



*Simplifying Software Solutions*

**QUARTERLY REPORT**

**NTG CLARITY NETWORKS INC.**

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

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

This management discussion and analysis focuses on key statistics from the unaudited interim 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 November 28, 2019, for the three and nine months ended September 30, 2019 and should be read in conjunction with the unaudited interim consolidated financial statements and related notes and material contained in other parts of this quarterly report. It should also be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2018.

Additional information related to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Forward-Looking Statements**

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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**

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NTG Clarity is a Canadian publicly traded Corporation (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 1993. We also provide professional services network, 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 Corporation is organized into two business segments: the Canadian segment, which is made up of activities in Canada and our offices in Saudi Arabia, Oman and Kuwait; and the Egypt segment, which is our software development group and also provides professional services and network services/hardware to customers in Egypt.

This quarter, management's efforts were focused on working with the Bank and the cash flow shortfall, which significantly affected operations. A continued effort was made to avoid a negative outcome with regards to the credit facilities, which are secured by a General Security Agreement over the assets of the Corporation.

Despite management efforts throughout the year, and full attention in Q3 2019, on September 17, 2019, the Corporation announced that it had received a formal demand for payment of its Bank facilities, requesting payment in full by no later than (10) days from September 16, 2019. The Corporation is currently continuing discussions with the Bank to try to resolve this issue. See Note 29 for more information.

Also, despite management efforts to raise funds and obtain short term loans, reduced cash flow continued to significantly affect operations. The severe cash flow issue during the year, increasing throughout Q2 and then Q3, has impacted the Corporation's ability to finance the ongoing work, which caused a slow down/halt of most projects and resulted in significant lost revenue for the quarter.

### 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. We expect this trend to continue.

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

2019	Revenue	Net Income (Loss)	Profit (Loss) per Share	Diluted Profit per Share	Total Assets
Quarter One	\$ 3,616,344	\$ 304,719	\$ 0.01	\$ 0.01	\$ 8,843,130
Quarter Two	\$ 2,035,298	\$ (289,170)	\$ (0.01)	\$ (0.01)	\$ 6,218,754
Quarter Three	\$ 575,594	(5,210,467)	\$ (0.09)	\$ (0.09)	\$ 4,899,211
<b>TOTAL</b>	<b>\$ 6,227,237</b>	<b>\$ (5,194,917)</b>	<b>\$ (0.09)</b>	<b>\$ (0.09)</b>	<b>\$ 4,899,211</b>

2018	Revenue	Net Income (Loss)	Profit (Loss) per Share	Diluted Profit per Share	Total Assets
Quarter One	\$4,049,061	\$ 160,482	\$ 0.00	\$ 0.00	\$ 8,587,262
Quarter Two	2,607,838	16,368	0.00	0.00	8,994,081
Quarter Three	3,501,906	6,555	0.00	0.00	9,096,015
Quarter Four	1,547,662	(549,449)	( 0.01)	( 0.01)	7,900,467
<b>TOTAL</b>	<b>\$ 11,706,467</b>	<b>\$ (366,044)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ 7,900,467</b>

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
<b>TOTAL</b>	<b>\$ 14,359,523</b>	<b>\$ (1,116,183)</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>	<b>\$ 8,463,198</b>

## **Quarterly Results of Operations**

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Financial Highlights for the three and nine months ended September 30, 2019:

### **Revenue**

Consolidated revenue for the three months ended September 30, 2019 was \$575,594 compared to \$3,501,906 for the same period in 2018. Year to date revenues were \$6,227,237 compared to \$10,158,805 in 2018.

Revenue is down significantly in 2019, particularly in Q3 2019.

1. Despite management efforts to raise funds and obtain short term loans, reduced cash flow continued to significantly affect operations. The severe cash flow issue during the year, increasing throughout Q2 and then Q3, has impacted the Corporation's ability to finance the ongoing work, which caused a slow down/halt of most projects and resulted in significant lost revenue for the quarter.
  - There was no significant billing for KSA in Q3 2019. YTD 2019 revenue is 36% lower than the same period last year due to delayed renewals and the ramp up of new projects in KSA.
  - There was no significant billing for Oman in Q3 2019 due to the timing of project and change request invoicing, however YTD revenue is similar to the same period last year.
2. Our contract in Kuwait expired and was not renewed past Q1 2019. We have been unable to replace the revenue stream in Kuwait, where we previously generated \$4.5M in 2017 and \$3.2M in 2018. Based on Q3 2018 amounts, revenue was lower by approximately \$900K in this quarter due to this.
3. In Egypt, YTD 2019 revenue is down 10% over the same period last year. This is primarily due to a delay in invoicing of Enterprise projects and we should be able to make up for this in the next quarter.

For the Egypt operating segment, consolidated revenue was \$517,635 in Q3 2019 and year to date consolidated revenues were \$1,947,593 (compared to \$2,165,548 in 2018). For the Canada operating segment, revenues for YTD 2019 were \$4,279,644 compared to \$7,993,257 in 2018.

### **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 \$915,443 at September 30, 2019 compared to \$3,288,400 at December 31, 2018. 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.

### **Costs 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. The consolidated cost of sales for the three months ended September 30, 2019 was similar to the same period last year (\$1,393,617 as compared to

\$1,766,218). The cost of sales for the nine months ended September 30, 2019 was down 21% to \$4,486,129 (2018: \$5,643,653).

The cost of sales for the Egypt operating segment, for the three and nine months ending September 30, 2019 was \$485,780 and \$1,467,498 (2018: \$451,171 and \$1,338,065). The increase is mainly due to Egypt employees working offsite on projects for customers in KSA and Oman. For the Canadian operating segment, the cost of sales for the three and nine months ending September 30, 2019 was \$907,837 and \$3,018,631 respectively (2018: \$1,315,047 and \$4,305,588).

### **Operating Expenses**

The Corporation's operating expenses for the three and nine months ended September 30, 2019 were \$1,592,644 and \$3,717,142 compared to \$1,347,955 and \$3,307,278 for the same periods last year.

### **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 and nine months ended September 30, 2019 were reduced over the same periods last year (\$617,450 and \$1,483,505 compared to \$472,302 and \$1,379,912 in 2018).

<b>Selling</b>	<b>For the three months ended</b>		<b>For the nine months ended</b>	
	<b>September 30, 2019</b>	<b>September 30, 2018</b>	<b>September 30, 2019</b>	<b>September 30, 2018</b>
Salary and wages	\$ 273,464	\$ 187,131	\$ 838,062	\$ 786,643
Marketing and advertising	199,276	126,424	390,091	322,855
Mailing and courier	147	2,882	3,483	7,621
Professional services	103,647	111,530	117,821	140,575
Travel and entertainment	40,915	44,335	134,048	122,218
<b>Total</b>	<b>\$ 617,450</b>	<b>\$ 472,302</b>	<b>\$ 1,483,505</b>	<b>\$ 1,379,912</b>

Selling and marketing for the Egypt operating segment, for the three and nine months ended September 30, 2019 increased to \$155,827 and \$483,890 respectively (2018: \$145,764 and \$444,755). The increase is due to extra sales and marketing efforts done to acquire new customers and increase penetration in existing customers. For the Canadian operating segment, selling and marketing for the three and nine months ended September 30, 2019 was \$461,623 and \$853,995 (2018: \$326,538 and \$935,158).

