



BAYLIN TECHNOLOGIES INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS AT SEPTEMBER 30, 2019

(Canadian dollars in thousands)

UNAUDITED

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Date of approval of consolidated financial statements: November 5, 2019

"Harold Wolkin"

Harold Wolkin

Chairman of the Audit Committee

"Don Simmonds"

Don Simmonds

Audit Committee Member

"David Saska"

David Saska

Audit Committee Member

Baylin Technologies Inc.

Interim Condensed Consolidated Statements of Financial Position (unaudited)

Canadian dollars in thousands

		September 30, 2019	December 31, 2018
ASSETS			Note 6
CURRENT ASSETS			
Cash and cash equivalents		\$ 16,501	\$ 20,859
Trade and other receivables		32,560	29,387
Other current assets		6,075	6,179
Inventories		<u>22,650</u>	<u>23,512</u>
		77,786	79,937
NON-CURRENT ASSETS			
Property, plant and equipment, net		26,712	27,371
Right of use assets, net	Note 4	6,998	-
Other long-term assets		1,056	70
Deferred tax assets		8,294	6,426
Equity method investment	Note 12	108	16
Intangibles	Note 6	20,902	25,096
Goodwill	Note 6	<u>31,601</u>	<u>31,601</u>
		95,671	90,580
TOTAL ASSETS		<u>\$ 173,457</u>	<u>\$ 170,517</u>
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Credit from banks	Note 7	\$ 15,010	\$ 377
Accounts payable and accrued liabilities		29,813	33,257
Short-term portion of senior term loan	Note 8	3,973	-
Short-term portion of lease liability	Note 4	1,355	-
Income tax payable		687	1,443
		<u>50,838</u>	<u>35,077</u>
NON-CURRENT LIABILITIES			
Long-term portion of lease liability	Note 4	5,980	-
Term loan	Note 8	-	30,081
Senior term loan	Note 8	21,413	-
Convertible debentures	Note 9	16,086	18,975
Employee benefit liabilities, net	Note 10	2,266	2,301
Deferred tax liabilities		3,188	2,256
Other long-term liabilities		<u>367</u>	<u>-</u>
		49,300	53,613
TOTAL LIABILITIES		100,138	88,690
SHAREHOLDERS' EQUITY			
Share capital	Note 11	137,400	136,675
Share-based payment reserve	Note 11	2,377	3,798
Accumulated other comprehensive income		10,487	12,840
Accumulated deficit		<u>(76,945)</u>	<u>(71,486)</u>
TOTAL EQUITY		<u>73,319</u>	<u>81,827</u>
TOTAL LIABILITIES AND EQUITY		<u>\$ 173,457</u>	<u>\$ 170,517</u>

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

Baylin Technologies Inc.

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

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

		For the nine months ended September 30,		For the three months ended September 30,	
		2019	2018	2019	2018
Revenues	Note 15	\$ 123,294	\$ 100,205	\$ 36,430	\$ 38,189
Cost of sales		79,107	60,427	24,218	22,021
Gross profit		44,187	39,778	12,212	16,168
Operating expenses					
Selling and marketing expenses		11,116	9,418	3,698	3,414
Research and development expenses		13,171	10,635	4,397	3,749
General and administrative expenses		19,965	13,914	6,017	4,094
Acquisition expenses		539	3,632	359	1,206
		44,791	37,599	14,471	12,463
Operating income (loss)		(604)	2,179	(2,259)	3,705
Finance expense, net	Note 16	6,359	4,422	948	2,121
Investment income, net	Note 12	(92)	(15)	(62)	(15)
Derecognition of subsidiary		-	(1,092)	-	(1,092)
Reversal of provision	Note 6	401	-	401	-
Fair value adjustments	Note 9, 14	(2,893)	3,795	(2,979)	3,795
Loss before income taxes		(4,379)	(4,931)	(567)	(1,104)
Income tax expense		586	1,183	151	695
Net loss		<u>\$ (4,965)</u>	<u>\$ (6,114)</u>	<u>\$ (718)</u>	<u>\$ (1,799)</u>
Net loss attributable to shareholders of the company		(4,965)	(5,321)	(718)	(1,799)
Net loss attributable to non-controlling interests		-	(793)	-	-
Items that may be reclassified to profit or loss					
Amount arising from translation of foreign operations, net of tax		(2,394)	507	(194)	(1,111)
Items that will not be reclassified to profit or loss					
Actuarial gains, net of tax		41	-	-	-
Other comprehensive income (loss) (net of tax effect)		<u>\$ (2,353)</u>	<u>\$ 507</u>	<u>\$ (194)</u>	<u>\$ (1,111)</u>
Total comprehensive loss		<u>\$ (7,318)</u>	<u>\$ (5,607)</u>	<u>\$ (912)</u>	<u>\$ (2,910)</u>
Comprehensive loss attributable to shareholders of the company		(7,318)	(4,814)	(912)	(2,910)
Comprehensive loss attributable to non-controlling interests		-	(793)	-	-
Basic and diluted net loss per share		\$ (0.12)	\$ (0.16)	\$ (0.02)	\$ (0.05)
Weighted average shares outstanding		40,177,304	33,819,860	40,300,653	39,068,708

