**BAYLIN TECHNOLOGIES INC.**

**INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**AS AT JUNE 30, 2021**

**(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, 2021 have been prepared by management. Baylin's independent auditor has not performed a review of these interim condensed consolidated financial statements; in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditors.

## INDEX



Date of approval of consolidated financial statements: August 11, 2021

| *"Jeffrey C. Royer"* | *"Leighton Carroll"* |
|---|---|
| **Jeffrey C. Royer** | **Leighton Carroll** |
| **Chairman of the Board of Directors** | **President and Chief Executive Officer** |

# Baylin Technologies Inc.

Interim Condensed Consolidated Statements of Financial Position (unaudited)

Canadian dollars in thousands

| | June 30, 2021 | December 31, 2020 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 8,582 | $ 11,205 |
| Trade and other receivables | 17,230 | 20,327 |
| Other current assets | 7,181 | 6,820 |
| Inventories | 15,094 | 19,669 |
| | 48,087 | 58,021 |
| NON-CURRENT ASSETS | | |
| Property, plant and equipment | 21,390 | 23,658 |
| Right of use assets | 12,262 | 12,669 |
| Other long-term assets | 546 | 727 |
| Deferred tax assets | 6,986 | 7,126 |
| Equity method investment | 120 | 119 |
| Intangibles | 12,736 | 15,245 |
| Goodwill | - | 15,908 |
| | 54,040 | 75,452 |
| TOTAL ASSETS | $ 102,127 | $ 133,473 |
| **LIABILITIES AND EQUITY** | | |
| CURRENT LIABILITIES | | |
| Credit from banks | $ 10,482 | $ 10,129 |
| Accounts payable and accrued liabilities | 25,975 | 21,220 |
| Short-term portion of long-term loans | 19,336 | 3,820 |
| Short-term portion of lease liability | 1,226 | 1,200 |
| Short-term portion of other long-term liabilities | 603 | - |
| Income tax payable | 172 | 101 |
| | 57,794 | 36,470 |
| NON-CURRENT LIABILITIES | | |
| Long-term portion of lease liability | 10,882 | 11,180 |
| Long-term loans | 2,413 | 17,937 |
| Convertible debentures | 4,885 | 14,178 |
| Employee benefit liabilities, net | 2,137 | 2,314 |
| Deferred tax liabilities | 1,232 | 1,489 |
| Other long-term liabilities | 995 | 1,042 |
| | 22,544 | 48,140 |
| TOTAL LIABILITIES | 80,338 | 84,610 |
| SHAREHOLDERS' EQUITY | | |
| Share capital | 158,693 | 142,160 |
| Share-based payment reserve | 3,680 | 4,426 |
| Accumulated other comprehensive income | 10,321 | 10,785 |
| Accumulated deficit | (150,905) | (108,508) |
| TOTAL EQUITY | 21,789 | 48,863 |
| TOTAL LIABILITIES AND EQUITY | $ 102,127 | $ 133,473 |

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 six months ended June 30, | | For the three months ended June 30, | |
|---|---|---|---|---|---|
| | | **2021** | **2020** | **2021** | **2020** |
| **Revenues** | Note 14 | $ 45,082 | $ 57,571 | $ 21,622 | $ 30,629 |
| **Cost of sales** | | 45,034 | 39,294 | 25,171 | 20,951 |
| **Gross profit (loss)** | | 48 | 18,277 | (3,549) | 9,678 |
| **Operating expenses** | | | | | |
| Selling and marketing expenses | | 4,207 | 5,009 | 2,114 | 2,323 |
| Research and development expenses | | 8,102 | 6,106 | 5,019 | 2,678 |
| General and administrative expenses | | 9,988 | 11,581 | 5,992 | 5,881 |
| Goodwill impairment | | 15,908 | - | 15,908 | - |
| | | 38,205 | 22,696 | 29,033 | 10,882 |
| **Operating loss** | | (38,157) | (4,419) | (32,582) | (1,204) |
| Finance expense (income), net | Note 15 | 1,475 | 3,381 | 561 | (258) |
| Investment income, net | Note 11 | (1) | (125) | (13) | 67 |
| Fair value adjustments | | 2,794 | (315) | 851 | 3,077 |
| **Loss before income taxes** | | (42,425) | (7,360) | (33,981) | (4,090) |
| Income tax (recovery) expense | | (28) | (192) | (46) | 617 |
| **Net loss** | | $ (42,397) | $ (7,168) | $ (33,935) | $ (4,707) |
| Items that may be reclassified to profit or loss | | | | | |
| Amount arising from translation of foreign operations, net of tax | | (464) | 1,661 | (249) | (1,074) |
| **Other comprehensive (loss) income (net of tax effect)** | | $ (464) | $ 1,661 | $ (249) | $ (1,074) |
| **Total comprehensive loss** | | $ (42,861) | $ (5,507) | $ (34,184) | $ (5,781) |
| **Basic and diluted net loss per share** | | $ (0.83) | $ (0.18) | $ (0.64) | $ (0.12) |
| **Weighted average shares outstanding** | | 50,962,220 | 40,259,828 | 53,144,490 | 40,255,962 |