### **General and Administrative**

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

<b>General and Administrative</b>	<b>For the three months ended</b>		<b>For the nine months ended</b>	
	<b>September 30, 2019</b>	<b>September 30, 2018</b>	<b>September 30, 2019</b>	<b>September 30, 2018</b>
Salary and wages	\$ 492,119	\$ 212,999	\$ 937,411	\$ 883,197
Occupancy	62,152	97,204	240,818	286,754
Consulting	14,995	68,493	80,798	99,390
Professional fees	22,360	49,278	140,858	139,842
Insurance	129,405	93,436	314,584	274,335
Dues and subscriptions	10,062	8,946	24,413	27,775
Penalties and fees	3,278	4,690	17,389	15,586
Telecommunication	4,396	12,294	44,611	48,206
Office equipment	694	999	2,618	3,196
Other	201,821	97,586	217,250	101,149
<b>Total</b>	<b>\$ 941,281</b>	<b>\$ 645,926</b>	<b>\$ 2,020,750</b>	<b>\$ 1,879,430</b>

G&A for the Egypt operating segment, for the three and nine months ended September 30, 2019 were \$87,286 and \$227,714 respectively (2018: \$40,891 and \$167,143). G&A for the Canadian operating segment, for the three months and nine months ended September 30, 2019 were \$853,995 and \$1,793,035 compared to \$605,035 and \$1,712,287 for the same periods in 2018.

#### **Foreign Exchange Gain/Loss**

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. The functional currency of the subsidiary NTG Egypt Advanced Software is the Egyptian pound, and the functional currency of the subsidiary NTG Clarity Networks US Inc. is the US 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 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 three and nine months ended September 30, 2019, the Corporation recognized a foreign currency exchange loss of \$33,913 and \$212,887 respectively, compared to a loss of \$229,727 and \$47,936 for the same periods in 2018. The foreign exchange loss is attributed to the volatile changes in currencies in the period and the losses incurred when converting currencies as we transfer between various branches. The exchange loss arising on translation of foreign operations is attributed to currency fluctuations.

#### **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**

NTG has made a provision for bad debt of \$2,379,114. This is for receivables in KSA, Kuwait and Oman, and includes:

- a customer requested a rate reduction on a project in order for the Corporation to collect the outstanding amounts.
- a customer breached a contract by terminated it. The court case is pending. Valued at \$994,600 USD.
- a customer project was cancelled while work was in progress.

### **Amortization and Depreciation**

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 the three and nine months ended September 30, 2019 was the same as the previous year \$91,104 and \$273,313. Indicators of impairment were present for the year ended December 31, 2018 and an impairment test was performed and no impairment was found.

### **Interest Expense**

As at September 30, 2019, the interest expense for the three and nine months was \$338,132 and \$667,075 as compared to \$131,789 and \$383,842 for the same periods in 2018. The significant increase was due to higher balances being carried on our accounts payable and short term loans, and higher than estimated interest costs for our credit facilities.

### **Foreign Taxes**

Foreign taxes are taxes paid by NTG as a foreign entity working in Saudi Arabia. Foreign tax expense for the period ended September 30, 2019 were \$NIL compared to \$71,627 for the same period in 2018. Foreign tax amounts vary depending on profits, type of service provided and the quarter in which the billing occurs.

### **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 usually vest over two years but can have varying vesting periods.

No options were granted to non employees during Q3 2019. Stock options granted during the three and nine months ended September 30, 2019 totalled 300,000 and 870,000 (2018: 205,000 and 2,082,000). 3,435,000 options have vested and there are 3,947,000 issued. The difference of 512,000 will vest in the foreseeable future (within the next 12 months) and the expense will be charged in the future quarters.

### **Income Taxes**

There are no income taxes for Q3 2019 (Q3 2018: \$NIL) as the Corporation has available income tax losses (December 31, 2018: \$9,553,066).

### **Net Income (Loss)**

For Q3 2019, the Corporation recorded a net loss of \$(5,210,467) compared to a net income of \$6,555 for the same period in 2018. For the nine months ended September 30, 2019, the Corporation recorded a net loss of \$(5,194,917) compared to a net income of \$183,406 in 2018.

The Egypt operating segment, for the three months ended September 30, 2019 recorded a net loss of \$(187,019) (Q3 2018: \$(88,198)). For the nine months ended September 30, 2019 the net loss was \$(88,570) (YTD 2018: \$30,390).

For the Canadian operating segment, the net loss for the three and nine months ended September 30, 2019 of \$(5,023,448) and \$(5,106,347) compared to a net income of \$94,753 and \$153,016 for the same periods last year.

Despite management efforts to raise funds and obtain short term loans, reduced cash flow continues to significantly affect operations. The severe cash flow issue during the year, increasing throughout Q2 and then Q3, has impacted the Corporation's ability to finance the ongoing work, which caused a slow down/halt of most projects and resulted in significant lost revenue for the quarter.

## **Assets and non-current liabilities**

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As of September 30, 2019, the Corporation had \$24,297 cash on hand (December 31, 2018: \$98,694), performance bonds of \$110,532 (December 31, 2018: \$111,536), and prepaid amounts of \$180,337 (December 31, 2018: \$207,710).

Differences in prepaid amounts are due to the timing of insurance and rental renewals. The decrease in bond values compared to year to date 2018 occurred because of bonds that expired in Egypt and KSA.

### **Intangible asset**

Intangible assets relate to the upgrade of our internally developed Operations Support System/Business Support System (OSS/BSS) software product called NTS. Expenditures on development of the software were recognized as an asset from the time the Corporation has determined an indefinite future economic benefit exists.

NTS is a retail management software for telecommunication companies. The development costs are determined to have a useful life of 10 years are amortized on a straight line basis. The amount capitalized as at September 30, 2019 is \$NIL (December 31, 2018: \$NIL) in development costs. The amortization cost for the three and nine months ended September 30, 2019 was the same as in 2018; \$91,104 and \$273,313 respectively. The NTS software will be fully amortized by 2023.

### **Property and equipment**

Property and equipment of \$187,053 as of September 30, 2019 (December 31, 2018: \$221,980) 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 modest in the foreseeable future.

### **Non-current liabilities**

As of September 30, 2019, there are no non-current liabilities. In September 2018, the non-current liabilities consisted of a leasehold liability of \$6,160. This liability arose from the Canadian office rental and will be amortized to income until May 2021.

## **Liquidity and Capital Resources**

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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 Q3 2019, we funded operations, changes in non-cash working capital and capital expenditures using internally generated cash flows, cash on hand, and short term loans.

Working capital as at September 30, 2019 was (\$9,346,910) compared to (\$4,861,655) at December 31, 2018. Efforts to address our working capital needs in 2018 include:

- Continuing our increased collection activities.
- Investigating alternate sources of raising funds.
- Accepting short term loans from investors

### **Cash Flow from Operations**

The cash flow from operating activities for the three and nine months ended September 30, 2019 was an in-flow of \$77,212 and an out-flow of \$77,897, compared to cash in-flow of \$357,698 and \$735,585 for the same periods in 2018.

The difference from last year was due to:

- a net loss of \$(5,194,917) compared to a net income of \$183,406 in 2018.
- a significant increase in interest paid due to increased credit facility balances and use of short term loans
- a larger decrease in accounts receivable (\$1.2M compared to an increase in YTD 2018)
- a larger increase in accounts payable (\$1.5M compared to \$562,864 in YTD 2018)

### **Cash Flow from Financing Activities**

The cash flow from financing activities for the three and nine months ended September 30, 2019, was an out-flow of (\$231,496) and an in-flow of \$5,826, compared to an out-flow of (\$271,750) and (\$574,605) for the same periods in 2018.

