



Management’s Discussion & Analysis of Financial Conditions and Results of Operations

This management discussion and analysis focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties relating to the telecommunications and consulting industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion and analysis of the financial condition and results of operations has been prepared as of April 27, 2018, for the year ended December 31, 2017 and should be read in conjunction with the audited consolidated financial statements and related notes and material contained in other parts of this annual report.

Additional information related to the Corporation is available on SEDAR at www.sedar.com.

Forward-Looking Statements

Certain statements in this MD&A and associated notes and financial statements may be considered “forward-looking” within the meaning of applicable securities laws. These statements reflect the Corporation’s plans and expectations based on our experience, interpretation of past trends, key assumptions and other relevant information available at the date that such statements are made.

The statements involve business, economic and competitive risks, uncertainties and contingencies. There is significant risk that predictions, projections or conclusions will not prove to be accurate and actual results may differ materially from estimates, expectations, or intentions expressed.

The forward-looking statements in this MD&A and associated notes and financial statements are based on what we believe are reasonable assumptions, however we caution readers not to place undue reliance on our forward-looking statements. We assume no obligation to update or revise these forward-looking statements to reflect new events or circumstances, except as required by securities law.

Business Overview

NTG Clarity is a Canadian publicly traded company (TSXV:NCI) that provides telecommunications engineering, Information Technology, networking and related software solutions. We have been developing niche software products directed at telecom service providers and utilities markets since our inception in 1992. We also provide professional services and managed services to this same vertical.

We are headquartered in Toronto, Canada and have subsidiaries in Cairo, Egypt and the USA, and branch offices in Riyadh, Saudi Arabia; Oman and Kuwait. The Company is organized into two business segments: the Canadian segment, which is made up of activities in Canada and our branch offices in Saudi Arabia, Oman and Kuwait; and the Egypt segment, which is our software development group and now provides professional services to customers in Egypt.

2017 has been a challenge as we worked to optimize costs and increase cash flow, while increasing our revenue by 26% over last year. The aggressive cost reduction strategy initiated by management in Q3

2016, began to show results in the second half of 2017 and the focus on collections has helped to steady our cash flow. We anticipate these measures will continue to show in 2018.

Egypt

Egypt continues to be a challenging place to do business with ongoing restrictions on using foreign currency for business operations, and on moving funds out of the country. The inflation rate has continued to drop from a high of 32% in July to 21.9%¹ at the end of 2017. Interest rates have remained steady for the last 5 months at 18.75%.² Export Development Canada's (EDC) Country Risk Quarterly report continues to give Egypt a high risk rating for short-term, however a substantial IMF program has assisted in providing stability despite a reduction of foreign investment³. Payment experience remains positive.

As many international companies are reluctant to do business in the local currency and are leaving the marketplace, the service gap has provided significant growth opportunities for NTG.

Despite the continuing economic challenges in the region and the significant devaluation of the EGP at end of 2016, NTG Egypt's revenue contribution continues to be significant. In 2017, the subsidiary contributed 18% of the Corporation's revenue (2016: 16%). Unconsolidated, NTG Egypt's unconsolidated revenue increased 68% over 2016. The increased revenue came from both new and existing customers, with 50% increase in professional services (outsourced staff) and an almost doubling of sales of hardware and network equipment.

In December 2017, we announced new work going forward:

- a \$178,000 agreement with one of the biggest fertilizer companies in the Middle East, for a total for Oracle Database Appliance (ODA) implementation, data migration and software upgrade. Though Oracle work is not new to NTG, this is a new customer/implementation.
- a \$188,000 implementation of NTG's StageEM product for a large telecom provider scheduled to begin in January 2018. NTG's product will provide service fulfillment and inventory management for the services provided by this customer.
- a \$144,000 extension of a StageEM implementation announced early this year. This is to implement business processes and StageEM on the customer's cloud.
- a \$70,000 extension of professional services with an existing customer.

Additionally, a significant increase in support contract prices was implemented during 2017 and continues for all contracts upon renewal.

We mitigate some of the risks of doing business in the country as our expenses and the majority of our contracts in Egypt are both in the local currency. We continue to insure the receivables and work in progress for three of NTG Egypt's tier 1 telecom customers, through EDC. These customers were responsible for approximately 71% of NTG Egypt's revenue and 54% of NTG Egypt's receivables at year end 2017 (2016: 65% and 69% respectively). Additionally, we have Foreign Funds Insurance, supported by EDC, which insures against possible asset and bank deposit appropriation in Egypt.

Saudi Arabia

Saudi Arabia (KSA) continues to have challenges with lower oil prices and is expected to see minimal growth. Saudi now has a medium short term risk rating from EDC. Despite the fiscal deficit, "FX reserves are expected to cover 27 months of imports in 2018 , more than enough to support the riyal's peg to

¹ <http://www.tradingeconomics.com/egypt/inflation-cpi>

² <http://www.tradingeconomics.com/egypt/interest-rate>

³ <https://www.edc.ca/EN/Country-Info/Pages/Egypt.aspx>

the USD..”⁴. Though KSA did obtain international financing in 2016, “..the Kingdom’s external debt remains at negligible levels, and foreign exchange reserves exceed the country’s total stock of private and public foreign debt by a factor of two.”⁵ In the medium-long term, commercial risk remains low.

