of business on the earliest of: (i) last business day before the Maturity Date; or (ii) if called for redemption, the business day immediately preceding the date specified by the Company for redemption, at a conversion price of $3.85 per common share (the "Conversion Price"), being a ratio of approximately 260 common shares per $1 principal amount of Debentures, subject to adjustment in certain events in accordance with a convertible debenture indenture dated July 10, 2018 (the "Indenture").

The Debentures will not be redeemable by the Company prior to July 10, 2021 (except in certain limited circumstances following a Change of Control (as defined in the Indenture)). On or after July 10, 2021, and prior to the Maturity Date, the Company may, at its option, subject to providing not more than 60 days' and not less than 30 days' prior notice, redeem the Debentures, in whole or, from time to time, in part, at par plus accrued and unpaid interest provided that the volume weighted-average trading price of the common shares on the Toronto Stock Exchange (the "TSX") for the 20 consecutive trading days ending five trading days preceding the date on which notice of redemption is given (the "Current Market Price") is not less than 125% of the Conversion Price. The Company may, at its option, subject to regulatory approval, elect to satisfy its obligation to pay the principal amount of Debentures on redemption or at maturity, provided no Event of Default (as defined in the Indenture) has occurred and is continuing at such time, upon not more than 60 days' and not less than 30 days' prior written notice, by delivering that number of freely tradeable common shares obtained by dividing the principal amount of the Debentures being repaid by 95% of the Current Market Price on the date of redemption or maturity, as applicable.

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

Canadian dollars in thousands, except per share amounts

The Company paid the underwriters a cash commission equal to 6.0% of the aggregate principal amount of the Debentures issued, except Debentures issued to certain directors and officers of the Company for which a reduced commission of 3.0% was paid.

During the three months ended September 30, 2018, the Company incurred and expensed $1,117 in transaction costs related to the offering of the Debentures. As at September 30, 2018, no interest has been paid and no shares have been issued on conversion of the Debentures.

	Debentures Principal	Debentures Fair Value
Issued July 10, 2018	17,250	17,250
Redemption	-	-
Fair value adjustment	-	3,795
Outstanding, September 30, 2018	17,250	21,045

NOTE 10: 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 11: SHARE-BASED PAYMENTS

a. Pursuant to the Company's Deferred Share Unit Plan for directors of the Company (the “DSU Plan”), the Company grants deferred share units (“DSUs”) to directors as part of its long-term incentive compensation plan. Unless otherwise approved by the board of directors, each director may elect to receive between 50% and 100% of their annual retainers in DSUs. If no election is made, a deemed election of 50% applies. The number of DSUs issued is determined each month while the applicable director is serving as a board member. DSUs granted will be settled by purchasing and providing common shares on the date the director ceases to be a director of the Company. The number of DSUs issuable is limited to 500,000 units.

Canadian dollars in thousands, except per share amounts

The following table lists the number of DSUs issued:

	Number of DSUs	Weighted average price per DSU
DSUs outstanding at January 1, 2018	302,422	$ 2.20
DSUs granted during 2018	39,876	$ 3.60
DSUs outstanding at September 30, 2018	342,298	$ 2.37

	Number of DSUs	Weighted average price per DSU
DSUs outstanding at January 1, 2017	224,827	$ 2.00
DSUs granted during 2017	55,687	$ 2.09
DSUs outstanding at September 30, 2017	280,514	$ 2.02

The company recognized an expense of $144 in the nine months ended September 30, 2018 and $148 in the nine months ended September 30, 2017 within general and administrative expenses with regards to the DSU Plan.

b. The Company's stock option plan (the "Stock Option Plan") was adopted so the board of directors can grant stock options to directors, officers, employees and consultants of the Company (or its affiliates) as performance incentives. There are limitations on the number of common shares issuable under the Stock Option Plan (and all other security based compensation arrangements), as well as limitations on the number of common shares issuable to insiders (or their affiliates). At the time of granting a stock option, the board of directors must approve: (i) the exercise price, being not less than the market value of the common shares; (ii) the vesting provisions, generally that one third vest on each anniversary of the grant date (except as noted below); and, (iii) the expiry date, generally being no more than seven years after the grant date.

The below table summarizes grants made under the Stock Option Plan as at September 30, 2018:

				Options vested as at:	
Stock option grant date	**Stock options granted**	**Exercise price**	**Option expiry date**	**September 30, 2018**	**December 31, 2017**
August 24, 2015	925,000	$ 1.51	August 24, 2020	925,000	925,000
March 30, 2017	685,000	$ 1.98	March 30, 2022	228,333	-
August 8, 2017	500,000	$ 2.00	August 8, 2022	166,667	-
March 10, 2018	30,000	$ 3.51	January 8, 2023	-	-
May 17, 2018	280,000	$ 3.34	May 17, 2023	-	-
May 22, 2018	25,000	$ 3.34	May 22, 2023	-	-
July 11, 2018	197,500	$ 3.50	July 11, 2023	-	-