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

# Baylin Technologies Inc.

Interim Condensed Consolidated Statements of Changes in Equity (unaudited)

Canadian dollars in thousands except number of shares outstanding

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

| | Number of shares outstanding | Share capital | Share-based payment reserve | Accumulated deficit | Accumulated other comprehensive income | Total equity |
|---|---|---|---|---|---|---|
| Balance as of January 1, 2020 | 40,231,090 | $ 137,195 | $ 2,715 | $ (91,584) | $ 10,555 | $ 58,881 |
| Net loss | - | - | - | (7,168) | - | (7,168) |
| Other comprehensive income | - | - | - | - | 1,661 | 1,661 |
| Share-based payments | 651,223 | 688 | 382 | - | - | 1,070 |
| Employee Share Compensation Plan and Purchase Plan | - | 125 | (54) | - | - | 71 |
| Balance as of June 30, 2020 | 40,882,313 | $ 138,008 | $ 3,043 | $ (98,752) | $ 12,216 | $ 54,515 |

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 six months ended June 30, 2021 | 2020 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss | $ (42,397) | $ (7,168) |
| Adjustments to reconcile net loss to net cash generated by (used in) operating activities | | |
| Share-based payment | 319 | 892 |
| Depreciation, amortization and impairment | 5,554 | 6,129 |
| Finance expense, net | 1,475 | 3,381 |
| Loss (gain) from sale of property, plant and equipment | 10 | (230) |
| Loss from disposal of right of use asset | - | 107 |
| Inventory provision | 6,588 | - |
| Share of net income of equity method investment | (1) | (125) |
| Income tax benefit | (28) | (192) |
| Fair value adjustment | 2,792 | (315) |
| Goodwill impairment | 15,908 | - |
| Unrealized foreign exchange gains | (692) | 355 |
| | 31,925 | 10,002 |
| Changes in asset and liability items | | |
| Decrease (increase) in trade receivables | 3,018 | (4,076) |
| (Increase) decrease in other current assets | (46) | 2,256 |
| (Increase) decrease in inventories | (2,160) | 367 |
| Increase in current liabilities and employee benefits | 4,611 | 2,706 |
| | 5,423 | 1,253 |
| Cash paid and received during the year for | | |
| Interest paid, net | (908) | (1,446) |
| Taxes paid, net | (183) | 119 |
| | (1,091) | (1,327) |
| Net cash (used in) generated by operating activities | (6,140) | 2,760 |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | $ (519) | $ (4,566) |
| Proceeds from sale of property, plant and equipment | - | 497 |
| Purchase of other long-term assets and development costs | - | (396) |
| Net cash used in investing activities | (519) | (4,465) |
| **Cash flows from financing activities** | | |
| Cash received from share issuance | $ 3,333 | $ 248 |
| Receipt of credit from banks and other long term loans | 3,686 | 4,716 |
| Repayment of term loan | (1,873) | (1,064) |
| Principal elements of lease payments | (674) | (784) |
| Net cash generated by financing activities | 4,472 | 3,116 |
| Exchange differences on balances of cash and cash equivalents | (436) | 497 |
| (Decrease) increase in cash and cash equivalents | $ (2,623) | $ 1,908 |
| Cash and cash equivalents at the beginning of the period | 11,205 | 13,974 |
| **Cash and cash equivalents at the end of the period** | $ 8,582 | $ 15,882 |

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

## NOTE 1: NATURE OF OPERATIONS

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

Baylin, together with its subsidiaries (collectively, the "Company" or the "Group"), is a leading diversified global wireless technology 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 VSAT. Baylin's common shares and convertible debentures are publicly traded on the Toronto Stock Exchange (TSX: BYL and BYL.DB).

### Approval of financial statements

These interim condensed consolidated financial statements of the Company for the three and six months ended June 30, 2021 have been prepared by management of Baylin and were authorized for issuance in accordance with a resolution of the board of directors on August 11, 2021.

## NOTE 2: BASIS OF PREPARATION

The interim condensed consolidated financial statements for the three and six months ended June 30, 2021 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, 2020 (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, 2021 there have been no material changes to the significant accounting policies as outlined in Note 3 of the Annual Financial Statements, except as disclosed in Note 4.

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

### New standards and amendments adopted

Certain new standards and amendments that have an impact on the interim condensed consolidated financial statements of the Company became effective on January 1, 2021 are as follows:

On August 27, 2020, the IASB issued 'Interest Rate Benchmark Reform — Phase 2' which amend IFRS 9 Financial Instruments, IFRS 7 Financial Instruments: Disclosures, IAS 39 Financial Instruments: Recognition and

Measurement, and IFRS 16 Leases. The amendments require additional disclosures for users to understand the nature and extent of risks arising from the IBOR reform and how the entity manages those risks.

**New standards and interpretations not yet adopted**

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

On January 23, 2020, the IASB issued Classification of Liabilities as Current or Non-Current (Amendments to IAS 1) providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements.