NTG has been doing business in KSA for over 10 years, and ongoing initiatives continue to show returns with 55% of our professional service work and 44% of revenue being from KSA (2016: 49% and 51% respectively). With the implementation of many new initiative, including increasing the price of oil locally and relaxing restrictions on entertainment and tourism, KSA’s economy is changing as it searches for new revenue streams.

We anticipate new opportunities going forward as NTG has developed good brand recognition and a solid track record over the years.

Kuwait and Oman

From our office in Kuwait, we are actively pursuing new opportunities with existing and potential new customers.

- In Q4 2017, we continued work on a Smart Building Systems project valued at approximately \$753,000. Projection completion has been delayed, however we anticipate this to finalize in Q1 2018. We’ve received some changes in some areas in the project that contributed to an increase in the project’s revenue.
- In October 2017, we signed a significant Frame Agreement contract with an operator in the Gulf region, to provide professional services to this new customer. Estimated at \$4.5 Million over a three-year period, this customer accounted for 2% of NTG’s revenue in 2017, and we anticipate this to increase in 2018.

Kuwait has contributed 31% to NTG’s revenue in 2017 (2016: 22%). We continue to work on a list of opportunities for services and products in the telecom, smart building and government sectors.

In 2017, we continued work for our customer in Oman, who is using our NTS Network Inventory and Project Management modules. Work includes change requests and ongoing maintenance/support. We anticipate additional work into 2018 with change requests, ongoing support and additional product licenses, and request for new systems and modules and support customers in mobility. Oman contributed 7% to NTG’s revenue in 2017 (2016: 3%). The product sales in the region assist with recurring revenues from maintenance and support, and extra licenses.

Outlook

In 2017, management has worked to optimize costs for the incoming revenue. Focused collection activities have resulted in a more balanced cash flow, though legacy debt remains a challenge. These activities, along with new customers in Kuwait and KSA, and expanded projects in Egypt, have resulted in returning the Corporation to profitability in the second half of 2017.

Looking towards the future, we remain committed to bring NTG back to profitability and growth in 2018. We will also focus on capitalizing on the goodwill we have with our existing customers to expand our business and increase our margins. We will concentrate on marketing our products; NTS, StageEM and Voice Over WiFi, which are currently in high demand and have higher margins.

⁴ <https://exportwise.ca/crq-country-profiles/>, select Saudi Arabia

⁵ IBID

As in the past, our ability to generate positive operating cash flows, and report strong revenues and earnings are all critical to our success. We are confident that we have the management team with the experience and resources to fulfill our vision of growth and profitability.

Summary of Quarterly Results

Historically, NTG's operating results have fluctuated due to the timing of new contracts and their corresponding billing, as well as billing for software licenses which can result in larger sales orders in any one quarter. 2017 has followed this trend and we expect it to continue.

Quarter over quarter revenues remained reasonably consistent with previous years, with the exception of Q4 2016, which had a significant bad debt issue.

The lower revenue in Q1 2017 was mainly due to a longer lead time to close new projects for new customers. Delayed revenues appeared in Q2 2017. This trend was similar to 2016 and 2014.

We continue to work to reduce G&A costs, as contracts allow, and to optimize marketing and selling costs, based on our revenue.

The following table shows a summary of our eight most recent quarters (in Canadian dollars).

2017	Revenue	Net Income (Loss)	Profit (Loss) per Share	Diluted Profit per Share	Total Assets
Quarter One	\$ 3,007,929	\$ (752,579)	\$ (0.017)	\$ (0.017)	\$ 8,310,716
Quarter Two	4,148,957	(85,539)	(0.002)	(0.002)	8,511,716
Quarter Three	3,309,135	131,308	0.003	0.003	8,954,443
Quarter Four	3,893,502	(409,372)	(0.008)	(0.008)	8,463,198
TOTAL	\$ 14,359,523	\$ (1,116,183)	\$ (0.02)	\$ (0.02)	\$ 8,463,198

2016	Revenue	Net Income (Loss)	Profit (Loss) per Share	Diluted Profit per Share	Total Assets
Quarter One	\$ 2,433,333	\$ (1,986,457)	\$ (0.05)	\$ (0.04)	\$ 15,913,024
Quarter Two	5,077,129	(1,009,297)	(0.03)	(0.03)	15,184,183
Quarter Three	3,262,742	(881,497)	(0.024)	(0.022)	15,944,009
Quarter Four	599,251	(8,649,236)	(0.25)	(0.22)	8,397,344
TOTAL	\$ 11,372,455	\$ (12,526,487)	\$ (0.354)	\$ (0.312)	\$ 8,397,344

Quarterly and Annual Results of Operations

Financial Highlights for the three months and year ended December 31, 2017:

Revenue

Consolidated revenues for the three months ended December 31, 2017 was \$3,893,502 compared to \$599,251 for the same period in 2016. Revenue for the year increased 26% to \$14,359,523 compared to \$11,372,455 reported in the prior year and is primarily made up of product-related revenue, professional services and hardware sales.

Professional service revenue continues to be an important strategic source of revenue for us, given its generally recurring nature (77%). The contribution of product-related revenue was lower in 2017, however we anticipate this to increase going forward as we work to make product sales a more

balanced part of NTG's revenue stream. Hardware sales in Egypt and Kuwait made up 7% of overall revenue.