Canadian dollars in thousands, except per share amounts

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	Expected volatility of the stock prices (%)	Risk-free interest rate (%)	Expected life of stock options (years)	Option fair value at the grant date (CAD)
August 24, 2015	925,000	44.42 – 45.29	0.90	2.67 – 3.25	$ 0.44 – 0.48
March 30, 2017	685,000	50.48	1.10	5.0	$ 0.89
August 8, 2017	500,000	48.69	1.55	5.0	$ 0.89
March 10, 2018	30,000	50.41	1.98	5.0	$ 1.42
May 17, 2018	280,000	50.91	2.04	5.0	$ 1.89
May 22, 2018	25,000	50.29	2.30	5.0	$ 1.45
July 11, 2018	197,500	48.87	2.07	5.0	$ 1.36

The Company recognized expenses during the nine months ended September 30, 2018 due to the stock options under the Company's Stock Option Plan in the amount of $697 as general and administrative expenses and $190 during the nine months ended September 30, 2017.

c. In March 2018, the Company granted certain employees and executives 49,738 restricted common shares. Fifty percent of the common shares vest 12 months subsequent to the date of grant and fifty percent vest 24 months subsequent to the date of the grant. The Company recognized $83 in general and administrative expenses for the nine months ended September 30, 2018.

d. In January 2018, certain employees of the Company ("Participants") commenced participation in the Employee Share Purchase Plan ("ESPP"). The Company will grant each Participant a number of shares equal to each Participant's annual share purchase commitment. A total of 83,968 common shares of the Company were acquired for an aggregate purchase price of $265 to fulfill the Company's obligations under the ESPP. The Company recognized $95 in general and administrative expenses for the nine months ended September 30, 2018 with regards to the ESPP.

e. The Company recognized $138 in general and administrative expenses for the nine months ended September 30, 2018 in terms of the Employee Share Compensation Plan ("ESCP").

f. In connection with the Advantech Acquisition (Note 6), Advantech Wireless Inc. entered into a consulting agreement with the Company payable as to one-half through the issuance of 385,802 common shares at closing of the Advantech Acquisition at a deemed price of $3.24 per share. The trading of such shares is subject to certain time release restrictions for a period of up to 24 months following the closing of the Advantech Acquisition. The Company estimated the fair value of the shares issued by taking into account the time release restrictions and recognized $1,082 in general and administrative expenses for the nine months ended September 30, 2018 with regards to the common shares issued in relation to the consulting agreement.

Canadian dollars in thousands, except per share amounts

g. In connection with the Advantech Acquisition (Note 6), on January 17, 2018, the Company issued 308,642 common shares of the Company at a deemed price of $3.24 per share, in partial satisfaction of the purchase price for the Advantech Acquisition.

h. In connection with the Alga Acquisition (Note 6), on July 11, 2018, the Company issued 1,176,470 common shares to the vendors of Alga at a deemed price of $3.40 per share, in partial satisfaction of the purchase price for the Alga Acquisition.

NOTE 12: 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. During the quarter the company ceased consolidating GTC.

For the period ended September 30, 2018, transactions between Baylin and GTC and AWR totaled $2,640 consisting primarily of revenue earned related to the services agreements.

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

	As at September 30, 2018		
	Galtronics Canada Ltd.	**Advantech Wireless Research Inc.**	**Total**
Cash	$ 38	$ -	$ 38
Other current assets	5	5	10
Accounts receivables	10	1,621	1,631
Property, plant and equipment	62	-	62
Accounts payables and accrued liabilities	(425)	(1,545)	(1,970)
Net assets (liabilities)	(310)	81	(229)
Share of equity method investment net assets (liability)	$ (59)	$ 15	$ (44)
Unrecognized equity method losses	59	-	59
	$ -	$ 15	$ 15

Canadian dollars in thousands, except per share amounts

	For the nine months ended September 30, 2018		
	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total
Revenue	$ 754	$ 1,620	$ 2,374
Expenses	1,064	1,539	2,603
Net income (loss)	(310)	81	(229)
Share of equity method investment net income (loss)	$ (59)	$ 15	$ (44)
Unrecognized share of equity method investment net loss	59	-	59
	$ -	$ 15	$ 15

NOTE 13: RELATED PARTY TRANSACTIONS

Share-based payment for executive officers

These amounts represent the costs of the key executives and employees' grants under the Company's employee share compensation plan and are recognized within general and administrative expenses.

Share-based payment for directors

These amounts represent the costs of directors' grants under the Company's DSU Plan and are recognized within general and administrative expenses.

Employee Purchase Plan

These amounts represent the costs of grants under the Company's ESPP and are recognized within general and administrative expenses.

Advantech Wireless Inc.

As described in Note 6, on January 17, 2018, the Company completed the Advantech Acquisition. Advantech Wireless Inc. is owned and controlled by David Gelerman, a director of the Company.

Pursuant to the terms of the Advantech Acquisition, Advantech Wireless Inc. may be 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.

In connection with the Advantech Acquisition, Advantech Wireless Inc. entered into a consulting agreement with the Company payable in cash and common shares as detailed in Note 6. $1,551 was recognized in general and administrative expenses for the nine months ended September 30, 2018.