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

	<u>Number of shares outstanding</u>	<u>Share capital</u>	<u>Share- based payment reserve</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive income</u>	<u>Total equity</u>
	Note 11	Note 11	Note 11			
Balance as of December 31, 2018	40,006,454	\$ 136,675	\$ 3,798	\$ (71,486)	\$ 12,840	\$ 81,827
Impact of modified retrospective adoption of new lease standard (Note 4)	-	-	-	(494)	-	(494)
Balance as of January 1, 2019	40,006,454	\$ 136,675	\$ 3,798	\$ (71,980)	\$ 12,840	\$ 81,333
Net loss	-	-	-	(4,965)	-	(4,965)
Other comprehensive loss	-	-	-	-	(2,353)	(2,353)
Share-based payment	195,069	806	(1,347)	-	-	(541)
Employee Share Compensation Plan and Purchase Plan	129,126	84	(74)	-	-	10
Acquisition purchase price adjustment (Note 6)	-	(165)	-	-	-	(165)
Balance as of September 30, 2019	<u>40,330,649</u>	<u>\$ 137,400</u>	<u>\$ 2,377</u>	<u>\$ (76,945)</u>	<u>\$ 10,487</u>	<u>\$ 73,319</u>

	<u>Number of shares outstanding</u>	<u>Share capital</u>	<u>Share- based payment reserve</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive income</u>	<u>Non- controlling interest</u>	<u>Total equity</u>
	Note 11	Note 11	Note 11				
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 payments	-	-	1,990	-	-	-	1,990
Employee Share Compensation Plan and Purchase Plan	(86,260)	(265)	95	-	-	-	(170)
Issuance of shares, net of share issuance cost	9,530,826	27,610	-	-	-	-	27,610
Derecognition of subsidiary	-	-	-	(888)	-	888	-
Balance as of September 30, 2018	<u>39,957,478</u>	<u>\$ 136,555</u>	<u>\$ 3,531</u>	<u>\$ (72,156)</u>	<u>\$ 11,719</u>	<u>\$ -</u>	<u>\$ 79,649</u>

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

Baylin Technologies Inc.

Interim Condensed Consolidated Statements of Cash Flows (unaudited)

Canadian dollars in thousands

	For the nine months ended September 30,	
	2019	2018
Cash flows from operating activities		
Net loss	\$ (4,965)	\$ (6,114)
Adjustments to reconcile net loss to net cash used in operating activities		
Share-based payment	1,186	2,085
Depreciation and amortization	9,433	3,076
Finance expense, net	5,369	4,422
Loss from sale of property, plant and equipment	400	656
Share of net income of equity method investment	Note 12 (92)	(15)
Income tax expense	586	1,183
Fair value adjustment	Note 9 (2,893)	3,795
Derecognition of subsidiary	-	(1,092)
Reversal of provision	Note 6 401	-
Unrealized foreign exchange gains	(649)	(726)
	<u>13,741</u>	<u>13,384</u>
Changes in asset and liability items		
Increase in trade receivables	(3,690)	(7,592)
Increase in other current assets	(981)	(3,202)
Decrease in inventories	324	1,302
Decrease in trade payables and other current liabilities	(2,002)	(1,795)
	<u>(6,349)</u>	<u>(11,287)</u>
Cash paid and received during the year for		
Interest paid, net	(2,243)	(1,847)
Taxes paid, net	(2,611)	(723)
Cash used in stock option settlement	(1,926)	-
	<u>(6,780)</u>	<u>(2,570)</u>
Net cash used in operating activities	(4,353)	(6,587)
Cash flows from investing activities		
Purchase of property, plant and equipment	\$ (5,372)	\$ (2,407)
Proceeds from sale of property, plant and equipment	-	(10)
Business Acquisition	Note 6 -	(68,113)
Net cash used in investing activities	<u>(5,372)</u>	<u>(70,530)</u>
Cash flows from financing activities		
Cash received from share issuance	\$ 210	\$ 21,005
Proceeds from convertible debenture issuance	-	17,250
Receipt (repayment) of credit from banks and others, net	12,660	(6,942)
Receipt of senior term loan	27,373	-
Receipt (repayment) of long-term loan	(33,000)	29,548
Principal elements of lease payments	(1,377)	-
Net cash generated by financing activities	<u>5,866</u>	<u>60,861</u>
Exchange differences on balances of cash and cash equivalents	(499)	154
Decrease in cash and cash equivalents	\$ (4,358)	\$ (16,102)
Cash and cash equivalents at the beginning of the period	20,859	35,156
Cash and cash equivalents at the end of the period	<u>\$ 16,501</u>	<u>\$ 19,054</u>

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

Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

NOTE 1: NATURE OF OPERATIONS

Baylin Technologies Inc. (“Baylin”) was incorporated pursuant to the laws of the province of Ontario on September 24, 2013. Baylin's registered office is located at 60 Columbia Way, Suite 205, Markham, Ontario, Canada.