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

On May 14, 2020, the IASB issued amendments to IAS 16, Property, Plant and Equipment which prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss. An entity applies the amendments retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements.

On May 14, 2020, the IASB issued amendments to IAS 37, Provisions, Contingent Liabilities and Contingent Assets providing guidance regarding the costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract and can either be incremental costs of fulfilling that contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for annual periods beginning on or after January 1, 2022 with comparative figures not restated. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements.

On May 14, 2020, the IASB issued amendments to IFRS 9, Financial Instruments, which clarify which fees an entity includes when it applies the “10 per cent test” in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf. The amendments are effective for annual periods beginning on or after January 1, 2022. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements.

## NOTE 5: SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

In assessing the Company's ability to continue as a going concern, management has a reasonable expectation that the Company will be able (i) to raise $10,000 in common share financing and that it will be adequate to fund operating and debt service requirements for the next 12 months (see Note 16) and (ii) to refinance the Revolving Facility and Term Loan (together, the "Credit Facilities") when they mature on March 29, 2022.

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

There have been no other significant changes to the Company's critical accounting judgments, estimates and assumptions made since our annual financial reporting for the year ended December 31, 2020, except as discussed in Note 4. Impacts of the COVID-19 pandemic have been considered as of June 30, 2021 when assessing accounting judgments, estimates and assumptions.

## NOTE 6: GOODWILL

The Company determined that Advantech and Alga were one cash generating unit and thus should be assessed as a combined group ("Advantech and Alga Group"). The Company performed an impairment test as at June 30, 2021 due to indications that the Advantech and Alga Group as a cash generating unit may be impaired. The recoverable amount of the Company's goodwill has been determined by a value-in-use calculation using a discounted cash flow model, based on a 5 year projection period, together with a terminal value. Key assumptions are those to which the recoverable amount of an asset or cash-generating units is most sensitive.

The following key assumptions were used in the discounted cash flow model for Advantech and Alga Group cash generating unit as at June 30, 2021:

i. 20.5% pre-tax discount rate;
ii. -26.0% per annum growth rate for year 1;
iii. 35.0% per annum growth rate for year 2;
iv. 20.0% per annum growth rate for year 3;
v. 5.0% per annum growth rate for year 4;
vi. 2.0% per annum growth rate for year 5 and subsequent to year 5

Canadian dollars in thousands, except per share amounts

Based on the impairment analysis performed, the Company concluded the recoverable amount of the CGU, which has been determined by a value-in-use calculation using a discount cash flow model for the Advantech and Alga Group, is less than the carrying value, resulting in a goodwill impairment charge. The Company recorded an impairment expense during the six months ended June 30, 2021 of $15,908 within operating expenses.

## NOTE 7: 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 $20,000; and
- a term facility ("Term Loan") for up to $26,027.

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 and the standby fee on the undrawn portion of the Revolving Facility as at June 30, 2021 and December 31, 2020 were as follows:

| | **June 30, 2021** | **December 31, 2020** |
|---|---|---|
| Canadian dollar advances | 4.95% | 4.70% |
| US dollar advances | 6.25% | 6.00% |
| LIBO Rate advances | 3.60% | 3.40% |
| Standby fee | 0.70% | 0.65% |

The Group may draw on its available revolving credit lines under the Revolving Facility, the China loan (defined below) and the Korea loan (defined below) as needed. As at June 30, 2021, the aggregate revolving credit facilities of the Group were approximately $18,877, of which $10,482 was drawn and utilized. As at December 31, 2020, the aggregate revolving credit facilities of the Group were approximately $21,976 of which $10,129 was drawn and utilized.

As at June 30, 2021, $6,941 was outstanding, and as at December 31, 2020, $6,621 was outstanding, under the Revolving Facility.

The principal amount under the Term Loan was fully advanced in US dollars and was used to repay existing indebtedness. Quarterly principal payments in the amount of $930 commenced on June 30, 2019. The interest rate on the Term Loan is determined based on the LIBO Rate (as defined in the Credit Agreement) plus the applicable margin and the Senior Debt to EBITDA Ratio and is payable quarterly in arrears. The Lenders also agreed that the scheduled principal repayments on the Term Loan on June 30, 2020 and September 30, 2020 may be deferred at the Company's option. The scheduled principal repayments on the Term Loan for June 30, 2020 and September 30, 2020 were deferred.

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. The interest rate swap contract has been valued as a liability within other long-term liabilities on the balance sheet of $435 as at June 30, 2021 and $482 at December 31, 2020. The fair value of the interest rate swap contract was valued using a future LIBOR curve. The Revolving Facility and Term Loan (together, the "Credit Facilities") mature 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 10, 2021. The effect of these amendments is that:

- for the period from June 30 to December 31, 2021, there is no Senior Debt to EBITDA Ratio, and for the quarters ended March 31, 2022 and following, the Senior Debt to EBITDA Ratio will be 3.00:1.00;
- there is a minimum EBITDA covenant for the trailing twelve months ended September 30 and December 31, 2021;
- the Company is required at all times to maintain a minimum Liquidity of $7,000;
- the maximum availability under the Revolving Facility has been reduced to $15,000;
- the rate of interest that would otherwise apply at any time the Senior Debt to EBITDA Ratio is equal to or more than 2.75:1.00 has been increased by 0.25%; and
- the standby fee that would otherwise apply at any time the Senior Debt to EBITDA Ratio is equal to or more than 2.75:1.00 has been increased by 0.05%.