The main differences from 2018 were:

- an increase in bank indebtedness
- a shares for debt transaction in 2019 resulted in the issuance of shares amount of \$360,000 that was not present in 2018.
- significant interest amounts paid as a result of increased short term loans and increased bank indebtedness.

### **Cash Flow from Investing Activities**

The cash flow for investing activities for the three and nine months ended September 30, 2019, was an out-flow of (\$605) and (\$2,328) compared to an out-flow of (\$3,093) and (\$21,838) for the same periods in 2018.

### **Commitments and Contractual Obligations**

The Corporation is committed under agreements for the rental of office space in Canada at a monthly rate of \$9,232 for the period from June 1, 2016 to May 31, 2021. Additionally, we have short term agreements for the rental of office space in Saudi Arabia, Oman, and Egypt, as well as lease obligations for office equipment.

The following table summarizes contractual obligations for future years.

<b>Contractual obligations</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022 and after</b>	<b>Total</b>
Operating line of credit	\$ 7,517,468	\$ –	\$ –	\$ –	\$ 7,517,468
Accounts payable and accrued liabilities	5,499,348	–	–	–	5,499,348
Operating leases	65,941	180,301	103,985	8,291	358,518

### **Debt and Credit Facilities**

As of September 30, 2019, the Corporation had credit facilities with RBC Royal Bank:

- \$2.7 million based on marginable receivables (revolving Facility 1)
- \$3.1 million for the pre-shipping (revolving Facility 2)
- \$250,000 for issuance of LGs (revolving Facility 3), with EDC support
- \$2,241,890 non-revolving Facility 4 (balance owing \$1,401,890)

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 EDC and Euler Hermes.

On September 17, 2019, the Corporation announced that it had received a formal demand for payment of its Bank facilities, requesting payment in full by no later than (10) days from September 16, 2019. See Note 29 for more information.

### **Off-Balance Sheet Arrangements**

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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**

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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 24. 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. In its meeting on August 28, 2018, the Board of Directors approved extending the repayment date for this loan for two years.

### **Basis of Preparation and Significant Accounting Policies**

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The unaudited interim consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), London, *IAS 34 Interim Financial Reporting*, and the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and in effect at the closing date of November 28, 2019.

Significant accounting policies are presented in detail in Note 3 of our unaudited interim consolidated financial statements for the period ended September 30, 2019. These are available on SEDAR ([www.sedar.com](http://www.sedar.com)). The policies applied in these statements are based on IFRS issued and outstanding as of November 28, 2019, the date the Board of Directors approved the consolidated financial statements.

### **Proposed Transactions**

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There are no Proposed Transactions.

### **Business Risk and Management**

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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. NTG has taken on short term debt from overseas to assist with cash flow.

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 Zaghloul, CEO; Kristine Lewis, President and Adel Zaghloul, CEO, NTG Egypt; and Yaser Yousef, CTO. Though we have worked hard to diversify our customer base, we are dependent on a few large customers. Management continues to work to diversify the customer base and country concentration. Additionally, the Corporation mitigates this risk by insuring these receivables with Euler Hermes and 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.

### **Interest risk**

NTG's exposure to interest rate fluctuations is primarily interest paid on its bank indebtedness and long-term loans. NTG has performed sensitivity analysis on interest rates at September 30, 2019 to determine how a change in interest rates would impact equity and net loss.

During the three months and nine months ended September 30, 2019, the Corporation incurred \$338,132 and \$667,075 in interest charges on its loans and liabilities (2018: \$131,789 and \$383,842). This increase is a result of higher credit facility balances and short term loans from overseas to assist with cash flow. An increase or decrease of 100 basis points in the average interest rate paid during the quarter would have adjusted net earnings by approximately \$33,813(Q3 2018: \$13,179). 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 customers and typically do 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 Export Development Canada and Euler Hermes Canada as explained in Note 25.

The credit quality of all the accounts receivable of NTG 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 September 30, 2019, the Corporation has insured receivables in the amount of \$3,409,337 (December 31, 2018: \$2,496,454) and insured unbilled revenue in the amount of \$915,443 (December 31, 2018: \$3,288,400).

### 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. The Corporation's exposure to the risk of changes in foreign exchange rates relates primarily to the Corporation's operating activities, when revenue or expense are denominated in a different currency from the Corporation's functional currency. The parent entity's functional currency is the Canadian dollar. 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 the September 30, 2019 would have the following 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	49,799	16,527	120,254	35,767	414	67,637
Equity in CAD	36,603	12,148	86,387	26,289	304	49,713

### Liquidity risk

Liquidity risk is the risk that the NTG will not be able to meet its financial obligations as they fall due. The 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. We manage liquidity risk by reviewing its capital requirements on an ongoing basis and continuously review both actual and forecasted cash flows to ensure that we have appropriate capital capacity. NTG has secured short term loans from overseas to assist with cash flow.

As mentioned in the year-end report, the Corporation continues to be in breach of its margin requirements under the Existing Loan Agreement with the Bank. On September 17, 2019, the Corporation announced that it had received a formal demand for payment of its Bank facilities, and subsequent to quarter end, on October 9, 2019 the Corporation had an Interim Receiver appointed (see Note 29 for more information).

### Capital management

NTG manages its capital, which consists of cash provided from operations and short term loans, 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 September 30, 2019, 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.

The Corporation's approach to capital management during the period ending September 30, 2019 was to obtain short term loans from overseas to support the cash flow requirements. No changes were made in the objectives, policies, or processes during the period ending September 30, 2019.

The Corporation 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. NTG 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. In order to maintain or adjust the capital structure, the Corporation may issue new shares. NTG is not subject to externally imposed capital requirements.

#### **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. As of September 30, 2019:

- the Corporation has a small claims case pending in Ontario for \$25,000. Management feels this case is baseless and has submitted a defense for this.
- on September 17, 2019, the Corporation announced that it had received a formal demand for payment of its Bank facilities, requesting payment in full by no later than (10) days from September 16, 2019 (see Note 29 for more information).

#### **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 Notes 17. The Corporation did not hold collateral at September 30, 2019, and September 30, 2018.

## **Disclosure Controls and Procedures and Internal Controls over Financial Reporting**

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The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Corporation's disclosure controls and procedures as of September 30, 2019 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**

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As at November 28, 2019, 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.

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

**NTG Clarity Networks Inc.**

**Unaudited Interim Consolidated Financial Statement**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Corporation discloses that its auditors have not reviewed the unaudited interim consolidated financial statements for the period ended September 30, 2019.

November 28, 2019

MARKHAM, ONTARIO

**NTG CLARITY NETWORKS INC.****Unaudited Interim Consolidated Statements of Financial Position**

(In Canadian Dollars)

	September 30, 2019	December 31, 2018
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents (Note 10)	24,297	98,694
Trade and other receivables (Note 11)	3,360,904	5,951,145
Bid/Performance bonds (Note 13)	110,532	111,536
Prepaid expenses and deposits (Note 12)	180,337	207,710
<b>Total current assets</b>	<b>\$ 3,676,070</b>	<b>\$ 6,369,085</b>
Non-current assets		
Property, plant and equipment (Note 14)	187,053	221,980
Intangible assets (Note 15)	736,089	1,009,402
Due from related parties (Note 23)	300,000	300,000
<b>Total non-current assets</b>	<b>1,223,142</b>	<b>1,531,382</b>
<b>Total Assets</b>	<b>\$ 4,899,211</b>	<b>\$ 7,900,467</b>
<b>LIABILITIES</b>		
Current liabilities		
Bank indebtedness (Note 17)	\$ 7,517,468	\$ 7,228,567
Accounts payable and accrued liabilities (Note 16)	5,499,348	3,976,717
Current portion of leasehold liability	6,163	8,931
Deferred revenue	–	16,525
<b>Total current liabilities</b>	<b>\$ 13,022,980</b>	<b>\$ 11,230,740</b>
Leasehold liability	–	–
<b>Total liabilities</b>	<b>\$ 13,022,980</b>	<b>\$ 11,230,740</b>
<b>SHAREHOLDER'S EQUITY</b>		
Capital stock (Note 18)	10,148,186	9,752,186
Contributed surplus (Note 19)	1,794,014	1,788,593
Foreign exchange account	(363,370)	(518,666)
Deficit	(19,702,599)	(14,352,386)
<b>Total shareholders' equity</b>	<b>(8,123,769)</b>	<b>(3,330,273)</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 4,899,211</b>	<b>\$ 7,900,467</b>

Approved on behalf of the Board:

*"Ashraf Zaghloul"**"Kristine Lewis"*

Director

Director

See accompanying notes to consolidated financial statements.