Subsequent to the end of the quarter ended September 30, 2018, the Company received a payment from the escrow agent of approximately $1,800 as a result of an indemnity claim made by the Company against the portion of the cash purchase price being held in escrow pursuant to the terms of the Advantech Acquisition. Such amount, which was a receivable at September 30, 2018, was included as an offset against general and administrative and selling and marketing expenses for the third quarter of 2018. Certain other indemnity claims have been asserted by the Company to the escrow agent, which claims remain subject to ongoing discussions between the Company and Advantech Wireless Inc.

During the nine months ended September 30, 2018, Advantech Wireless Inc. and certain of its affiliates acted as agent for the Company through $8,615 cash collections and $7,467 cash payments on its behalf. As at September 30, 2018, $365 due to the Company was included in trade receivables and $129 due to the agent was included in accounts payable and accrued liabilities.

For the nine months ended September 30, 2018, $148 was recognized in cost of sales and $87 in general and administrative expenses for premises subleased from Advantech Wireless Inc. and certain of its affiliates.

During the period from closing of the Advantech Acquisition to September 30, 2018, the Company provided services to Advantech Wireless Inc. and certain of its affiliates in the amount of $245. As of September 30, 2018, $26 was included within trade receivables.

Alga

For the nine months ended September 30, 2018, $60 was recognized in revenue for premises leased to a company owned by Michael Perelshtein and Frank Panarello, employees of Alga Microwave Inc.

In connection with the acquisition of Alga Microwave, Michael Perelshtein and Frank Panarello, employees of Alga Microwave, may be entitled to additional compensation of up to $2,000 conditional on the Alga Microwave business meeting certain performance targets in 2018 and each of 2019 and 2020.

Offering

Certain directors and officers of the Company, directly and indirectly, purchased an aggregate of 3,791,724 Subscription Receipts and $8,692 principal amount of Debentures pursuant to the Offering.

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. The agreement has been renewed for one year terms on each of January 1, 2016, January 1, 2017 and most recently on January 1, 2018. As consideration for the services provided under the agreement, the Company agreed to pay Mr. Royer an annual fee of $150 either in cash or securities of the Company as mutually agreed between the Company and Mr. Royer. Mr. Royer irrevocably renounced to be paid any amount under this agreement for the years ended December 31, 2015, 2016 and 2017. For the nine months ended September 30, 2018, the Company paid $113 to Mr. Royer under this agreement.

Canadian dollars in thousands, except per share amounts

Director and executive officer remuneration

The following comprise the remuneration for directors and executive officers:

a. Short-term benefits, pension and post-retirement benefits

These amounts comprise of executive officers' salary and benefits earned during the year, plus bonuses awarded for the year. The amounts also represent the estimated costs of providing defined benefit pensions and other post-retirement benefits to executive officers in respect of the current year of service.

b. Directors' remuneration

These amounts represent fees and expense reimbursement paid to directors.

c. Share-based payment for executive officers

These amounts represent the costs of the grants under the Stock Option Plan.

d. Share-based payment for directors

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

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

	Nine months ended September 30, 2018	2017
Short-term benefits, pension and post-retirement benefits	$ 4,190	$ 3,821
Directors' remuneration	125	11
Share based payment for executive management	697	190
Share based payment for directors	144	148

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

NOTE 14: FAIR VALUE MEASUREMENTS

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

Canadian dollars in thousands, except per share amounts

The following table presents the Company's financial liabilities measured and recognized at fair value at September 30, 2018 (December 31, 2017: none).

As at September 30, 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
Convertible Debentures	21,045	-	-	21,045
Current portion of other long-term liabilities within Accounts payable and accrued liabilities	-	-	1,746	1,746
Other long-term liabilities	-	-	1,029	1,029

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, 2017, the company did not hold any instruments included 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 September 30, 2018 and December 31, 2017, the company did not hold any instruments 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.

Historical results, anticipated future results and general market conditions were used to estimate significant unobservable inputs in level 3 fair value measurements, these were discounted at rates varying between 9% and 15% dependant on the financial liability being assessed.

NOTE 15: REVENUE

Revenues by geographic destination are as follows:

	For the nine months ended September 30,		For the three months ended September 30,	
	2018	**2017**	**2018**	**2017**
Asia Pacific	$ 55,878	$ 53,367	$ 21,424	$ 20,782
North America	32,808	12,564	12,005	5,894
Europe, Middle East and Africa	9,364	1,129	4,087	440
Other	2,155	230	673	24
	$ 100,205	$ 67,290	$ 38,189	$ 27,140

NOTE 16: SUBSEQUENT EVENTS

The working capital adjustment related to the purchase price for the Alga Acquisition (in accordance with the Share Purchase Agreement for the Alga Acquisition dated June 28, 2018) was finalized and paid to the vendors of Alga Microwave Inc. in the amount of $433. This amount has been updated in Alga's provisional fair values as at July 11, 2018 (note 6).