The amendments also included a waiver of compliance with applicable financial covenants for the quarter ended March 31, 2021.

The Company and its Lenders have agreed to further amendments to the Credit Agreement. These amendments include a waiver of compliance with the Fixed Charge Coverage Ratio as at June 30, 2021, change to the manner in which the Fixed Charge Coverage Ratio is calculated for the quarters ending September 30 and December 31, 2021, so that the twelve month calculation period commences July 1, 2021 on a cumulative basis, removal of the minimum EBITDA covenant and increase in the minimum Liquidity covenant from $7,000 to $10,000. The Lenders have also agreed to waive the obligation to apply the net proceeds from the Offering to repay debt provided that the proceeds are deposited in an account with one of the Lenders not later than September 1, 2021.

*China*

The Company's Chinese subsidiary has a $3,438 (December 31, 2020 - $3,508) short-term credit facility in Chinese Yuan and United States Dollar currency equivalency with the Shanghai Pudong Development Bank ("SPD"). The facility is secured by the Company's Chinese subsidiary's building. The loan interest rate is set at 1.55% plus the Chinese Central Bank lending rate. As at June 30, 2021 and December 31, 2020, the full balance was outstanding.

*Korea*

The Company's Korean subsidiary has a South Korean Won equivalent $439 (December 31, 2020 - $468) short-term credit facility with the Shinhan Bank. The facility is secured by an irrevocable letter of credit issued by Baylin to the lender in Korea. The loan interest rate is set at 1.4% plus the Korean Central Bank lending rate. As at June 30, 2021, $103 was outstanding, and as at December 31, 2020, there was no amount outstanding under this facility.

*Vietnam*

On October 14, 2020, one of the Company's subsidiaries in Vietnam ("GTD") entered into a credit agreement (the "Vietnam Credit Agreement") with HSBC Bank Vietnam Ltd. ("HSBC Vietnam") pursuant to which HSBC Vietnam established a credit facility in favour of GTD for up to the Vietnamese Dong equivalent of $3,113 (the "Vietnam Loan"). As at June 30, 2021, $3,016 was outstanding, and as at December 31, 2020, no amount 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 monthly in arrears. The Vietnam Loan matures on February 18, 2024 and the quarterly principal repayments commence on March 1, 2022. The Company's other Vietnamese subsidiary ("GTV") is a guarantor of the Vietnam Loan. The Vietnam Loan is secured by certain assets of GTD. The Vietnam Credit Agreement contains certain financial covenants, for both GTD and GTV, including a Debt Service Coverage Ratio and a Tangible Net Worth Ratio (as defined in the Vietnam Credit Agreement). The Vietnam Credit Agreement also includes other customary covenants and events of default.

## NOTE 8: CONVERTIBLE DEBENTURES

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

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

The Debentures are not 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.

Canadian dollars in thousands, except per share amounts

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

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.

On May 14, 2020, the Company offered holders of the Debentures the option to receive common shares (at 85% of their current market price) as an alternative to cash as payment of interest due on the interest payment date on June 30, 2020. The Company issued 355,840 common shares for a total of $329 to holders who exercised this option.

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

Canadian dollars in thousands, except per share amounts

| | Debentures Principal | Debentures Fair Value |
|---|---|---|
| Balance as of January 1, 2020 | $ 17,250 | $ 14,231 |
| Fair value adjustment | | (3,879) |
| Balance as of June 30, 2020 | $ 17,250 | $ 10,352 |

**NOTE 9: 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 10: SHARE CAPITAL AND SHARE-BASED PAYMENTS**

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

b. The Company may settle DSUs, PSUs and RSUs in (i) common shares issued from treasury, (ii) common shares purchased in the market, (iii) cash or (iv) a combination of common shares and cash. Holders of stock options may exercise their options, (i) by paying the option exercise price or (ii) with the consent of the Company, through a cashless exercise or by receiving a cash payment in lieu of shares.

c. In the case of DSUs, 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. The DSUs 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.

Canadian dollars in thousands, except per share amounts

The following table lists the number of DSUs outstanding as at June 30, 2021 and 2020:

| | Number of DSUs | Weighted average price in CAD |
|---|---|---|
| DSUs outstanding as at January 1, 2021 | 583,106 | $ 1.96 |
| DSUs granted during 2021 | 152,090 | $ 1.25 |
| DSUs redeemed during 2021 | (24,936) | $ 3.15 |
| DSUs outstanding as at June 30, 2021 | 710,260 | $ 1.65 |
| | | |
| DSUs outstanding as at January 1, 2020 | 395,449 | $ 2.51 |
| DSUs granted during 2020 | 88,836 | $ 1.42 |
| DSUs redeemed during 2020 | (52,759) | $ 2.10 |
| DSUs outstanding as at June 30, 2020 | 431,526 | $ 2.34 |

The Company recognized an expense of $191 in the six months ended June 30, 2021 and $126 in the six months ended June 30, 2020 within general and administrative expenses with regards to the DSU Plan. DSU of $78 were settled in the six months ended June 30, 2021.