Consolidated revenues for Q4 2017 for the Egypt operating segment were \$955,354 compared to a negative amount for 2016, due to the 55% depreciation in currency in November 2016. For the year ended December 31, 2017 revenues were \$2,583,468 (2016: \$1,776,746). Unconsolidated, revenues for Egypt increased by 68% over the previous year.

For the Canadian operating segment, revenues for the three months ended and year ended December 31, 2017 were \$2,938,148 and \$11,776,056 (2016: \$1,295,964 and \$9,595,709). This 23% year to date increase was due to the doubling of revenue contributions from both Kuwait and Oman.

The Middle East continues to be where the majority of NTG's revenue comes from and as of December 31, 2017, represents substantially all of total revenue. Though sales and marketing efforts in Kuwait, Oman, and KSA have been reduced due to cash flow restrictions, we are hopeful 2018 will continue to see results from our past efforts with both existing and new customers.

Despite the economic difficulties in Egypt, business development efforts have resulted in a consistent revenue contribution to NTG's consolidated revenue. With a significant increase in professional services provided to tier 1 telecom and utility customers in the country, and sales of operating system licenses, support, and networks, Egypt contributed 18% of the Corporation's revenue in 2017 (2016: 16%).

Unbilled Revenue

Unbilled revenue is revenue which had been earned and therefore recognized in compliance with IFRS, but which has not been billed to the client(s) due to contract terms and/or billing cycle. The Corporation derives revenue from fees charged to customers for licenses for software products and professional services: support, consulting, development, training, and other services.

Revenue can be recognized for projects based on time and materials, for professional services or on a percentage of completion basis for product implementation and support. Both can result in unbilled revenue until the customer is invoiced. Based on NTG's contracts, the customer is invoiced upon the completion of defined milestones, and/or required customer acceptance.

Unbilled revenue was \$3,458,652 at December 31, 2017 compared to \$2,264,345 at December 31, 2016. This is due to the timing of billing for contracts. For many contracts, revenue is recognized each month, but billed on a quarterly basis and we anticipate this to continue.

Cost of Sales and Gross Margin

Cost of sales consists of the expense of personnel providing professional services, and services to implement and provide technical support for our solutions. In addition, it includes an allocation of certain direct and indirect costs attributable to these activities. Cost of sales for the three months and year ended December 31, 2017 were \$2,573,075 and \$9,318,018 respectively.

Cost of sales	December 31, 2017	December 31, 2016
Salaries and wages	\$ 8,008,277	\$ 8,356,835
Travel	187,721	190,246
Hardware	776,349	309,944
Medical inventory	--	164,580
Other expenses	345,671	415,681
Total	\$ 9,318,018	\$ 9,437,286

The small overall reduction in cost of sales was primarily due to reduction in salaries in KSA and Oman as we work to optimize our offerings. At the same time, revenue increased by 26%, validating management's cost cutting strategy.

Cost of sales for the Egypt operating segment were \$1,628,040 compared to \$1,165,615 in 2016. This 40% increase was because of:

- the significant increase in outsourced personnel at customer sites, and therefore increased salary costs.
- a 47% increase in hardware sales to customers.

At the same time, revenue for Egypt has increased by 45% over last year.

For the Canadian operating segment, cost of sales for the three months and year ended December 31, 2017 were \$2,062,143 and \$7,689,978 (2016: \$3,260,344 and \$8,271,671). Canada's 7% cost of sales decrease was mainly due to a reduction in staff/salaries in Oman and KSA, and the fact that there were no Qatar projects in 2017 (compared to 2016).

Gross margin for Q4 2017 was 34% or \$1,320,428 compared to (\$2,394,476) in 2016. Gross margin for the year ending December 31, 2017 was 35% compared to 17% in 2016. Margins are stronger based on our continuing efforts to optimize costs to our revenue. Realistic margins are anticipated to be between 35-40%, based on the product mix.

Operating Expenses

The Corporation's operating expenses were down 28% to \$5,364,665 in 2017 compared to \$7,401,310 in the prior fiscal year and included:

- a 16% decrease in selling and marketing activities that included fewer trade shows, elimination of activities in the US, and significantly less travel for sales personnel.
- a 29% decrease in G&A costs as we reduced:
 - staff, salaries and consulting costs in Canada and KSA
 - rental space costs in KSA, Kuwait and Oman
- a significantly smaller loss on foreign exchange, as currencies stabilize.

Selling and Marketing

Selling and marketing expenses consist primarily of sales staff remuneration, commissions, travel, advertising, consulting, and trade show costs. Sales and marketing expenses for the three months and year ended December 31, 2017 were \$573,916 and \$2,152,153 respectively (2016: \$551,239 and \$2,559,928). Year to date selling expenses decreased by 16%, as we work to optimize our salaries and marketing efforts, as contracts allow.

Selling	For the twelve months ended	
	December 31, 2017	December 31, 2016
Salary and wages	\$ 1,462,414	\$ 1,848,432
Marketing and advertising	509,325	531,833
Mailing and courier	5,859	23,863
Professional services	15,759	18,083
Meals and entertainment	134,751	137,717
Miscellaneous	24,045	--
Total	\$ 2,152,153	\$ 2,559,928

General and Administrative

General and administration expenses consist primarily of salary and benefits, rent and office expenses, insurance, professional fees, accounting and legal fees, director's fees, etc.