Baylin, together with its subsidiaries, inclusive of the prior year acquisitions of the assets of Advantech Wireless Inc. and certain of its affiliates and Alga Microwave Inc. (collectively the “Company” or 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 VSAT through certain subsidiaries of the Company. The Company’s shares are publicly traded on the Toronto Stock Exchange (TSX: BYL).

Approval of financial statements

These interim condensed consolidated financial statements of the Company for the three and nine months ended September 30, 2019 have been prepared by management of Baylin and were authorized for issue in accordance with a resolution of the audit committee on November 5, 2019.

NOTE 2: BASIS OF PREPARATION

The interim condensed consolidated financial statements for the three and nine months ended September 30, 2019, 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, 2018 (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, 2019 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, 2019 including IFRS 16 Leases and IFRIC 23 Uncertainty over Income Tax Treatments.

Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

IFRS 16 Leases

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2019, the IASB issued the new standard, IFRS 16 Leases, to replace IAS 17 Leases. The new standard provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. IFRS 16 applies a control model to the identification of leases, distinguishing between leases and service contracts based on whether there is an identified asset controlled by the customer. Significant changes to lessee accounting are introduced, with the distinction between operating and finance leases removed and right-of-use assets and liabilities recognized in respect of all leases (subject to limited exceptions for short-term leases and leases of low value assets). Lease liabilities will be reduced over the term of the lease by allocating lease payments to a reduction in liability and an expense recognized in finance costs. Right-of-use assets will be amortized over the term of the lease.

The Company has adopted IFRS 16 Leases from January 1, 2019 and has elected to use the modified retrospective approach. The cumulative effect of initial application is recognized in retained earnings as at January 1, 2019 and the Company will not restate comparative information for prior periods presented. The details of the changes in accounting policy are discussed below.

To determine whether a contract contains a lease, the Company applies the new definition of a lease under IFRS 16 namely if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases and thus applied IFRS 16 only to leases that were previously identified as leases prior to adoption of IFRS 16.

The Company leases assets including buildings, machinery and equipment, vehicles and other office equipment. Previously under IAS 17 the Company classified leases as operating or finance leases based on whether the lease transferred substantially all of the risks and rewards of ownership. The Company previously did not have any leases that were classified as finance leases. Under IFRS 16, the Company recognizes right of use assets and lease liabilities for all leases except where the Company has elected to use the practical expedient to not recognize right-of use assets and lease liabilities for low-value assets or short-term leases under 1 year that are not expected to renew, upon adoption of IFRS 16. The Company has recognized low-value assets and short-term lease payments as an expense on a straight-line basis over the lease term. The Company has also elected to apply the practical expedient to not separate non-lease components from lease components for which the Company is the lessee and has accounted for the combined amounts as a single lease component.

The Company recognizes a right of use asset as a lease liability at the lease commencement date. The right of use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. The Company has elected to use the practical expedient of excluding initial direct costs from the measurement of the right of use asset cost at the date of initial application. The lease liability is initially measured at the present value of the lease payments remaining that are not paid at the commencement date adjusted for lease prepayments and lease incentives, discounted using the interest rate implicit in the lease, or if not readily determinable, the incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there

Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

is a change in future lease payments arising from a change in an index or rate, or changes in assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company presents right of use assets on the balance sheet as follows:

	<u>Buildings</u>	<u>Machinery and Equipment</u>	<u>Motor Vehicles</u>	<u>Office, furniture, computers, peripheral equipment</u>	<u>Right of Use Asset</u>
Balance as at January 1, 2019	\$ 3,857	\$ 80	\$ 70	\$ 175	\$ 4,182
Balance as at September 30, 2019	\$ 6,645	\$ 153	\$ 66	\$ 134	\$ 6,998

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

	<u>As at January 1, 2019</u>
Right of use assets	\$ 4,182
Short-term lease liabilities	982
Long-term lease liability	3,694
Retained Earnings	(494)

The reconciliation from the operating lease commitment disclosed in the Annual Financial Statements as of December 31, 2018 and the lease liability as at January 1, 2019 is as follow:

Operating lease commitment as at December 31, 2018	<u>\$ 5,560</u>
Discounted using incremental borrowing rate as at January 1, 2019	\$ 4,576
Recognition exemption of low value leases	(10)
Recognition exemption of leases with terms lease than 1 year	(4)
Extension options reasonably certain to be exercised	<u>114</u>
Lease liability as at January 1, 2019	<u><u>\$ 4,676</u></u>
Short-term portion of lease liability	982
Long-term portion of lease liability	<u>3,694</u>
Lease liability as at January 1, 2019	<u><u>\$ 4,676</u></u>

Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its weighted average incremental borrowing rate as at January 1, 2019 which was 6%.

For the three and nine months ended September 30, 2019, the Company recognized \$318 and \$907, respectively as depreciation on right of use assets within Cost of sales and General and administrative expense. The Company also recognized \$189 and \$313 as interest cost on lease liabilities within Finance expense during the three and nine months ended September 30, 2019.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 was issued in June 2017 as a clarification to requirements under IAS 12, Income Taxes. IFRIC 23 clarifies the application of various recognition and measurement requirements when there is uncertainty over income tax treatments. This interpretation is effective for annual reporting periods on or after January 1, 2019. The Company has adopted IFRIC 23 and determined the application did not have a material impact on the Company's consolidated financial statements as its policies were in line with the guidance.