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

The following table summarizes grants of stock options:

| | | Options as at June 30, 2021 | | | |
|---|---|---|---|---|---|
| **Stock option grant date** | **Stock options granted** | **Vested** | **Expired** | **Surrendered** | **Net Outstanding** |
| Mar. 30, 2017 | 685,000 | 456,666 | 145,000 | 290,000 | 250,000 |
| Aug. 8, 2017 | 500,000 | 500,000 | - | - | 500,000 |
| Mar. 10, 2018 | 30,000 | 30,000 | - | - | 30,000 |
| May 17, 2018 | 275,000 | 131,666 | 43,334 | 21,666 | 210,000 |
| May 22, 2018 | 25,000 | 5,000 | 20,000 | 5,000 | - |
| Jul. 11, 2018 | 197,500 | 72,000 | 90,400 | 48,600 | 58,500 |
| Nov. 9, 2018 | 250,000 | 166,666 | - | - | 250,000 |
| Mar. 25, 2019 | 325,000 | 70,000 | 150,000 | - | 175,000 |
| May 21, 2019 | 270,000 | 90,000 | - | - | 270,000 |
| Aug. 16, 2019 | 60,000 | 20,000 | - | - | 60,000 |
| Nov. 23, 2020 | 150,000 | - | - | - | 150,000 |
| Jun. 21, 2021 | 900,000 | - | - | - | 900,000 |
| | 3,667,500 | 1,541,998 | 448,734 | 365,266 | 2,853,500 |

Canadian dollars in thousands, except per share amounts

| | | Options as at December 31, 2020 | | | |
|---|---|---|---|---|---|
| **Stock option grant date** | **Stock options granted** | **Vested** | **Expired** | **Surrendered** | **Net Outstanding** |
| Mar. 30, 2017 | 685,000 | 456,666 | 145,000 | 290,000 | 250,000 |
| Aug. 8, 2017 | 500,000 | 500,000 | - | - | 500,000 |
| Mar. 10, 2018 | 30,000 | 20,000 | - | - | 30,000 |
| May 17, 2018 | 275,000 | 131,666 | 43,334 | 21,666 | 210,000 |
| May 22, 2018 | 25,000 | 5,000 | 20,000 | 5,000 | - |
| Jul. 11, 2018 | 197,500 | 72,000 | 90,400 | 48,600 | 58,500 |
| Nov. 9, 2018 | 250,000 | 166,666 | - | - | 250,000 |
| Mar. 25, 2019 | 325,000 | 35,000 | 150,000 | - | 175,000 |
| May 21, 2019 | 270,000 | 90,000 | - | - | 270,000 |
| Aug. 16, 2019 | 60,000 | 20,000 | - | - | 60,000 |
| Nov. 23, 2020 | 150,000 | - | - | - | 150,000 |
| | 2,767,500 | 1,496,998 | 448,734 | 365,266 | 1,953,500 |

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 (CAD)** |
|---|---|---|---|---|---|---|
| Mar. 30, 2017 | 685,000 | $ 1.98 | 50.48 | 1.10 | 5.0 | $ 0.89 |
| Aug. 8, 2017 | 500,000 | $ 2.00 | 48.69 | 1.55 | 5.0 | $ 0.89 |
| Mar. 10, 2018 | 30,000 | $ 3.51 | 50.68 | 1.98 | 5.0 | $ 1.42 |
| May 17, 2018 | 275,000 | $ 3.34 | 50.20 | 2.04 | 5.0 | $ 1.89 |
| May 22, 2018 | 25,000 | $ 3.34 | 50.29 | 2.30 | 5.0 | $ 1.45 |
| 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 |
| Mar. 25, 2019 | 325,000 | $ 3.89 | 48.42 | 1.44 | 5.0 | $ 1.76 |
| May 21, 2019 | 270,000 | $ 3.57 | 47.88 | 1.65 | 5.0 | $ 1.67 |
| Aug. 16, 2019 | 60,000 | $ 3.18 | 46.32 | 1.19 | 5.0 | $ 1.48 |
| 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 |
| | 2,767,500 | | | | | |

The Company recognized expenses during the six months ended June 30, 2021 due to the stock options under the Stock Option Plan in the amount of $172 as general and administrative expenses and $367 during the six months ended June 30, 2020.

e. The Company also provides for the issuance of common shares to employees of the Company under the terms of the Employee Share Compensation Plan (“ESCP”).

In February 2018, the Company granted certain employees and executives 49,738 restricted common shares of which 50% vest 12 months subsequent to the date of grant and 50% vest 24 months subsequent to the date of the grant. The Company recognized $8 in general and administrative expenses for the six months ended June 30, 2020.