G&A expenses for the three months and year ended December 31, 2017 were \$819,940 and \$3,170,997 respectively compared to \$637,528 and \$4,488,100 in 2016. Year to date G&A costs were 29% lower

than in 2016 as we reduced staff, salaries and consultants in Canada and KSA. We also reduced the occupancy costs in Kuwait.

General and Administrative	December 31, 2017	December 31, 2016
Salary and wages	\$ 1,813,222	\$ 2,062,467
Occupancy	335,596	577,161
Consulting	109,577	511,086
Professional fees	128,538	149,946
Insurance	443,006	486,127
Performance bond fees	23,594	29,511
Foreign withholding taxes	--	190,818
Dues and subscriptions	31,916	52,246
Penalties and fees	130,722	73,955
Telecommunication	63,249	37,513
Office equipment	20,353	27,411
Miscellaneous	71,224	289,859
Total	\$ 3,170,997	\$ 4,488,100

We continue to work to reduce these expenses, as contracts allow, to optimize for our business.

Foreign Exchange Gain/Loss

The Corporation's consolidated financial statements are presented in Canadian dollars. Each entity in the Corporation determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency and the presentation currency of the parent entity is the Canadian dollar. Transactions in foreign currencies are initially recorded in respective functional currency rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate at the reporting date. Differences are taken to the statement of profit or loss and comprehensive income. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. The functional currency of the subsidiary NTG Egypt Advanced is the Egyptian pound, and the functional currency of the subsidiary NTG Clarity Networks US Inc. is the US Dollar.

An entity may present its financial statements in any currency (or currencies). If the presentation currency differs from the entity's functional currency, it translates its results and financial position into the presentation currency. For example, when a group contains individual entities with different functional currencies, the results and financial position of each entity are expressed in a common currency so that consolidated financial statements may be presented.

The results and financial position of an entity whose functional currency is not the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:

1. Assets and liabilities for each statement of financial position presented (i.e. including comparatives) shall be translated at the closing rate at the date of that statement of financial position;
2. Income and expenses for each statement presenting profit or loss and other comprehensive income (i.e. including comparatives) shall be translated at exchange rates at the dates of the transactions; and
3. All resulting exchange differences shall be recognized in other comprehensive income.

For the quarter ended December 31, 2017, the Corporation recognized a foreign currency exchange loss of \$59,021, compared to a gain of \$495,616, in the same period in 2016. For the year ended December

31, 2017, the Corporation recognized a foreign currency exchange loss of \$35,341, compared to a loss of \$353,282 in the year ended 2016. The larger 2016 loss was the result of the devaluation of the Egyptian pound in relation to the Canadian dollar.

For more information on foreign exchange, see Note 4(b): Foreign currency translation.

Other Expenses

With the exception of interest paid, other expenses were lower than in 2016:

- share-based compensation decreased 60% over 2016 as not as many options were issued.
- amortization costs were lower by 47% because of the impairment/write down of the intangible asset (StageEM) in 2016.
- depreciation costs were lower as fewer assets were purchased.
- intangible asset impairment was present in 2016, but not in 2017.

Research and Development

Research and development, other than for the StageEM product, is paid for by customer requests and is therefore, included in cost of sales.

Provision for Bad Debt

The provision for bad debt of \$13,231 was for impaired receivables in Egypt from previous years. Q4 2016 was affected by a high bad debt expense of \$1,698,654.

Amortization of Intangible Assets

Intangible assets relate to the upgrade of the internally developed Operations Support System/Business Support System (OSS/BSS) software product called NTS.

The amortization cost for 2017 was \$364,417 (2016: \$681,354). 2017 contained no amortization of StageEM, as the amount of \$4,045,326 was recorded as a loss from impairment at year end 2016.

Interest Expense

As at December 31, 2017, the interest expense was \$512,318 in 2017 as compared to \$374,523 in 2016. The significant increase was due to carrying a high balance in our credit facility and credit card balances.

Foreign Taxes

Foreign taxes are primarily taxes paid by NTG as a foreign entity working in Saudi Arabia, and some taxes paid by NTG Egypt. Foreign tax expense for the three months and year ended December 31, 2017 were \$20,189 and \$55,383 compared to \$21,147 and \$91,855 during the same period in 2016. This amount varies due to the timing of project execution.

Share-based Compensation

NTG has a formal stock option plan allowing the issuance of options to directors, officers, employees and consultants in order to attract and retain qualified and experienced individuals. All options granted are non-assignable, generally expire three years after the grant date and can have varying vesting periods.

Stock options granted in Q4 2017 totalled 890,000 (2016: 1,355,000). Stock options granted during the year ended December 31, 2017 totalled 1,115,000 (2016: 1,868,000) of which, 100,000 were granted to the new Board of Director member. Substantially all options were granted to replace expired options for employees, consultants, and directors. We do not anticipate that many options will be exercised in 2018 due to the current reduced share price.

The weighted average expected contractual lives of outstanding and exercisable options are shown in Note 18(b). 3,259,000 options have vested and there are 3,359,000 issued. The difference of 100,000 will vest in March 2018.

During the year, 850,000 share options were exercised for a cash in-flow of \$85,000 and we reallocated \$17,000 from Contributed Surplus to Share Capital.

Income Taxes

The Corporation has taxes payable of \$NIL (2016: \$ NIL) for the taxation year ending December 31, 2017.