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 October 31, 2018, the IASB issued Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors for 'Definition of Material,' to clarify the definition of 'material' and to align the definition used in the Conceptual Framework and the standards themselves. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. The Company is in the process of evaluating the impact of the standard on its consolidated financial statements.

On October 22, 2018, the IASB issued amendments to IFRS 3 Business Combinations for the 'Definition of a Business' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The Company will evaluate the impact of the standard on its consolidated financial statements if the Company has a business combination.

NOTE 5: 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, 2018, except as discussed in Note 4.

Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

NOTE 6: ACQUISITIONS

Advantech

On January 17, 2018, through a wholly-owned subsidiary, the Company acquired 100% of the assets (the “Advantech Acquisition”) of the radio frequency, terrestrial microwave and antenna equipment divisions of Advantech Wireless Inc. and certain of its affiliates (now known as SpaceBridge Inc.) (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 recorded amount of the Advantech Acquisition was \$49,000. The Advantech Acquisition was financed using the Company’s available cash and the Loan (as defined in Note 8).

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 performance targets were not met in 2018.

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. is entitled to 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.

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 business valuation of Advantech at the date of acquisition and a purchase price allocation.

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

	Purchase Price January 17, 2018
Cash consideration	\$ 48,000
Share consideration	1,000
	<u>\$ 49,000</u>

Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

	Fair Values
	January 17, 2018
Accounts and other receivables	\$ 3,441
Inventory	9,770
Other current assets	161
Property, plant and equipment	882
Intangibles	19,700
Goodwill	21,215
Accounts payables and other liabilities	(6,035)
Other long-term provisions	(134)
	<u>\$ 49,000</u>

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

Factors that make up the goodwill recognized include cost reduction programs and intangible assets that do not qualify for separate recognition. Goodwill is expected to be deductible for tax purposes.

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 consideration paid at closing 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 1,176,470 common shares of the Company for \$4,000. Pursuant to the terms of the Alga Acquisition, the vendors earned an additional \$1,000 upon completion of certain criteria and may be entitled to receive additional compensation of up to \$1,000 conditional on Alga meeting certain performance targets in each of 2019 and 2020.

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 \$2,999 at the closing of the acquisition of the Alga Facility, bears interest at 3.22% and matured and was repaid on December 19, 2018.

A portion of the net proceeds of the 2018 Offering of Subscription Receipts and Debentures (as defined in Note 9), was used to satisfy payment of the cash purchase price for the Alga Acquisition.

Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

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 business valuation of Alga at the date of acquisition and a purchase price allocation and updated through the measurement period. The measurement period adjustments were made to reflect facts and circumstances existing as of the acquisition date and did not result from intervening events subsequent to the acquisition date. The consolidated financial statements have been restated for these adjustments, as at and for the year ended December 31, 2018.

	Amounts Recognized as of the Acquisition Date	Measurement period Adjustments	Purchase Price July 11, 2018
Cash consideration	\$ 21,433	\$ -	\$ 21,433
Share consideration	4,000	(165)	3,835
Contingent consideration	2,144	(434)	1,710
	<u>\$ 27,577</u>	<u>\$ (599)</u>	<u>\$ 26,978</u>

	Amounts Recognized as of the Acquisition Date	Measurement period Adjustments	Fair Values July 11, 2018
Cash	\$ 887	\$ -	\$ 887
Accounts and other receivable	4,078	-	4,078
Inventories	6,680	(170)	6,510
Other current assets	46	-	46
Property, plant and equipment	6,950	-	6,950
Intangibles	8,600	1,450	10,050
Goodwill	11,931	(1,545)	10,386
Accounts payables and accrued liabilities	(2,570)	-	(2,570)
Current portion of long-term debt	(6,200)	-	(6,200)
Deferred tax liability	(2,825)	(334)	(3,159)
	<u>\$ 27,577</u>	<u>\$ (599)</u>	<u>\$ 26,978</u>

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

Factors that make up the goodwill recognized include cost reduction programs and intangible assets that do not qualify for separate recognition. Goodwill is not expected to be deductible for tax purposes.

Transaction costs for the Advantech Acquisition and the Alga Acquisition of \$539 and \$3,632 were expensed during the nine months ended September 30, 2019 and September 30, 2018, respectively, and are included in Acquisition expenses.

Baylin Technologies Inc.

Notes to the Interim Condensed Consolidated Financial Statements (unaudited)

Canadian dollars in thousands, except per share amounts

During the nine months ended September 30, 2019, the company recognized \$4,172 in General and administrative expenses related to the amortization of intangibles acquired in the Advantech Acquisition and Alga Acquisition.

NOTE 7: CREDIT FROM BANKS

The Group has revolving credit lines which are being drawn as needed. As at September 30, 2019, the aggregate credit facilities of the Group were \$25,234 of which \$15,010 was drawn and utilized. As at December 31, 2018, the aggregate credit facilities of the Group were approximately \$11,017 of which \$377 was drawn and utilized.