In March 2019, the Company issued 64,263 restricted common shares of which 50% vest 12 months subsequent to the date of grant and 50% vest 24 months subsequent to the date of grant. The Company recognized $16 in general and administrative expenses for the six months ended June 30, 2021 in terms of the ESCP. The Company recognized an expense of $63 for the six months ended June 30, 2020 in terms of the ESCP.

f. On June 30, 2020, the Company issued 355,840 common shares to holders of the Debentures for $329 to partially pay the June 30, 2020 interest payment on the Debentures. The Company also completed a private placement of 267,566 common shares for proceeds of $248. A portion of the proceeds were used to pay interest on the Debentures on the June 30, 2020 interest payment date. The remaining portion of the proceeds were used to pay interest on the Debentures on the December 31, 2020 interest payment date.

g. On September 30, 2020, the Company issued 271,960 RSUs to certain employees in consideration for deferred salary from April 2020 to September 2020 and were valued at $269. In the third quarter of 2020, 14,577 RSUs of the September 30, 2020 issuance were settled and were valued at $14. On December 31, 2020, the Company issued 43,716 RSUs to certain employees in consideration for deferred salary from October 2020 to December 2020 and were valued at $38.

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

   In the third quarter of 2020, 14,577 common shares were issued to settle restricted share units having a value of $14. In the six months ended June 30, 2021, 301,099 common shares were issued to settle restricted share units having a value of $293.

   On December 31, 2020, the Company issued 451,070 common shares to holders of the Debentures for $332 to partially pay the December 31, 2020 interest payment on the Debentures.

## NOTE 11: 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 communication products, and a 19% interest in Advantech Wireless Research Inc. ("AWR"), a Canadian technology company that designs terrestrial and satellite communications solutions for wireless broadband communication companies. For the six months ended June 30, 2021, transactions between the Company and GTC totaled $1,193 and between the Company and AWR totaled $1,798 consisting primarily of R&D expenses related to the services agreements the Company has with GTC and AWR. As at June 30, 2021, the Company was owed $1,417 from GTC and $2,241 from AWR. For the six months ended June 30, 2020, transactions between the Company and GTC totaled $1,154 and between the Company and AWR totaled $2,464. As at December 31, 2020, the Company was owed $2,839 from GTC and was owed $1,193 by AWR.

Canadian dollars in thousands, except per share amounts

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

| | As of June 30, 2021 | | | As of December 31, 2020 | | |
|---|---|---|---|---|---|---|
| | Galtronics Canada Ltd. | Advantech Wireless Research Inc. | Total | Galtronics Canada Ltd. | Advantech Wireless Research Inc. | Total |
| Cash | $ 87 | $ 54 | $ 141 | $ 238 | $ 118 | $ 356 |
| Other current assets | 33 | 1,374 | 1,407 | 753 | 1,829 | 2,582 |
| Accounts receivables | 1,701 | 1,429 | 3,130 | 1,691 | 1,242 | 2,933 |
| Property, plant and equipment | 2,787 | 426 | 3,213 | 1,044 | 384 | 1,428 |
| Accounts payables and accrued liabilities | (4,766) | (2,771) | (7,537) | (3,637) | (3,033) | (6,670) |
| Net assets | $ (158) | $ 511 | $ 353 | $ 89 | $ 540 | $ 629 |
| Share of equity method investment net assets (liability) | (30) | 120 | 90 | 17 | 102 | 119 |
| Unrecognized equity method losses | 30 | - | 30 | - | - | - |
| | $ - | $ 120 | $ 120 | $ 17 | $ 102 | $ 119 |

| | For the six months ended June 30, 2021 | | | For the six months ended June 30, 2020 | | |
|---|---|---|---|---|---|---|
| | Galtronics Canada Ltd. | Advantech Wireless Research Inc. | Total | Galtronics Canada Ltd. | Advantech Wireless Research Inc. | Total |
| Revenue | $ 1,296 | $ 1,798 | $ 3,094 | $ 2,100 | $ 2,464 | $ 4,564 |
| Expenses | 1,640 | 1,704 | 3,344 | 1,569 | 2,340 | 3,909 |
| Net income (loss) | $ (344) | $ 94 | $ (250) | $ 531 | $ 124 | $ 655 |
| Share of equity method investment net income (loss) | (65) | 18 | (47) | 101 | 24 | 125 |
| Unrecognized share of equity method investment net loss | 48 | - | 48 | - | - | - |
| | $ (17) | $ 18 | $ 1 | $ 101 | $ 24 | $ 125 |

## NOTE 12: RELATED PARTY TRANSACTIONS

### Share-based payment for executive officers

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

### Share-based payment for directors

These amounts represent the costs of directors' grants 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.**

On January 17, 2018, through a wholly-owned subsidiary, the Company acquired from Advantech Wireless Inc. and certain of its affiliates 100% of the assets (the “Advantech Acquisition”) of their radio frequency, terrestrial microwave and antenna equipment divisions. Advantech Wireless Inc. (now known as SpaceBridge Inc. (“SpaceBridge”)) was owned and controlled by David Gelerman, a director of the Company until April 3, 2020.