Net Gain (Loss)

For Q4 2017, the Corporation recorded a net loss of (\$409,372) compared to (\$8,649,235) for the same period in 2016. For the year ending December 31, 2017, the Corporation recorded a net loss of (\$1,116,183) compared to (\$12,526,486) in 2016.

Factors contributing to the significant improvement include the following:

- a 16% decrease in selling and marketing activities that included fewer trade shows, elimination of activities in the US, and significantly less travel for sales personnel.
- a 29% decrease in G&A costs which included:
 - a decrease in salaries and wages and consulting costs for staff in Canada and KSA
 - a reduction in rental expenses for our offices/accommodations in KSA, Oman and Kuwait
- a significantly smaller loss on foreign exchange balances and on translation of foreign operations, as currencies stabilize.

Management continues to work to optimize costs with revenues.

Assets and non-current liabilities

As of December 31, 2017, the Corporation closed the year with \$104,444 cash on hand (2016: \$234,761), performance bonds of \$120,126 (2016: \$45,635) and prepaid amounts of \$138,835 (2016: \$192,059).

Intangible assets

Intangible assets relate to the upgrade of the internally developed Operations Support System/Business Support System (OSS/BSS) software product called NTS.

As per IFRS, development expenditures are capitalized as development costs can be measured reliably, the products are technically and commercially feasible, future economic benefits exist, and the Corporation intends to have sufficient resources to use or sell the assets. Assets are being amortized over a 10 year period. The amortization cost for 2017 was \$364,417 (2016: \$681,354).

Management considers NTS to be a valuable asset; however the percentage of product-related revenue varies depending on the timing of product licenses and support billing. In 2017, product-related revenue was responsible for approximately 15% of the Corporation's revenue (2016: 25%). Development expenditures continue to be amortized at a consistent rate for the remainder of the life of the asset.

An impairment test is performed on the non-current assets at year end, or when indicators warrant it. A test was performed at year end 2017 and there was no impairment. The Corporation will continue to assess on a quarterly basis for indicators of impairment.

Property and equipment

Property and equipment of \$259,942 as of December 31, 2017 (2016: \$272,579) consists mainly of computer equipment and office furniture with a useful life of 4-10 years. The Corporation is not dependant on tangible assets and expects the purchase and disposal of property and equipment to be consistently modest in the foreseeable future. The Corporation had additions of \$16,197 during 2017 (2016: \$80,480) and depreciation of \$59,732 (2016: \$92,349).

Non-current liabilities

As of December 31, 2017, there are no non-current liabilities.

Liquidity and Capital Resources

NTG's principal requirement for capital is to provide working capital to fund its operations and support its organic growth. Historically, we have funded operations by using profits generated by operations and through the issuance of equity. In 2017, we funded operations, changes in non-cash working capital and capital expenditures using internally generated cash flows, our credit facility, cash on hand, and the closing of two private placements.

Working capital as at December 31, 2017 was (\$4,990,696) compared to (\$5,119,015) at December 31, 2016. The working capital is improving with an increase in receivables, and bonds. The negative number was primarily due to last year's \$3.5 Million reduction in accounts receivable, and the use of working capital to fund the investment in the development of our new software product (StageEM).

Efforts to address our working capital needs in 2017 included:

- closing two shares for debt transactions in January and December 2017, to reduce payables by \$384,000 and \$360,000 respectively.
- increasing our collection activities.
- investigating alternate sources of raising funds. This has been difficult due to last year's results and the low share price.
- eliminating the use of working capital to fund StageEM.

Cash Flow Provided by Operations

The cash out-flow from operating activities for the year ended December 31, 2017 was (\$449,705) compared to a cash in-flow of \$970,275 for the same period in 2016. The substantial difference from last year was due to:

- a \$551,957 increase in accounts receivable, compared to a \$5.3 Million decrease in accounts receivable in 2016
- a smaller \$137,388 increase in accounts payable, compared to a \$2.4 Million increase in accounts payable and accrued liabilities in 2016.
- 2016 included a loss from impairment of \$4 Million
- a much improved net loss of (\$1,116,183) compared to a net loss of (\$12,526,486) in 2016.

Cash Flow from Financing Activities

The cash in-flow from financing activities for the year ended December 31, 2017 was \$366,482 compared to \$1,113,684 for the same period in 2016.

The substantial change in in-flow compared to 2016 was due to:

- the issuance of common shares from the private placements and the exercising of options
- the lower increase in bank indebtedness of \$56,214 compared to \$1.4 Million in 2016

Cash Flow from Investing Activities

Cash out-flow from investing activities for the year ended December 31, 2017, was (\$47,094) compared to (\$2,205,416) for the same period in 2016.

The significantly larger cash out-flow in 2016 was due to the investment in our software product, StageEM. In 2016, an impairment test indicated substantial impairment for the capitalization of StageEM and the amount of \$4,045,326 was recorded as a loss from impairment at year end 2016.

Commitments and Contractual Obligations

The Corporation is committed under agreements for the rental of office space in Canada (June 1, 2016 to May 31, 2021). Additionally we have short term agreements for the rental of office space in KSA, Oman, Kuwait and Egypt, as well as lease obligations for office equipment. The following table summarizes contractual obligations for future years.