- a. On March 29, 2019, the Company 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 a revolving credit facility (the "Revolving Facility") in favour of the Company for up to \$20,000. As at September 30, 2019, \$15,010 was outstanding under the Revolving Facility. 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 and is payable monthly in arrears, as set out in the Credit Agreement. The Revolving Facility matures on March 29, 2022. As at September 30, 2019, the interest rate on the Revolving Facility was 7.0% on United States Dollar advances and 5.45% on Canadian Dollar advances. The standby fee on the undrawn portion of the Revolving Facility is 0.50% per annum if the Company's senior debt to EBITDA ratio is less than 1.75:1.0 and 0.55% per annum if the Company's senior debt to EBITDA ratio is equal to or greater than 1.75:1.0. Baylin and certain of its subsidiaries are guarantors of the Revolving Facility and granted and pledged certain security in favour of the Lenders including, without limitation, a general security agreement, as well as executing and delivering in favour of the Lenders various other loan documents. The Credit Agreement contains certain covenants that the Company must comply with, including the following financial covenants: the Company must maintain a fixed charge coverage ratio and senior debt to EBITDA ratio (as defined in the Credit Agreement) calculated at the end of each quarter. The Credit Agreement also includes other customary covenants and events of default. As at September 30, 2019, the Company is in compliance with all of the covenants under the Credit Agreement.

Prior to March 29, 2019, the Company had a United States dollar revolving credit facility with HSBC Bank Canada for up to \$5,297 (December 31, 2018 - \$5,457). This facility was cancelled when the Company entered into the Revolving Facility. There were no borrowings under the facility at the time it was cancelled and as at December 31, 2018.

- b. The Company's Chinese subsidiary has a Yuan equivalent \$3,335 (December 31, 2018 - \$3,569) short-term credit facility with the Shanghai Pudong Development Bank ("SPD") secured by the Company's Chinese subsidiary's building. As at September 30, 2019 and December 31, 2018 there was no outstanding balance under this facility.
- c. In January 2017, the Company's Vietnamese subsidiary entered into a \$1,457 (December 31, 2018 - \$1,501) 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, 2019, there was no balance outstanding under this facility and \$377 as at December 31, 2018.
- d. The Company's Korean subsidiary has a \$442 (December 31, 2018 - \$490) 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, 2019 and December 31, 2018, there was no balance outstanding under this facility.

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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 to fund working capital, capital expenditures and general corporate purposes, and are secured by the Group's buildings in China and Canada, accounts receivable, inventory and equipment. The Company is in compliance with all of its covenants.

NOTE 8: TERM LOAN AND SENIOR 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 with a principal amount of \$33,000, an annual interest rate of 9% and a maturity date of January 17, 2023.

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 \$3,427, including the warrants, were incurred and were capitalized against the Loan. During the period from January 1, 2019 to March 29, 2019, \$142 of amortization of debt issuance costs was recognized in finance expense.

On March 29, 2019, the Company prepaid the Loan thus extinguishing the debt, using funds advanced under the Term Loan (as defined below) and the Revolving Facility. The Company paid Crown Capital Fund IV, LP a prepayment fee of \$990 and expensed the unamortized debt issuance costs in the amount of \$2,777 which were included in finance expense.

On March 29, 2019, in connection with the Revolving Facility and pursuant to the Credit Agreement, the Lenders also established a term credit facility ("Term Loan") in favour of the Company for up to \$27,810. The principal amount under the Term Loan was advanced in United States Dollars at closing and was used to repay the Loan. Quarterly principal payments in the amount of \$993 are due commencing June 30, 2019. The Term Loan matures on March 29, 2022. 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 Company's senior debt to EBITDA ratio (as detailed in the Credit Agreement) and is payable monthly in arrears. As at September 30, 2019, the interest rate on the Term Loan was 4.81%.

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

The Company and certain of its subsidiaries are guarantors of the Term Loan and granted and pledged certain security in favour of the Lenders including, without limitation, a general security agreement, as well as executing and delivering in favour of the Lenders various other loan documents. The Credit Agreement contains certain covenants that the Company must comply with including the following financial covenants: the Company must maintain a fixed charge coverage ratio and senior debt to EBITDA ratio (as defined in the Credit Agreement) calculated at the end of each quarter. The Credit Agreement also includes other customary covenants and events of default. As at September 30, 2019, the Company is in compliance with all of the covenants under the Credit Agreement.

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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 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, 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.

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.

	<u>Debentures Principal</u>	<u>Debentures Fair Value</u>
Balance as of January 1, 2019	\$ 17,250	\$ 18,975
Fair value adjustment	-	(2,889)
Balance as of September 30, 2019	<u>\$ 17,250</u>	<u>\$ 16,086</u>

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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 may be settled subsequent to a director ceasing to be a director of the Company and its subsidiaries: (i) in common shares purchased by the Company on the open market for delivery to the director; (ii) in common shares issued from treasury; (iii) in cash; or (iv) any combination of the foregoing. The maximum number of common shares reserved for issuance upon redemption of DSUs under the DSU Plan is equal to 500,000.