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

SpaceBridge and certain of its affiliates acted as an agent for the Company and as at June 30, 2021, $2,401 was due to the Company and was included in trade receivables and $1,495 due to the agent was included in accounts payable and accrued liabilities. As at December 31, 2020, $2,506 due to the Company was included in trade receivables and $1,495 due to the agent was included in accounts payable and accrued liabilities.

During the six months ended June 30, 2021, the Company recognized $86 related to the sale of goods to SpaceBridge and certain of its affiliates. During the six months ended June 30, 2020, the Company recognized revenue in the amount of $74 related to the sale of goods to SpaceBridge.

The Company did not provide services to SpaceBridge or its affiliates during the six months ended June 30, 2021 and the six months ended June 30, 2020. As of June 30, 2021 and December 31, 2020, $397 was included within trade receivables.

*Legal Proceedings*

The Company is both a plaintiff and defendant in various claims arising out of the Advantech Acquisition. In October 2018, the Company received a payment from the escrow agent of approximately $1,800 as a result of an indemnity claim made by the Company against the portion of the cash purchase price being held in escrow pursuant to the terms of the Advantech Acquisition. The sum was released by the escrow agent because SpaceBridge failed to contest the indemnity claim within the prescribed time period. After the payment, SpaceBridge filed an application for relief from forfeiture to have the sum returned to the escrow agent. The Company is opposing the application. No date has been set to hear the application.

The Company has filed statements of claim for certain other indemnity obligations of SpaceBridge pursuant to the terms of the Advantech Acquisition. The claims, in the aggregate, total approximately $5,596. SpaceBridge has filed statements of defence as well as statements of counterclaim. In July 2019, SpaceBridge delivered multiple indemnity claims pursuant to the terms of the Advantech Acquisition, seeking to set off the amounts being claimed by the Company. The Company has contested the indemnity claims.

In June 2019, SpaceBridge filed an application asserting oppression for, among other things, unspecified amounts in relation to the 2018 earn out under the terms of the Advantech Acquisition and for shares in the Company for which set-off has been claimed by the Company. SpaceBridge alleges that Mr. Gelerman was improperly denied from participating in the management of the Company resulting in a lower earn out. The Company will defend the allegations. No date has been set for the application related to claims for compensation. The issue of whether the Company is entitled to assert set-off on the common shares was the subject of an appeal by the Company from a lower court ruling. In February 2021, the Ontario Court of Appeal found in favour of the Company, overturning the lower court's ruling and confirming that the Company is entitled to a right of set-off on the shares. On July 29, 2021, the Supreme Court of Canada denied (with costs), SpaceBridge's application for leave to appeal the judgment of the Court of Appeal.

In January 2020, SpaceBridge filed a statement of claim claiming damages against the Company for various breaches of the asset purchase and other agreements related to the Advantech Acquisition. These claims include the multiple indemnity claims previously made by SpaceBridge as well as additional claims for breach of an agreement governing transitional services provided by the Company following the Advantech Acquisitions and the Consulting Agreement. The claims include loss of business opportunities, improper use of SpaceBridge's books and records, unpaid rent on premise subleased from SpaceBridge as part of the Advantech Acquisition, diminution in the value of Baylin common shares payable as part of the consulting fees under the Consulting Agreement and conversion of inventory after completion of the Advantech Acquisition. Where specified, the amount of damages claimed by SpaceBridge under all claims is at least $7,165.

In the case of the Company's claims under the asset purchase agreement for breaches of representations related to working capital and closing inventory levels, documentary discovery is currently being conducted and oral discovery is expected to occur, once scheduled, later in 2021.

The Company is unable to determine at this time whether it will be entitled to recover or required to pay any amounts related to these legal proceedings. Accordingly, no provision has been recorded in respect of the claims other than certain rent amounts.

**Alga**

On July 11, 2018, the Company acquired all of the issued and outstanding shares of Alga Microwave Inc. ("Alga") through a newly incorporated, wholly-owned subsidiary of the Company (the "Alga Acquisition").

For the six months ended June 30, 2021 and the six months ended June 30, 2020, $78 was recognized in revenue for premises leased to a company partly owned by Michael Perelshtein, a former employee of Alga.

*Legal Proceedings*

In the third quarter of 2019, the former shareholders of Alga filed an application asserting that an event occurred which triggered the payment of an earnout in the amount of $1,000 as detailed in the share purchase agreement. The Company does not agree that the payment has been triggered and has contested the application. No date has been set for the application. The Company is unable to determine at this time whether it will be required to pay any amounts related to these legal proceedings. Accordingly, no provision has been recorded in respect of the claim.

In December 2020, a former employee of Alga filed an application asserting he had been constructively dismissed and claiming damages of $543. The Company is opposing the application and has cross-claimed against the former employee. Alga has made a separate claim against the employee and others, claiming damages for approximately $2 million, alleging, among other things, a conspiracy to damage Alga's business, wrongful interference with Alga's economic relations and breach of fiduciary duty. The defendants in the previous action have started a separate proceeding against Alga and others claiming the previous action is an abuse of procedure. These four actions have now been joined in one proceeding. The Company is unable to determine at this time whether it will be required to pay any amounts related to these legal proceedings. Accordingly, no provision has been recorded in respect of the claim.