**NTG CLARITY NETWORKS INC.****Unaudited Interim Consolidated Statements of Changes in Equity**

For the nine month period ended September 30, 2019 and December 31, 2018

(In Canadian Dollars)

	Share Capital	Contributed Surplus	Deficit	Foreign Exchange Reserve	Total Shareholders' Equity
<b>Balance, January 1, 2018</b>	\$ 9,740,186	\$ 1,698,960	\$ (13,998,913)	\$ (506,095)	\$ (3,065,862)
Income (loss) from continuing operations	–	–	352,496	–	352,496
Other comprehensive loss	–	–	–	(169,090)	(169,090)
Reallocation of contributed surplus (Note 18)	2,000	(2,000)	–	–	–
Share-based compensation	–	80,079	–	–	80,079
Issuance of share capital	10,000	–	–	–	10,000
<b>Balance, September 30, 2018</b>	\$ 9,752,186	\$ 1,777,039	\$ (13,646,418)	\$ (675,185)	\$ (2,792,378)
Income (loss) from continuing operations	–	–	(705,969)	–	(705,969)
Other comprehensive loss (Note 4(b))	–	–	–	156,519	156,519
Reallocation of contributed surplus (Note 18)	–	–	–	–	–
Share-based compensation (Note 18)	–	11,554	–	–	11,554
Issuance of share capital (Note 18)	–	–	–	–	–
<b>Balance, December 31, 2018</b>	\$ 9,752,186	\$ 1,788,593	\$ (14,352,386)	\$ (518,666)	\$ (3,330,273)
Income (loss) from continuing operations	–	–	(5,350,213)	–	(5,350,213)
Other comprehensive loss (Note 4(b))	–	–	–	155,296	155,296
Share-based compensation (Note 18)	–	17,421	–	–	17,421
Issuance of share capital (Note 18)	360,000	–	–	–	360,000
Issuance of share capital (Note 18)	24,000	–	–	–	24,000
Reallocation of contributed surplus (Note 18)	12,000	(12,000)	–	–	–
<b>Balance, September 30, 2019</b>	\$ 10,148,186	\$ 1,794,014	\$ (19,702,599)	\$ (363,370)	\$ (8,123,769)

**NTG CLARITY NETWORKS INC.****Unaudited Interim Consolidated Statements of Profit and Loss and Other Comprehensive Income**

(Unaudited)

(In Canadian Dollars)

	Three Months Ended Sept 30,		Nine months Ended Sept 30,	
	2019	2018	2019	2018
<b>REVENUE</b> (Note 7)	\$ 575,594	\$ 3,501,906	\$ 6,227,237	\$ 10,158,805
<b>COST OF SALES</b> (Note 21)	1,393,617	1,766,218	4,486,129	5,643,653
<b>GROSS PROFIT</b>	(818,024)	1,735,689	1,741,107	4,515,152
<b>EXPENSES</b>				
Selling and marketing (Note 22)	617,450	472,302	1,483,505	1,379,912
General and administrative (Note 22)	941,281	645,926	2,020,750	1,879,430
(Gain) loss on foreign exchange	33,913	229,727	212,887	47,936
Total expenses	1,592,644	1,347,955	3,717,142	3,307,278
<b>INCOME (LOSS) FROM OPERATIONS</b>	\$ (2,410,668)	\$ 387,734	\$ (1,976,035)	\$ 1,207,874
<b>OTHER EXPENSES</b>				
Depreciation, PP&E (Note 14)	12,263	16,048	37,256	46,518
Amortization, intangibles assets (Note 15)	91,104	91,104	273,313	273,313
Interest, net	338,132	131,789	667,075	383,842
Provision for bad debt	2,379,114	–	2,379,114	–
Share-based payment (Note 18)	7,702	6,826	17,421	80,079
Foreign taxes	–	71,627	–	71,627
Total other expenses	2,828,315	317,394	3,374,178	855,379
<b>NET INCOME BEFORE TAXES</b>	\$ (5,238,982)	\$ 70,340	\$ (5,350,213)	\$ 352,496
<b>INCOME TAXES</b>				
Current income tax expense	–	–	–	–
Deferred income tax expense	–	–	–	–
Other comprehensive income				
Exchange (loss) arising on translation of foreign operations	28,516	(63,785)	155,296	(169,090)
<b>TOTAL COMPREHENSIVE INCOME AFTER TAXES</b>	\$ (5,210,467)	\$ 6,555	\$ (5,194,917)	\$ 183,406
<b>Earnings per share</b>				
Basic	\$ -0.09	\$ 0.00	\$ -0.09	\$ 0.00
Diluted	\$ -0.09	\$ 0.00	\$ -0.09	\$ 0.00
<b>Weighted average number of shares outstanding</b>				
Basic	56,102,355	48,662,355	56,102,355	48,662,355
Diluted	59,836,540	52,471,355	59,836,540	52,471,355

See accompanying notes to consolidated financial statements.

**NTG CLARITY NETWORKS INC.****Unaudited Interim Consolidated Statements of Cash Flows**

(In Canadian Dollars)

	Three Months Ended Sept 30,		Nine months Ended Sept 30,	
	2019	2018	2019	2018
<b>OPERATION ACTIVITIES</b>				
Net income (loss)	\$ (5,210,467)	\$ 6,555	\$ (5,194,917)	\$ 183,406
Items not affecting cash:				
Depreciation, PP&E	12,263	16,048	37,256	46,518
Amortization, intangible assets	91,104	91,104	273,313	273,313
Interest expense	338,132	131,789	667,075	383,842
Share-based payment	7,702	6,826	17,421	80,079
	(4,761,264)	252,323	(4,199,854)	967,157
Net change in non-cash working capital items:				
Decrease (increase) in accounts receivable	3,721,461	(66,597)	2,590,241	(743,778)
Decrease in bid/performance bonds	(17,623)	2,507	1,004	23,491
Decrease in deferred revenue	–	–	(16,525)	–
Decrease (increase) in prepaid expenses and other assets	(68,700)	(59,050)	27,373	(71,381)
Increase (decrease) in accounts payable and accrued liabilities	1,204,260	229,438	1,522,631	562,864
(Decrease) in current leasehold liability	(922)	(922)	(2,768)	(2,767)
<b>TOTAL CASH (OUT-FLOW) IN-FLOW FROM OPERATION ACTIVITIES</b>	\$ 77,212	\$ 357,698	\$ (77,897)	\$ 735,585
<b>FINANCING</b>				
Increase (decrease) in bank indebtedness (Note 17)	82,636	(139,961)	288,901	(200,763)
Issuance of common shares (Note 18)	36,000	–	396,000	12,000
Other reserve (Note 18)	(12,000)	–	(12,000)	(2,000)
Interest paid	(338,132)	(131,789)	(667,075)	(383,842)
<b>TOTAL CASH (OUT-FLOW) IN-FLOW FROM FINANCING ACTIVITIES</b>	\$ (231,496)	\$ (271,750)	\$ 5,826	\$ (574,605)
<b>INVESTING</b>				
(Purchase) disposal of capital assets	(605)	(3,093)	(2,328)	(21,838)
Capitalization of intangibles (Note 15)	–	–	–	–
<b>TOTAL CASH (OUT-FLOW) FROM INVESTING</b>	\$ (605)	\$ (3,093)	\$ (2,328)	\$ (21,838)
<b>NET INCREASE (DECREASE) IN CASH</b>	\$ (154,889)	\$ 82,856	\$ (74,399)	\$ 139,142
Cash balance, beginning of period	\$ 179,187	\$ 160,732	\$ 98,694	\$ 104,444
Cash balance, end of period	\$ 24,297	\$ 243,586	\$ 24,297	\$ 243,586