The following table lists the number of DSUs issued:

	Number of DSUs	Weighted average price in CAD
DSUs outstanding at January 1, 2019	325,418	\$ 2.43
DSUs granted during 2019	43,506	\$ 3.51
DSUs outstanding at September 30, 2019	<u>368,924</u>	<u>\$ 2.56</u>
	Number of DSUs	Weighted average price in CAD
DSUs outstanding at January 1, 2018	302,422	\$ 2.20
DSUs granted during 2018	39,876	\$ 3.60
DSUs outstanding at September 30, 2018	<u>342,298</u>	<u>\$ 2.37</u>

The company recognized an expense of \$152 in nine months ended September 30, 2019 and \$144 in the nine months ended September 30, 2018 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

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approve: (i) the exercise price, being not less than the market value of the common shares; (ii) the vesting provisions, generally being over 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 intrinsic value of surrendered stock options can be settled in (i) cash; (ii) common shares; or (iii) as combination of cash or common shares at the discretion of the Company.

The below table summarizes grants made under the Stock Option Plan as at September 30, 2019:

Stock option grant date	Stock options granted	Options vested as at:		Options exercised as at:	Options expired as at:	Options surrendered as at:	Net Outstanding Options
		September 30, 2019	December 31, 2018	September 30, 2019	September 30, 2019	September 30, 2019	September 30, 2019
Aug. 24, 2015	925,000	925,000	925,000	138,750	-	786,250	-
Mar. 30, 2017	685,000	456,666	228,333	-	145,000	290,000	250,000
Aug. 8, 2017	500,000	333,333	166,667	-	-	-	500,000
Mar. 10, 2018	30,000	10,000	-	-	-	-	30,000
May 17, 2018	275,000	81,666	-	-	43,334	21,666	210,000
May 22, 2018	25,000	5,000	-	-	-	-	25,000
Jul. 11, 2018	197,500	39,500	-	-	-	-	197,500
Nov. 9, 2018	250,000	-	-	-	-	-	250,000
Mar. 25, 2019	325,000	-	-	-	-	-	325,000
May 21, 2019	270,000	-	-	-	-	-	270,000
Aug. 16, 2019	60,000	-	-	-	-	-	60,000
	<u>3,542,500</u>	<u>1,851,165</u>	<u>1,320,000</u>	<u>138,750</u>	<u>188,334</u>	<u>1,097,916</u>	<u>2,117,500</u>

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

Stock option grant date	Option expiry 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)
Aug. 24, 2015	Aug. 24, 2020	925,000	\$ 1.51	44.42 – 45.29	0.90	2.67 – 3.25	\$ 0.44 – 0.48
Mar. 30, 2017	Mar. 30, 2022	685,000	\$ 1.98	50.48	1.10	5.0	\$ 0.89
Aug. 8, 2017	Aug. 8, 2022	500,000	\$ 2.00	48.69	1.55	5.0	\$ 0.89
Mar. 10, 2018	Mar. 10, 2023	30,000	\$ 3.51	50.68	1.98	5.0	\$ 1.42
May 17, 2018	May 17, 2023	275,000	\$ 3.34	50.20	2.04	5.0	\$ 1.89
May 22, 2018	May 22, 2023	25,000	\$ 3.34	50.29	2.30	5.0	\$ 1.45
Jul. 11, 2018	Jul. 11, 2023	197,500	\$ 3.50	48.87	2.07	5.0	\$ 1.36
Nov. 9, 2018	Nov. 9, 2023	250,000	\$ 3.84	48.29	2.48	5.0	\$ 1.78
Mar. 25, 2019	Mar. 25, 2024	325,000	\$ 3.89	48.42	1.44	5.0	\$ 1.76
May 21, 2019	May 21, 2024	270,000	\$ 3.57	47.88	1.65	5.0	\$ 1.67
Aug. 16, 2019	Aug. 16, 2024	60,000	\$ 3.18	46.32	1.19	5.0	\$ 1.48
		<u>3,542,500</u>					

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The Company recognized expenses during the nine months ended September 30, 2019 due to the stock options under the Company's Stock Option Plan in the amount of \$775 as general and administrative expenses and \$697 during the nine months ended September 30, 2018.

In June 2019, 138,750 stock options were exercised at an exercise price of \$1.51 for proceeds of \$210 recognized in share capital and 786,250 stock options were surrendered and paid in cash by the Company for the intrinsic value of \$1,926 recognized in share based payment reserve. In August 2019, 290,000 stock options were surrendered at an exercise price of \$1.98. The intrinsic value of the stock options was issued in 56,319 common stock of the Company valued at \$179. In August 2019, another 21,666 stock options were surrendered but did not have an intrinsic value at the time of surrender. An additional 188,334 stock options expired in the nine months ended September 30, 2019.