Contractual obligations	2018	2019	2020	2021 and after	Total
Operating line of credit	\$ 7,488,751	\$ –	\$ –	\$ –	\$ 7,488,751
Accounts payable and accrued liabilities	3,885,223	–	–	–	3,885,223
Operating leases	337,729	214,337	145,485	119,121	816,672

Debt and Credit Facilities

As of December 31, 2017, the Corporation has credit facilities with RBC Royal Bank: an operating line based on marginable receivables, a revolving facility to support pre-shipping costs associated with exports, a \$1.5 Million performance/bid bond facility, and a non-revolving facility that supports overages.

In April 2017, the facility was restructured and the credit limits were changed to:

- \$2.7 million based on marginable receivables (revolving Facility 1)
- \$3.1 million for the pre-shipping (revolving Facility 2)
- \$1.5 million for the Letters of Guarantee (LGs) (Facility 3); and
- \$2,241,890 for the non-revolving Facility 4.

Facility 1 has an annual interest rate of bank prime plus 2.05%. Facility 2 and Facility 4 have an annual interest rate of bank prime plus 1.05%. Facilities 1-3 are secured by a General Security Agreement over the assets of the Corporation and are supported by Export Development Canada (EDC).

In September, 2017 the bank extended the Facility 4 repayment deadline to March 1, 2018 and requiring NTG to pay down \$50,000 per month from the principal. As of December 31, 2017, the Corporation continues to be in violation of its margin requirements under the Existing Loan Agreement and the amount owing on Facility 4 is \$2,041,890 (2016: 2,241,890).

Subsequent to year end, in February 2018, the bank extended the repayment deadline to September 1, 2018 and requires NTG to pay down \$60,000 per month from the principal.

Additionally, at December 31, 2017, the Corporation also had one advance payment guarantee, and two performance bonds issued in its name and supported by EDC, in the amount of approximately \$474,558 (2016: \$362,105). The bonds have been financed by a Canadian financial institution and are supported and 100% insured by EDC. One performance bond was released in January, 2018 and the other bonds will expire in March, 2019. Premiums for these bonds for the three months and year ended December 31, 2017 were \$1,590 and \$23,594 respectively (2016: \$8,196 and \$29,511, respectively).

EDC currently supports bonds for NTG on an as needed basis. We currently have \$474,558 in performance bonds, which will expire in March 2019.

Off-Balance Sheet Arrangements

The Corporation has not entered into off-balance sheet financing arrangements. All commitments are reflected on the Corporation's balance sheet.

Transactions with Related Parties

Transactions between the Corporation and its subsidiaries, which are related parties to the Corporation, have been eliminated on consolidation. Related parties include key management, the Board of Directors, close family members and entities which are controlled by these individuals as well as certain persons performing similar functions.

The standard key management compensation is listed in Note 23. In Q2 2015, the Board of Directors of the Corporation approved a loan to Ashraf Zaghoul in the amount of \$300,000 to be repaid in two years time at an interest rate of 2%. In its meeting on May 29, 2017, the Board of Directors approved extending the repayment date for this loan for one year.

Basis of Preparation and Significant Accounting Policies

The audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Significant accounting policies are presented in detail in Note 3 of our audited consolidated financial statements for the year ended December 31, 2017. These are available on SEDAR (www.sedar.com). The policies applied in these statements are based on IFRS issued and outstanding as of April 27, 2018, the date the Board of Directors approved the consolidated financial statements.

Proposed Transactions

There are no proposed transactions.

Business Risk and Management

NTG's primary risk management objective is to protect our balance sheet and cash flow. Principal financial liabilities are made up of bank overdraft and trade and other payables.

The overall risk management program has not changed throughout the year and focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

We are exposed to market risk, interest rate risk, foreign exchange risk, credit risk, and liquidity risk. Senior management oversees the management of these risks and is supported by a Committee that advises on financial risks and the appropriate financial risk governance framework. The Board of Directors reviews and agrees policies for managing risks.

In addition to risks described elsewhere, the Corporation is subject to a number of risk factors. The Corporation has significant reliance on certain key personnel, some of whom are also key shareholders; Ashraf Zaghoul, CEO; Kristine Lewis, President and Adel Zaghoul, CEO, NTG Egypt; Ashraf Fayed, SR. VP KSA; and Yaser Yousef, CTO. Though we have worked hard to diversify our customer base, we are dependent on a few large customers. In 2017, 23% (2016: 21%) of the Corporation's revenue was from one customer. As at December 31, 2017, approximately 14% (2016: 12%) of the Corporation's accounts receivable balance was from one customer. Management continues to work to diversify the customer base and country concentration.

Additionally, the Corporation mitigates this risk by insuring these receivables with EDC.

Additional risks and uncertainties not described below or not presently known to the Corporation may also impact our business. If any of these risks occur, the Corporation's business, financial condition or results of operations could be harmed and the trading price of the Corporation's common shares could be materially affected. The purpose of discussing these risks and uncertainties is to highlight factors that could cause actual results to differ materially from past results or from those described in forward-looking statements. It is not to describe facts, trends and circumstances that could have a positive impact on the results or financial position.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise several types of risk: interest rate risk, currency risk, commodity price risk, and other price risk, such as equity risk. The Corporation is not subject to price risk from fluctuations in market prices of commodities and has no exposure to equity price risk.