**Other**

The Company retains the services of Mr. Jeffrey C. Royer, pursuant to a services agreement between Mr. Royer and the Company dated as of January 1, 2015, to fulfill the position of Chairman of the board of directors and to provide related strategic leadership and guidance to the board of directors and management of the Company. As 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. For the six months ended June 30, 2020, the Company paid $6 to Mr. Royer under this agreement. In March 2020, Mr. Royer agreed to forego the fee for an unspecified period and no amount was paid to Mr. Royer for the six months ended June 30, 2021.

**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.

Canadian dollars in thousands, except per share amounts

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

| | For the six months ended June 30, 2021 | 2020 |
|---|---|---|
| Short-term benefits, pension and post-retirement benefits | $ 2,616 | $ 3,255 |
| Directors' remuneration | 6 | 38 |
| Share-based payment for executive management | 172 | 438 |
| Share-based payment for directors | 113 | 126 |

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

**NOTE 13: FAIR VALUE MEASUREMENTS**

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

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

| | As at June 30, 2021 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Convertible Debentures | $ 4,885 | $ - | $ - | $ 4,885 |
| Interest Rate Swap | $ - | $ 435 | $ - | $ 435 |

| | As at December 31, 2020 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Convertible Debentures | $ 10,352 | $ - | $ - | $ 10,352 |
| Interest Rate Swap | $ - | $ 678 | $ - | $ 678 |

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

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

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

Canadian dollars in thousands, except per share amounts

## NOTE 14: REVENUE

Revenues by geographic destination are as follows:

| | For the six months ended June 30, 2021 | For the six months ended June 30, 2020 | For the three months ended June 30, 2021 | For the three months ended June 30, 2020 |
|---|---|---|---|---|
| United States of America | $ 13,948 | $ 16,673 | $ 7,788 | $ 9,793 |
| Vietnam | 13,644 | 12,582 | 5,261 | 6,461 |
| China | 4,899 | 9,691 | 1,881 | 5,724 |
| South Korea | 2,208 | 2,410 | 1,135 | 1,182 |
| Singapore | 168 | 1,171 | 62 | 291 |
| Sweden | 732 | 1,915 | 504 | 583 |
| United Kingdom | 141 | 177 | 69 | 68 |
| Canada | 902 | 3,729 | 397 | 1,618 |
| Taiwan | 362 | 301 | 199 | 163 |
| Russia | 202 | 1,244 | 166 | 867 |
| India | 1,453 | 187 | 563 | 115 |
| Romania | - | 1,524 | - | 523 |
| Other | 6,423 | 5,967 | 3,597 | 3,241 |
| | $ 45,082 | $ 57,571 | $ 21,622 | $ 30,629 |

## NOTE 15: FINANCE INCOME AND EXPENSE

| | For the six months ended June 30, 2021 | For the six months ended June 30, 2020 | For the three months ended June 30, 2021 | For the three months ended June 30, 2020 |
|---|---|---|---|---|
| Interest income | $ (3) | $ (20) | $ (2) | $ (12) |
| Interest expense | 1,556 | 1,552 | 721 | 779 |
| Interest cost on lease liabilities | 346 | 399 | 172 | 198 |
| Bank charge expense | 40 | 47 | 20 | 21 |
| Changes from foreign exchange rate changes | (464) | 1,403 | (350) | (1,244) |
| Finance expense, net | $ 1,475 | $ 3,381 | $ 561 | $ (258) |

**NOTE 16: SUBSEQUENT EVENT**

The Company has entered into an agreement dated August 11, 2021, with Paradigm Capital Inc., as lead agent, on behalf of a syndicate of agents (collectively, the "Agents"), in connection with a proposed best efforts private placement financing (the "Offering") of 11,112,000 common shares of the Company at a price of $0.90 per common share for total proceeds of approximately $10,000. The Company has granted the Agents an option to sell up to an additional 15% of the common shares at the same price per common share to cover over-allotments. As part of the Offering, the Company entered into a separate agreement with 2385796 Ontario Inc. (the "Insider"), the Company's largest shareholder, under which the Insider has agreed to support the Offering by agreeing to purchase common shares of the Company with a purchase price equal to the lesser of (i) $10,000 (subject to increase by the amount (if any) of the over-allotment option); and (ii) the difference between the full amount of the Offering and the aggregate purchase price paid by all other investors (if any) in the Offering. Accordingly, the Company is assured of receiving at least $10,000 in proceeds from the Offering, subject to receipt of applicable regulatory approvals and satisfaction of other customary closing conditions, including listing of the common shares on the Toronto Stock Exchange ("TSX"). Jeffrey C. Royer, Chairman of the Board of Directors of the Company, exercises control and direction over investment decisions of the Insider. The Company is relying of the "financial hardship" exemption available to it under the rules of the TSX to permit the Insider to purchase more than 10% of the 62,447,014 common shares of the Company currently outstanding without having to obtain disinterested shareholder approval. The Offering is expected to close on or about September 1, 2021.