See accompanying notes to consolidated financial statements.

## **NTG CLARITY NETWORKS INC.**

### **Notes to the Unaudited Interim Consolidated Financial Statements**

September 30, 2019 and 2018

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#### **1. CORPORATE INFORMATION**

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NTG Clarity Networks Inc. (the "Corporation") is domiciled in Canada and its shares are traded publicly on the TSX Venture Exchange under ticker symbol NCI.V. The Corporation is domiciled in Canada and was incorporated on May 15, 2001 under the laws of Alberta. The Corporation's principal and registered office is Suite 202, 2820 14th Avenue, Markham, Ontario, L3R 0S9.

NTG provides network, telecom, IT and infrastructure solutions to medium and large network service providers. The Corporation specializes in providing telecommunications engineering, networking and related software solutions and has developed niche software products directed at the telecom service providers.

In 2010, NTG began the development phase to move its Operations Support System/Business Support System (OSS/BSS) product called NTS to a new technology platform and to add new and upgrade existing functionality. NTG continues to offer professional telecom services in the North American and Middle Eastern markets.

The telecom industry is subject to rapid and substantial technological change which could reduce marketability of the Corporation's technology and services.

#### **2. GOING CONCERN**

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The Corporation prepared consolidated financial statements on a going concern basis which presume the realization of assets and discharge of liabilities in a normal course of business for the foreseeable future. The Corporation's ability to continue operations and to realize assets at their carrying values is dependent upon generating revenues sufficient to cover its operating costs, obtaining additional financing aid and the continued support of its shareholders.

As at September 30, 2019, the Corporation had a working capital deficit of \$9,346,910 (December 31, 2018: deficit of \$4,861,555), an operating loss of \$(5,194,917) (September 30, 2018: income of \$183,406; December 31, 2018: income of \$922,901) and accumulated losses since inception of \$19,702,599 (December 31, 2018: loss of \$14,352,386).

The financial statements have been prepared under the assumption that the Corporation is a going concern and will continue to be in operation for the foreseeable future. There is significant uncertainty as to whether we can continue as a going concern if we cannot secure additional funding.

On September 17, 2019, the Corporation announced that it had received a formal demand for payment of its Bank facilities, requesting payment in full by no later than (10) days from September 16, 2019. See Note 29 for more information.

#### **3. BASIS OF PRESENTATION**

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The unaudited consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments that have been measured at fair value.

## **NTG CLARITY NETWORKS INC.**

### **Notes to the Unaudited Interim Consolidated Financial Statements**

September 30, 2019 and 2018

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#### **3. BASIS OF PRESENTATION (cont'd)**

##### **Statement of Compliance**

The unaudited interim consolidated financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), London, IAS 34 Interim Financial Reporting, and the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and in effect at the closing date of November 28, 2019.

Management of the Corporation prepared the unaudited interim consolidated financial statements of the Corporation during October and November 2019, and the Board of Directors approved them. The Audit Committee of the Corporation discussed the unaudited consolidated financial statements at its meeting on November 28, 2019, and the Board of Directors approved them at its meeting on November 28, 2019.

The unaudited interim consolidated financial statements of the Corporation are drawn up in Canadian dollars. Amounts are stated in and recorded to the nearest Canadian dollars except where otherwise indicated. The financial statements of the individual companies is prepared as of the closing date of the Corporation's financial statements using the same accounting policies.

In the unaudited interim consolidated statement of profit and loss and comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, and consolidated statement of changes in equity, certain items are combined for the sake of clarity. These are explained within the notes.

The consolidated statement of profit and loss and comprehensive income is prepared using the cost-of-sales method. Assets and liabilities are classified by maturity. They are regarded as current if they mature within one year or within the normal business cycle of the Corporation.

The normal business cycle is defined for this purpose as beginning with the procurement of the resources necessary for the production process and ending with the receipt of cash or cash equivalents as consideration for the sale of the goods or services produced in that process. Trade accounts receivable and payable, claims for tax refunds, and tax liabilities are always presented as current items; deferred tax assets and liabilities, if any, are presented as non-current items. Provisions (if any), debt and other liabilities are shown between current and non-current.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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##### **(a) Basis of consolidation**

The interim consolidated financial statements comprise the financial statements of the Corporation and its subsidiaries as at September 30, 2019.

## **NTG CLARITY NETWORKS INC.**

### **Notes to the Unaudited Interim Consolidated Financial Statements**

September 30, 2019 and 2018

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#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

##### **(a) Basis of consolidation (cont'd)**

The subsidiaries are fully consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continues to be consolidated until the date that such control ceases. The financial statements of the subsidiary is prepared for the same reporting period as the parent Corporation using consistent accounting policies.

All intra-group balances, income and expenses, unrealized gains and losses, and dividends resulting from intra-group transactions, if any, are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

The subsidiary of the Corporation as of September 30, 2019 is its 95% owned subsidiary, NTG Egypt Advanced Software, and its wholly owned U.S. subsidiary, NTG Clarity Networks US Inc.

##### **(b) Foreign currency translation**

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;

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(b) Foreign currency translation (cont'd)**

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 practical reasons, a rate that approximates the exchange rates at the dates of the transactions, for example an average rate for the period, is often used to translate income and expense items. However, if exchange rates fluctuate significantly, the use of the average rate for a period is inappropriate. The exchange differences referred to in IAS 21.39(c) result from:

1. Translating income and expenses at the exchange rates at the dates of the transactions and assets and liabilities at the closing rate.
2. Translating the opening net assets at a closing rate that differs from the previous closing rate.

These exchange differences are not recognized in profit or loss because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. The cumulative amount of the exchange differences is presented in a separate component of equity until disposal of the foreign operation. When the exchange differences relate to a foreign operation that is consolidated but not wholly-owned, accumulated exchange differences arising from translation and attributable to non-controlling interests are allocated to, and recognized as part of, non-controlling interests in the consolidated statement of financial position.

The results and financial position of an entity whose functional currency is the currency of a hyperinflationary economy shall be translated into a different presentation currency using the following procedures:

1. All amounts (i.e. assets, liabilities, equity items, income and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent statement of financial position, except that
2. When amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements (i.e. not adjusted for subsequent changes in the price level or subsequent changes in exchange rates).