There is a high concentration of competition in the telecom industry and no barrier of entry for new competitors into the market. Many of our competitors are larger companies that have greater resources. To help mitigate this risk, we have partnered with, or signed agreements to work through, a few of the large competitors, as we can offer seasoned resources at extremely competitive rates.

Changes in the regulatory environment would always affect our plans and investments. As we continue to grow, we will continually monitor and evaluate the various policies and procedures to ensure that they take into account changes in the Corporation and its marketplace.

Approximately 45% of our revenue comes from work done in the Kingdom of Saudi Arabia (KSA). EDC's latest Country Risk Quarterly (Winter 2017-2018) indicates "...The commercial environment is public sector opportunities which should translate into a more favorable growth trajectory⁶". NTG considers the risks to operating in KSA to be low, however we continue to insure receivables with EDC and are working to retain new customers in other countries. All our KSA customers' invoices are insured to 90% and up to 180 days.

Historically 7-11% of our revenue comes from work done through our subsidiary NTG Egypt, based in Cairo, Egypt. Since 2014, the contribution percentage has grown from 13.7% to 18% in 2017. The political and economic difficulties in the region, have impacted the currency, but have positively affected our Egypt operations.

Unconsolidated, NTG Egypt's revenue has increased by 38.5% over to last year. There is a continuing increase in professional services provided to tier 1 telecom and utility customers as well as sales of

⁶<http://www.edc.ca/EN/Country-Info/Pages/Saudi-Arabia.aspx>

operating system licenses, support, hardware and networks. The telecom industry's challenges in the region continues to have a positive effect on NTG Egypt's revenue.

Interest rate risk

The Corporation's exposure to interest rate fluctuations is primarily interest paid on its bank indebtedness and long-term loans. The Corporation has performed sensitivity analysis on interest rates at December 31, 2017 to determine how a change in interest rates would impact equity and net loss. During the year, the Corporation paid \$515,161 (2016: \$374,523) on its bank loans. An increase or decrease of 100 basis points in the average interest rate paid during the period would have adjusted net earnings by approximately \$51,516 (2016: \$37,452). This analysis assumes that all other variables remain constant.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligation. NTG's financial instruments that are exposed to credit risk consist primarily of trade receivable. Our exposure to credit risk is impacted by the economic conditions for the industry which could affect the customers' ability to satisfy their obligations. To reduce risks, we perform periodic credit evaluations of the financial conditions of its customers and typically does not require collateral from them. Management assesses the need for allowance for potential credit losses by considering the credit risk of specific customers, historical trends and other information.

We also mitigate credit risk through credit insurance coverage with EDC as explained in Note 25. NTG Egypt deals with primarily with tier 1 telecom customers in the region. These customers are responsible for 79% of NTG Egypt's revenue and are insured through EDC.

The credit quality of all the accounts receivable of the Corporation that are neither past due nor impaired and the age of accounts receivable that are past due but not impaired have been assessed on an individual basis and determined to have a mitigated risk profile as they are insured receivables. As at December 31, 2017, the Corporation has insured receivables in the amount of \$1,541,889 (2016: \$1,540,127) and unbilled revenue in the amount of \$3,675,762 (2016: \$2,264,345).

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Our exposure to the risk of changes in foreign exchange rates relates primarily to operating activities, when revenue or expense are denominated in a different currency from our functional currency, the Canadian dollar.

We do not hedge the risk related to fluctuations of the exchange rate between USA and Canadian dollars from the date of the sales transactions to the collection date due to the short-term nature of this exposure. The Corporation does not hedge the risk related to fluctuations of the exchange rate between USA and Canadian dollars from the date of the sales transactions to the collection date due to the short-term nature of this exposure.

A 10% change in exchange rates on December 31, 2017 would have the following approximate impacts:

	U.S. Dollar	Omani Riyal	Kuwait Dinar	Saudi Riyal	Qatari Riyal	Egyptian Pound
10% impact to:	USD	OMR	KWD	SAR	QAR	LE
P&L in CAD	22,413	86,870	7,116	196,077	786	63,082
Equity in CAD	16,275	63,849	5,230	144,116	578	43,366

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions. The Corporation manages liquidity risk by reviewing its capital requirements on an ongoing basis. The Corporation continuously reviews both actual and forecasted cash flows to ensure that the Corporation has appropriate capital capacity.

The following table summarizes the amount of contractual undiscounted future cash flow requirements for financial instruments as at December 31, 2017:

Contractual obligations	2018	2019	2020	2021 and after	Total
Operating line of credit	\$ 7,488,751	\$ –	\$ –	\$ –	\$ 7,488,751
Accounts payable and accrued liabilities	3,885,223	–	–	–	3,885,223
Operating lease	337,729	214,337	145,485	119,121	816,672

Capital Management

NTG manages its capital, which consists of cash provided from operations and long term debt, with the primary objective being safeguarding sufficient working capital to sustain operations. The Board of Directors has not established capital benchmarks or other targets. As at December 31, 2017, the Corporation was pursuing additional capital through the issuance of additional equity or debt financing. There can be no guarantee that they will be successful in raising additional capital.

There have been no changes in the Corporation's approach to capital management during the year ending December 31, 2017. Also, no changes were made in the objectives, policies, or processes during the year ending December 31, 2017. We will continually assess the adequacy of its capital structure and capacity and make adjustments within the context of the Corporation's strategy, economic conditions, and the risk characteristics of the business.