- c. In January 2018, certain employees of the Company ("Participants") commenced participation in the Employee Share Purchase Plan ("ESPP"). The Company granted each Participant a number of shares equal to each Participant's annual share purchase commitment. In March 2018, a total of 80,968 common shares of the Company were acquired for an aggregate purchase price of \$262 to fulfill the Company's obligations under the ESPP. During the nine months ended September 30, 2019, 56,700 common shares were issued with a value of \$178 and during the nine months ended September 30, 2018, 2,292 common shares were issued with a value of \$7 to fulfill the Company's obligations under the ESPP. The Company did not recognize an expense for the nine months ended September 30, 2019 and for the nine months ended September 30, 2018, the Company recognized \$95 in general and administrative expenses with regards to the ESPP.
- d. 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. 50% of the common shares vest 12 months subsequent to the date of grant and 50% vest 24 months subsequent to the date of the grant. The Company recognized \$40 and \$83 in general and administrative expenses for the nine months ended September 30, 2019 and September 30, 2018, respectively.

In March 2018, a total of 46,000 common shares of the Company were acquired for an aggregate purchase price of \$148. During the nine months ended September 30, 2018, 43,000 common shares of these acquired shares were issued with a value of \$138, recognized in general and administrative expenses and share capital related to the ESCP.

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 \$47 in general and administrative expenses for the nine months ended September 30, 2019 in terms of the ESCP.

The Company issued an additional 64,863 shares and recognized \$270 in general and administrative expenses for the nine months ended September 30, 2019 under the ESCP.

- e. In connection with the Advantech Acquisition (Note 6), Advantech Wireless Inc. (now known as SpaceBridge 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

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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 nine months ended September 30, 2018 with regards to the common shares issued in relation to the consulting agreement.

- f. 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.
- g. On September 26, 2019, Baylin received approval from the Toronto Stock Exchange (“TSX”) for a normal course issuer bid (“NCIB”). Under the NCIB, Baylin may purchase for cancellation up to 2,016,532 of its common shares, representing 5% of its then-outstanding common shares. Baylin may purchase up to 7,780 common shares each trading day, subject to the TSX’s rules permitting block purchases. Purchases may be made through the facilities of the TSX and alternative trading systems in Canada at prevailing market prices or other prices as permitted. The NCIB commenced on September 30, 2019 and will continue until the earlier of the date Baylin has completed its purchases and September 29, 2020, when the bid expires.

NOTE 12: EQUITY METHOD INVESTMENT

Baylin’s equity-method investments consist of a 19% 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% 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 nine months ended September 30, 2019, transactions between Baylin and GTC totaled \$3,327 and between Baylin and AWR totaled \$3,105 consisting primarily of revenue earned related to the services agreements.

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

	As of September 30, 2019			As of December 31, 2018		
	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total
Cash	\$ 299	\$ 95	\$ 394	\$ 105	\$ -	\$ 105
Other current assets	675	556	1,231	93	320	413
Accounts receivables	2,646	5,071	7,717	2,642	3,325	5,967
Property, plant and equipment	1,115	574	1,689	656	469	1,125
Accounts payables and accrued liabilities	(4,438)	(6,024)	(10,462)	(3,788)	(4,031)	(7,819)
Net assets (liabilities)	\$ 297	\$ 272	\$ 569	\$ (292)	\$ 83	\$ (209)
Share of equity method investment net assets (liability)	56	52	108	(55)	16	(39)
Unrecognized equity method losses	-	-	-	55	-	55
	<u>\$ 56</u>	<u>\$ 52</u>	<u>\$ 108</u>	<u>\$ -</u>	<u>\$ 16</u>	<u>\$ 16</u>

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	For the nine months ended					
	September 30, 2019			September 30, 2018		
	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total	Galtronics Canada Ltd.	Advantech Wireless Research Inc.	Total
Revenue	\$ 3,337	\$ 3,330	\$ 6,667	\$ 754	\$ 1,620	\$ 2,374
Expenses	3,043	3,141	6,184	1,064	1,539	2,603
Net income (loss)	\$ 294	\$ 189	\$ 483	\$ (310)	\$ 81	\$ (229)
Share of equity method investment net income (loss)	56	36	92	(59)	15	(44)
Unrecognized share of equity method investment net loss	-	-	-	59	-	59
	<u>\$ 56</u>	<u>\$ 36</u>	<u>\$ 92</u>	<u>\$ -</u>	<u>\$ 15</u>	<u>\$ 15</u>

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.

In June 2019, the Company's President and Chief Executive Officer exercised 138,750 stock options at an exercise price of \$1.51 for proceeds of \$210 and surrendered 786,250 stock options for cash paid by the Company for the intrinsic value of \$1,926.

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. (now known as SpaceBridge Inc.) is owned and controlled by David Gelerman, a director of the Company.

Pursuant to the terms of the Advantech Acquisition, SpaceBridge 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. The EBITDA target was not met in 2018.

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In connection with the Advantech Acquisition, SpaceBridge Inc. entered into a consulting agreement with the Company payable in cash and common shares as detailed in Note 6. \$468 was recognized in general and administrative expenses for the nine months ended September 30, 2019 and nine months ended September 30, 2018. \$156 was recognized in general and administrative expenses for the three months ended September 30, 2019 and three months ended September 30, 2018.