When an entity's functional currency is the currency of a hyperinflationary economy, the entity shall restate its financial statements in accordance with before applying the translation method set out in IAS 21., except for comparative amounts that are translated into a currency of a non-hyperinflationary economy (see IAS 21.42(b)). When the economy ceases to be hyperinflationary and the entity no longer restates its financial statements in accordance with IAS 29, it shall use as the historical costs for translation into the presentation currency the amounts restated to the price level at the date the entity ceased restating its financial statements.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(b) Foreign currency translation (cont'd)**

**Translation of a foreign operation**

IAS 21.-47, in addition to IAS 21.-43, apply when the results and financial position of a foreign operation are translated into a presentation currency so that the foreign operation can be included in the financial statements of the reporting entity by consolidation or the equity method.

The incorporation of the results and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary (see Consolidated Financial Statements). However, an intragroup monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations.

Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference is recognised in profit or loss or, if it arises from the circumstances described in IAS 21, it is recognised in other comprehensive income and accumulated in a separate component of equity until the disposal of the foreign operation. When the financial statements of a foreign operation are as of a date different from that of the reporting entity, the foreign operation often prepares additional statements as of the same date as the reporting entity's financial statements. When this is not done, allows the use of a different date provided that the difference is no greater than three months and adjustments are made for the effects of any significant transactions or other events that occur between the different dates. In such a case, the assets and liabilities of the foreign operation are translated at the exchange rate at the end of the reporting period of the foreign operation. Adjustments are made for significant changes in exchange rates up to the end of the reporting period of the reporting entity in accordance with IFRS 10. The same approach is used in applying the equity method to associates and joint ventures in accordance with.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation shall be treated as assets and liabilities of the foreign operation. Thus they shall be expressed in the functional currency of the foreign operation and shall be translated at the closing rate in accordance with IAS 21. and IAS 21.42.

**Disposal or partial disposal of a foreign operation**

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, shall be reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognized (see Presentation of Financial Statements).

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(b) Foreign currency translation (cont'd)**

**Disposal or partial disposal of a foreign operation (cont'd)**

In addition to the disposal of an entity's entire interest in a foreign operation, the following partial disposals are accounted for as disposals:

1. When the partial disposal involves the loss of control of a subsidiary that includes a foreign operation, regardless of whether the entity retains a non-controlling interest in its former subsidiary after the partial disposal; and
2. When the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

On disposal of a subsidiary that includes a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation that have been attributed to the non-controlling interests shall be derecognized, but shall not be reclassified to profit or loss.

On the partial disposal of a subsidiary that includes a foreign operation, the entity shall re-attribute the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income to the non-controlling interests in that foreign operation. In any other partial disposal of a foreign operation the entity shall reclassify to profit or loss only the proportionate share of the cumulative amount of the exchange differences recognized in other comprehensive income.

A partial disposal of an entity's interest in a foreign operation is any reduction in an entity's ownership interest in a foreign operation, except those reductions in paragraph that are accounted for as disposals.

An entity may dispose or partially dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity. A write-down of the carrying amount of a foreign operation, either because of its own losses or because of an impairment recognized by the investor, does not constitute a partial disposal. Accordingly, no part of the foreign exchange gain or loss recognized in other comprehensive income is reclassified to profit or loss at the time of a write-down.

**(c) Revenue Recognition**

The Corporation derives revenue from fees charged to customers for licenses for software products and professional services: support, consulting, development, training, and other services. Some of the Corporation's software arrangements include product sales and may also include professional services.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(c) Revenue Recognition (cont'd)**

If, for any of the Corporation's product or service offerings, the Corporation determines at the outset of an arrangement that the amount of revenue cannot be measured reliably, the Corporation concludes that the inflow of economic benefits associated with the transaction is not probable and defers revenue until the arrangement fee becomes due and payable by the customer. If, at the outset of an arrangement, it is determined that collectability is not probable, the Corporation concludes that the inflow of economic benefits associated with the transaction is not probable, and recognition of revenue is deferred until the earlier of when collectability becomes probable or payment is received. If collectability becomes unlikely before all revenue from an arrangement is recognized, revenue is recognized only to the extent of the fees that are successfully collected unless collectability becomes reasonably assured again. If a customer is specifically identified as a bad debtor, the Corporation stops recognizing revenue from this customer except to the extent of the fees that have already been collected.

Software revenue represents fees earned from the sale or license of software to customers for use on the customer's premises, in other words, where the customer has the right to take possession of the software for installation on the customer's premises (on-premise software). Revenue is recognized in line with the requirements for selling goods stated in IAS 18 (Revenue) when evidence of an arrangement exists, delivery has occurred, the risks and rewards of ownership have been transferred to the customer, the amount of revenue and associated costs can be measured reliably, and collection of the related receivable is reasonably assured. The fee of the sale is recognized net of returns and allowances, trade discounts, and volume rebates. In general, the Corporation's software license agreements do not include acceptance-testing provisions. If an arrangement allows for customer acceptance-testing of the software, revenue is deferred until the earlier of customer acceptance or when the acceptance right lapses. The Corporation may enter into customer-specific on-premise software development agreements. Software revenue in connection with these arrangements is recognized using the percentage-of completion method based on contract costs incurred to date as a percentage of total estimated contract costs required to complete the development work. If there is no sufficient basis to reasonably measure the progress of completion or to estimate the total contract revenue and costs, revenue is recognized only to the extent of the contract costs incurred for which recoverability is believed to be probable. When it becomes that total contract costs exceed total contract revenue in an arrangement, the expected losses are recognized immediately as an expense based on the costs attributable to the contract.

On-premise software may combine software and support service elements, as under these contracts the customer is provided with current software products, rights to receive unspecified future software products, and rights to services during the on-premise software subscription term. Customers pay a periodic fee for a defined subscription term, and such fees are recognized ratably over the term of the arrangement beginning with the delivery of the first product.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****(c) Revenue Recognition (cont'd)**

Support revenue represents fees earned from providing customers with unspecified future software updates, upgrades, and enhancements, and technical product support for on-premise software products. Support revenue is recognized based on the Corporation's performance under the support arrangements. Under the major support services the Corporation's performance obligation is to stand ready to provide technical product support and to provide unspecified updates and enhancements on a when and- if-available basis. For these support services revenue is recognized ratably over the term of the support arrangement. Consulting and other service revenue is recognized when the services are performed. Consulting revenue primarily results from implementation contracts to install and configure our software products and offerings. Other service revenue consists of fees from training services. Training services provide educational services to customers and partners regarding the use of our software products. Training revenue is recognized when the services are rendered.

Some arrangements contain multiple elements. Software, consulting and other service deliverables are accounted for as separate units of accounting and allocate revenue based on fair value. Fair value is determined by establishing either corporation-specific objective evidence, or an estimated stand-alone selling price. Revenue from multiple-element arrangements is allocated to the different elements based on their individual fair values. The revenue amounts allocated to the individual elements are recognized when the revenue recognition criteria described above have been met for the respective element.

The Corporation determines the fair value of and allocate revenue to each element based on its corporation-specific objective evidence of fair value, which is the price charged when that element is sold separately or, for elements not yet sold separately, the price established by management if it is probable that the price will not change before the element is sold separately.

Revenue from the sale of medical equipment is recognized when there is evidence of arrangement, the amount is fixed or determinable, products are shipped to the customer, and collection is reasonably assured.

**(d) Current income tax**

Current income tax assets and respective and prior years are measured at the amount expected to be recovered from or paid to the Canadian taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the country where the Corporation operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of profit and loss and comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate in accordance with IAS 37 Provisions, Contingent Liabilities, and Contingent Assets.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(d) Current income tax (cont'd)**

**Deferred tax**

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in the subsidiary where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in the subsidiary, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(d) Taxes (cont'd)**

**Deferred tax (cont'd)**

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred tax relates to the same taxable entity and the same taxation authority.