The Corporation's objectives when managing capital are to:

- (i) safeguard the Corporation's ability to continue as a going concern, so that it can provide adequate returns for shareholders and benefits for other stakeholders;
- (ii) fund capital projects for facilitation of business expansion provided there is sufficient liquidity of capital to enable the internal financing; and
- (iii) maintain a capital base to maintain investor, creditor, and market confidence.

NTG considers the items included in the consolidated statements of changes in shareholders' equity as capital. The Corporation manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, we may issue new shares, however we are not subject to externally imposed capital requirements.

At December 31, 2017, of the \$120,126 in performance bonds (2016: \$45,635), \$56,999 (2016: \$25,651) was for 2 bid bonds and 5 performance bonds in Saudi Arabia (KSA) to guarantee delivery against work on various projects and \$79,259 (2016: \$19,984) was for various bid bonds in Egypt. Performance bonds typically remain in place for a period of one year from the start of the project and are released back to the Corporation when the project is completed subsequent to customer acceptance. Bid bonds are typically in place for a 90-120 day period but can be extended. The bonds are non-interest bearing.

Additionally, at December 31, 2017, we also had one advance payment guarantee, and two performance bonds issued in its name and supported by EDC, in the amount of approximately \$474,558 (2016: \$362,105). The bonds have been financed by a Canadian financial institution and are supported and 100% insured by EDC. One performance bond was released in January, 2018 and the other bonds will expire in March, 2019. Premiums for these bonds for the three months and year ended December 31, 2017 were \$1,590 and \$23,594 respectively (2016: \$8,196 and \$29,511, respectively).

Legal claim contingency

The Corporation is subject to a variety of claims and suits that arise from time to time in the ordinary course of business. Although management currently believes that resolving claims against the Corporation, individually or in aggregate, will not have a material adverse impact on the Corporation's financial position, results of operations, and cash flows. These matters are subject to inherent uncertainties and management's view of these matters may change in the future. To date, there are no claims or suits outstanding.

Guarantees

The Corporation indemnifies its directors and officers against claims reasonably incurred and resulting from the performance of their services to the Corporation, and maintains liability insurance for its directors and officers.

Collateral

The Corporation has pledged its assets under a General Security Agreement ("GSA") as disclosed in Note 17. The Corporation did not hold collateral at December 31, 2017, and December 31, 2016.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Corporation's disclosure controls and procedures as of December 31, 2017 and have concluded that such disclosure controls and procedures were effective to provide reasonable assurance that material information relating to the Corporation or its subsidiaries is made known to them.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), this Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers (CFO and CEO) filing the NI 52-109 certificate are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP (IFRS).

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the NI 52-109 certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may

result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Standards issued but not yet effective

As at April 27, 2018, the date of authorization of these financial statements, certain new standards, amendments, and interpretations to existing IFRS standards have been published but are not yet effective and have not been adopted by the Corporation.

The International Accounting Standards Board issued on January 13, 2016 a new accounting standard called IFRS 16 Leases. IFRS 16 Leases replaces IAS 17 Leases. IFRS 16 requires all leases to be reported on an entity's statement of financial position as assets and liabilities. IFRS 16 is effective January 1, 2019. The Corporation has assessed and determined that there will be no impact to the financial statements upon adoption.

The IASB published an amendment to IAS 12 in January 2016 referred to as IAS 12: Income Taxes: Recognition of Deferred Tax Assets for Unrealized Losses. The amendment is effective for reporting periods starting on or after January 1, 2017. The amendment is not relevant to the Corporation.

The IASB has issued the following updates to the Standards, which were all early adopted on January 1, 2016 and for which there was no impact on the statement of financial position, results of operations, or disclosures: IFRS 5 Non current Assets Held for Sale and Discontinued Operations: Changes in methods of disposal, IFRS 7 Financial Instruments: Disclosures: Servicing contracts, IAS 19 Employee Benefits: Discount rate IAS 34 Interim Financial Reporting: Disclosure.

The IASB issued Disclosure Initiative, amendments to IAS 1 in December 2014 with an effective date of January 1, 2016. The Corporation has adopted the amendments on January 1, 2016. The adoption resulted in reduced disclosures in non material areas.

The IASB issued Disclosure Initiative, amendments to IAS 7 Statement of Cash Flows in January 2016 with an effective date of January 1, 2017. The Corporation adopted the amendments on January 1, 2017, which resulted in no significant changes to the disclosures in the financial statements as the Corporations financing activities are not subject to fair value adjustments, foreign exchange, the result of acquisitions or other adjustments.

As at January 1, 2016, the Corporation has elected to early adopt IFRS 15 Revenue from Contracts with Customers as issued by the IASB in accordance with the transition provisions in IFRS 15 Revenue from Contracts with Customers. As at January 1, 2017, the Corporation early adopted Clarifications to IFRS 15 Revenue from Contracts with Customers. There was no impact to the Corporation's financial statements.

The IASB has issued several narrow scope amendments between June 2016 to the date of issuance of these financial statements. One amendment, IFRS 2 Clarification and Measurement of Share based Payment Transactions, issued June 2016 and effective for years beginning on or after January 1, 2018, has been early adopted by the Corporation on January 1, 2017 and there was no impact to the statement of financial position or the statement of comprehensive income. All other new standards and amendments have no impact on the Corporation.

All other standards were early adopted as explained in the prior year's financial statements.