During the nine months ended September 30, 2019, SpaceBridge Inc. and certain of its affiliates acted as agent for the Company through \$551 cash collections. As at September 30, 2019, \$2,184 due to the Company was included in trade receivables and \$1,365 due to the agent was included in accounts payable and accrued liabilities. As at December 31, 2018, \$286 due to the Company was included in trade receivables and \$20 due to the agent was included in accounts payable and accrued liabilities.

The Company did not provide services to SpaceBridge Inc. and certain of its affiliates during the nine months ended September 30, 2019 and provided \$245 during the nine months ended September 30, 2018. As of September 30, 2019, \$384 was included within trade receivables and as of December 31, 2018, \$349 was included within trade receivables.

Legal Proceedings

In the fourth quarter of 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 the vendor of Advantech failed to contest the indemnity claim within the prescribed time period. Post the payment, the vendor of Advantech filed an application for relief from forfeiture to have the sum returned to the escrow agent. The Company is opposing the application. The application is expected to be heard during the first quarter of 2020.

The Company has filed statements of claim for certain other indemnity obligations of the vendor pursuant to the terms of the Advantech Acquisition. The claims, in the aggregate, total approximately \$5,975. The vendor has filed statements of defence as well as statements of counterclaim totaling approximately \$1,600. The vendor has also 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 the second quarter of 2019, the vendor 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. The vendor 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 argued on October 29, 2019 and is under reserve, as is the issue of whether Mr. Gelerman is required to tender his resignation as a director under the Company's Majority Voting Policy.

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

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Alga

For the three and nine months ended September 30, 2019, \$39 and \$117 respectively, was recognized in revenue for premises leased to a company partly owned by Michael Perelshtein, an employee of Alga Microwave Inc.

In connection with the acquisition of Alga Microwave, Michael Perelshtein may be entitled to a portion of additional compensation of up to \$1,000 conditional on the Alga Microwave business meeting certain performance targets in each of 2019 and 2020.

Legal Proceedings

In the third quarter of 2019, the vendors of Alga Microwave 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.

2018 Offering of Subscription Receipts and Debentures

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 2018 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 January 1, 2018 and 2019. 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 nine months ended September 30, 2019 and nine months ended September 30, 2018, the Company paid \$113 to Mr. Royer under this agreement.

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.

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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:

	For the nine months ended September 30,		For the three months ended September 30,	
	2019	2018	2019	2018
Short-term benefits, pension and post-retirement benefits	\$ 6,397	\$ 4,190	\$ 1,873	\$ 1,867
Directors' remuneration	116	125	37	41
Share-based payment for executive management	1,132	697	279	182
Share-based payment for directors	153	144	51	50

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.

The following table presents the Company's financial liabilities measured and recognized at fair value at September 30, 2019 (December 31, 2018: \$18,975 Convertible Debentures were classified as Level 1):

	Level 1	Level 2	Level 3	Total
Convertible Debentures	\$ (16,086)	\$ -	\$ -	\$ (16,086)
Interest Rate Swap	\$ -	\$ -	\$ 64	\$ 64

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. As at September 30, 2019 and December 31, 2018, the Company did not hold any instruments included in level 2.

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Canadian dollars in thousands, except per share amounts

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. As at September 30, 2019, the Company held an interest rate swap contract in level 3 and December 31, 2018, the Company did not hold any instruments included in level 3. The present value of future cash flows based on observable yield curves was the valuation technique used to determine the fair value of the interest rate swap.

NOTE 15: REVENUE

Revenues by geographic destination are as follows:

	For the nine months ended September 30,		For the three months ended September 30,	
	2019	2018	2019	2018
Asia Pacific	\$ 71,786	\$ 55,878	\$ 20,568	\$ 21,424
North America	33,786	32,808	9,650	12,005
Europe, Middle East and Africa	15,459	9,364	5,477	4,087
Other	2,263	2,155	735	673
	<u>\$ 123,294</u>	<u>\$ 100,205</u>	<u>\$ 36,430</u>	<u>\$ 38,189</u>

NOTE 16: FINANCE INCOME AND EXPENSE

	For the nine months ended September 30,		For the three months ended September 30,	
	2019	2018	2019	2018
Interest income	\$ (33)	\$ (63)	\$ (3)	\$ (21)
Interest expense	2,896	4,025	804	2,311
Interest cost on lease liabilities (Note 4)	313	-	189	-
Prepayment fee (Note 8)	990	-	-	-
Expense of unamortized deferred financing cost (Note 8)	2,777	-	-	-
Bank charge expense	102	90	39	40
Changes from foreign exchange rate changes	(686)	370	(81)	(209)
Finance expense, net	<u>\$ 6,359</u>	<u>\$ 4,422</u>	<u>\$ 948</u>	<u>\$ 2,121</u>

NOTE 17: SUBSEQUENT EVENTS

The Company completed the sale of its Kirkland, Quebec, Canada facility ("Quebec Facility") for \$7,100 on October 28, 2019. The proceeds will be used to repay a portion of the Revolving Facility. The Company has signed a long-term lease and will continue to operate in the Quebec Facility.