**Sales tax**

Revenues, expenses, liabilities and assets are recognized net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

**(e) Government grants and assistance and investment tax credit**

Government grants and assistance are recognized where there is reasonable assurance that the grant or assistance will be received and all attached conditions will be complied with. When the grant or assistance relates to an expense item, it is recognized as income over the period necessary to match the grant or assistance on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it reduces the carrying amount of the asset. The grant is then recognized as income over the useful life of a depreciable asset by way of a reduced depreciation charge.

When government assistance is received which relates to expenses of future periods, the amount is deferred and amortized to income as the related expenditures are incurred. The Corporation was engaged by the Ontario Centre of Excellence (OCE). The OCE recorded in the accounts is based on management's interpretation of the respective provisions which govern their eligibility.

The claims are subject to review by the respective agencies before the refunds can be released. To the extent that collection is reasonably assured, OCE funds are recorded as a reduction to the underlying expense or asset to which it is attributable.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(f) Financial instruments - initial recognition and subsequent measurement**

Financial assets and financial liabilities are recognized when the Corporation becomes party to the contractual provisions of the financial instrument.

Financial assets and financial liabilities are initially measured at fair value. Transactions costs that are directly attributable to the acquisition or issue of financial instruments classified as amortized costs or FVTOCI are included with the carrying amount of such instruments. Transaction costs that are directly attributable to the acquisition or issue of the financial instruments classified as fair value through profit and loss (FVTPL) are recognized immediately in the profit or loss within the consolidated statements of comprehensive income.

**(i) Financial assets**

The corporation classifies its financial assets in the following measurement categories: those to be measured at amortized cost and those to be measured subsequently at fair value (either through other comprehensive income (FVTOCI), or through profit or loss (FVTPL)). The classification depends on the entity's business model for managing the financial assets and the contractual terms of cash flows.

**Financial assets at amortized cost**

Financial assets that meet the following conditions are measured at amortized cost less impairment losses: the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash-flows; the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding; and the financial asset was not acquired principally for the purpose of selling in the near term or for short-term profit making (held-for-trading).

**Financial assets at fair value through profit or loss (FVTPL)**

All other financial assets, except equity and debt instruments as described below, are remeasured at fair value and classified as fair value through profit or loss. The gains or losses, if any, arising on remeasurement of FVTPL, are recognized in profit or loss within the consolidated statements of comprehensive income.

The method of measurement of instruments in debt instruments will depend on the business model in which the instrument is held. For instruments in equity instruments, it will depend on whether the Corporation has made an irrevocable election at the time of initial recognition to account for the equity instrument at fair value through other comprehensive income (FVTOCI). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(f) Financial instruments - initial recognition and subsequent measurement (cont'd)**

**(ii) Financial liabilities**

Financial liabilities are classified as FVTPL when the financial liability is either held for trading or is designated at FVTPL. Financial liabilities at FVTPL are remeasured in subsequent reporting periods at fair value. Any gains or losses arising on remeasurement of held for trading financial liabilities are recognized in profit or loss within the consolidated statements of comprehensive income. Such gains or losses recognized in profit or loss includes any interest paid on the financial liabilities. Financial liabilities that are not held for trading and are not designated as FVTPL are measured at amortized cost.

The carrying amounts of financial liabilities that are measured at amortized cost are determined based on the effective interest rate method. The effective interest method is a method of calculating the amortized cost of a financial liability (or financial asset) and of allocating interest expense (or income) over the expected life of the financial liability (or financial asset). All financial assets and financial liabilities held by the Corporation are measured at amortized cost.

**Impairment**

The Corporation assesses on a forward looking basis the expected credit losses associated with its assets carried at amortized cost and FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables only, the Corporation applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

The Corporation has applied IFRS 9 retrospectively, but has elected not to restate comparative information as there is no impact on the financial statements of the Corporation from adopting IFRS 9. As a result, the comparative information provided continues to be accounted for in accordance with the Corporation's previous accounting policy which reflects the same measurement of IFRS 9.

The accounting policies were changed to comply with the full requirements of IFRS 9 as issued by the IASB. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting.

IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures. The total impact on retained earnings due to classification and measurement of financial instruments as at January 1, 2016 and the date of these financial statements was NIL.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(f) Financial instruments - initial recognition and subsequent measurement (cont'd)**

**(iii) Offsetting of Financial Instruments**

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

**(g) Compound Instruments**

The component parts of compound instruments (e.g., debt issued with warrants) issued by the Corporation are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar debt without warrants. This amount is recorded as a liability on the amortized cost basis using the effective interest method until extinguished or at the instrument's maturity date. The warrants classified as equity are determined by deducting the amount of the liability component from the fair value of the instrument as a whole. This is recognized and included in equity and is not subsequently remeasured.

Warrants classified as equity will remain in equity until the conversion option is exercised, in which case the balance recognized in equity will be transferred to common shares within equity. When the warrants remain unexercised at their maturity date, the balance recognized in equity will be transferred to retained earnings or deficit. No gain or loss is recognized in profit or loss upon conversion or expiration of the warrants.

Transaction costs that relate to the issue of the instruments are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the life of the debt using the effective interest method.

**(h) Derivative financial instruments and hedge accounting**

The Corporation has not entered into any derivative financial instruments and has not applied hedge accounting for the periods ending September 30, 2019 and September 30, 2018.

**(i) Treasury shares**

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in the statement of profit and loss and comprehensive income on the purchase, sale, issue, or cancellation of the Corporation's own equity instruments. Any difference between the carrying amount and the consideration is recognized in capital reserves.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(j) Property and equipment**

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses (if any). Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long-term construction projects if the recognition criterion are met. When significant parts of property and equipment are required to be replaced in intervals, the Corporation recognizes such parts as individual assets with specific useful lives and depreciation, respectively.

Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the statement of profit and loss and comprehensive income as incurred. The present value of the expected cost for the decommissioning of the asset, if any, after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

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Computer software	Straight-line 1-2 years
Computer equipment	Straight-line 2-4 years
Office equipment	Straight-line 4-10 years
Leasehold improvements	Straight-line over the lesser of the expected term of the lease or the useful life of the asset

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An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit and loss and comprehensive income when the asset is derecognized.

The assets' residual values, useful lives, and methods of depreciation are reviewed at each financial year end and adjusted prospectively, if appropriate.

**(k) Leases**

Finance leases, which transfer to the Corporation substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the statement of profit and loss and comprehensive income.

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**September 30, 2019 and 2018

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****(k) Leases (cont'd)**

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Corporation will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. For the periods September 30, 2019 and September 30, 2018, the Corporation did not hold any finance leases. Operating lease payments are recognized as an expense in the statement of profit and loss and comprehensive income on a straight line basis over the lease term.

**(l) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction, or production of an asset that necessarily takes a substantial year of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the year they occur. Borrowing costs consist of interest and other costs that the Corporation incurs in connection with the borrowing of funds. For the periods ending September 30, 2019 and September 30, 2018, the Corporation did not capitalize any borrowing cost.

**(m) Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Certain internally generated intangible assets are capitalized, as they meet the criterion under IAS 38.

**(n) Inventories**

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

**(o) Product development costs**

Research and product development costs include out-of-pocket cost and direct overhead. Research costs are expensed as incurred. Product development costs are expensed as incurred unless they meet the IAS 38 criterion for deferral and amortization.

Development activities involve a plan or design for the production of a new core of substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Corporation intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. All other development expenditure is recognized in statement of profit and loss and comprehensive income as incurred.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(o) Product development costs (cont'd)**

Capitalized development costs (intangible asset) with finite useful lives are amortized over their estimated useful lives. The amortization methods and estimated useful lives of intangible assets are reviewed annually. Intangible assets are tested for impairment as required by IAS 38 and IAS 36 if there are indicators of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of the intangible assets or the cash-generating unit exceeds their recoverable amount. Impairment losses are recognized in the statements of comprehensive income. Amortization is provided on a straight line basis over 10 years.

**(p) Impairment of non-financial assets**

The Corporation assesses at each reporting date whether there is an indication that an asset or cash generating unit (CGU) may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Corporation estimates the asset's (CGU) recoverable amount. An asset's (CGU) recoverable amount is the higher of its fair value less costs of disposal and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit (CGU). In determining fair value less costs of disposal, an appropriate valuation model is used. The Corporation has cash-generating units which impairment could be tested against. The Corporation had no goodwill or indefinite life intangible assets for the periods ending September 30, 2019 and September 30, 2018.

Impairment losses of continuing operations are recognized in the statement of profit and loss and comprehensive income in those expense categories consistent with the function and nature of the impaired asset.

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Corporation estimates the non-financial asset's or cash-generating unit's recoverable amount.

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the non-financial asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the non-financial asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the non-financial asset in prior periods. Such reversal is recognized in the statement of profit and loss and comprehensive income.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(q) Cash and cash equivalents**

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less. The Corporation uses the indirect method of reporting cash flow from operating activities.

**(r) Provisions**

Provisions are recognized when the Corporation has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Corporation expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

The expense relating to any provision is presented in the statement of profit and loss and comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on the expected warranty data and an expected weighting of all possible outcome against their associated probabilities.

A provision for restructuring is recognized when the Corporation has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. No provision is made for future operating losses.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Corporation from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected cost net cost of continuing with the contract. Before a provision is established, the Corporation recognizes any impairment loss on the asset associated with the contract.

**(s) Basic and diluted earnings per share**

Basic earnings per share is calculated by dividing the income for the year by the weighted average number of common shares outstanding during the year. The Corporation uses the treasury stock method for calculating the dilutive effect of the outstanding stock options and other dilutive securities. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted income per share assumes that the proceeds to be received on the exercise of dilutive share options are used to repurchase common shares at the average market price during the year.

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**(t) Share-based compensation**

The Corporation has a share-based compensation plan. The Corporation accounts for share-based compensation options granted to employees and consultants using the fair value method. Under this method, compensation expense for share-based compensation granted is measured at the fair value at the grant date, using the Black-Scholes option valuation model.

In accordance with the fair value method, the Corporation recognizes estimated compensation expense related to share-based compensation over the vesting period of the options granted, with the related credit being charged to capital reserves. Consideration paid by employees on the exercise of share-based compensation is recorded as capital stock and the related share-based compensation is transferred from capital reserves to capital stock.

**5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES, AND ASSUMPTIONS**

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The preparation of the Corporation's consolidated financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets, and liabilities, and the disclosure of contingent liabilities, at the end of the reporting years. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future years.

In the process of applying the Corporation's accounting policies, management has made the following judgments, which has the most significant effect on the amounts recognized in the consolidated financial statements.

**Revenues**

The Corporation derives revenue from fees charged to customers for licenses for software products and for professional services (support, consulting, development, training, etc.). Some of the software arrangements may contain multiple elements (product sales and professional services). The Corporation accounts for software, consulting and other service deliverables as separate units of accounting and allocate revenue based on their individual fair values.

The revenue amounts allocated to the individual elements are recognized when the revenue recognition criteria have been met for the respective element. When services are essential to the functionality of the software, the software does not have standalone value and is combined with the essential services as a single element.

**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. 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.

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**September 30, 2019 and 2018

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**5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES, AND ASSUMPTIONS (cont'd)****Impairment of non-financial assets**

Impairment exists when the carrying value of a non-financial asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the Corporation's budget and do not include restructuring activities, if any, that the Corporation is not yet committed to or significant future investments that will enhance the non-financial asset's performance of the cash-generating unit being tested.

The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash-generating units may include a sensitivity analysis.

**Taxes**

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the range of business relationships and the long-term nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Corporation may establish provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred tax assets, if any, are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

**Share-based compensation**

The Corporation has a share-based compensation plan. The Corporation accounts for share-based compensation options granted to employees and consultants using the fair value method determined using the Black-Scholes option valuation model. The estimated compensation expense related to share-based compensation is recognized over the vesting period of the options granted, with the related credit being charged to contributed surplus.

Consideration paid by employees on the exercise of share-based compensation is recorded as capital stock and the related share-based compensation is transferred from capital reserves to capital stock.

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**

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**5. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES, AND ASSUMPTIONS (cont'd)****Fair value of financial instruments**

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk, and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

**6. STANDARDS ISSUED BUT NOT YET EFFECTIVE**

As at November 28, 2019, 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. All other standards were early adopted as explained in the prior year's financial statements.

**7. OPERATING SEGMENT INFORMATION**

For management purposes, the Corporation is organized into two operating segments. The Corporation's chief decision makers; the CEO, the President and the Chief Financial Officer, tracks the Corporation's operations by country. These country segments represent the Corporation's reportable operating segments, which are used to manage the business. The Corporation analyzes the performance of its operating segments based on expenditures and revenue growth.

**Statement of profit and loss for the three months ending September 30, 2019**

For the three months ending September 30, 2019	NTG Canada	NTG Egypt	Consolidated Total
Revenue	\$ 57,959	\$ 517,635	\$ 575,594
<b>Total revenue</b>	<b>\$ 57,959</b>	<b>\$ 517,635</b>	<b>\$ 575,594</b>
Gross margin	\$ (849,878)	\$ 31,854	\$ (818,024)
Expenses	(1,357,231)	(243,115)	(1,600,346)
Depreciation / Amortization	(99,093)	(4,275)	(103,367)
Provision for bad debt	(2,379,114)	–	(2,379,114)
Interest	(338,132)	–	(338,132)
Exchange loss on translation	–	28,516	28,516
<b>Net income before taxes</b>	<b>\$ (5,023,448)</b>	<b>\$ (187,019)</b>	<b>\$ (5,210,467)</b>
Taxes	–	–	–
<b>Net income after taxes</b>	<b>\$ (5,023,448)</b>	<b>\$ (187,019)</b>	<b>\$ (5,210,467)</b>

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**

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**7. OPERATING SEGMENT INFORMATION (cont'd)****Statement of profit and loss for the three months ending September 30, 2018**

For the three months ending September 30, 2018	NTG Canada	NTG Egypt	Consolidated Total
Revenue	\$ 2,882,591	\$ 215,441	\$ 3,501,906
<b>Total revenue</b>	<b>\$ 2,882,591</b>	<b>\$ 215,441</b>	<b>\$ 3,501,906</b>
Gross margin	\$ 1,567,544	\$ 168,145	\$ 1,735,689
Expenses	(1,239,751)	(186,656)	(1,426,407)
Depreciation / Amortization	(101,251)	(5,902)	(107,152)
Interest	(131,789)	–	(131,789)
Exchange loss on translation	–	(63,785)	(63,785)
<b>Net income before taxes</b>	<b>\$ 94,753</b>	<b>\$ (88,198)</b>	<b>\$ 6,555</b>
Taxes	–	–	–
<b>Net income after taxes</b>	<b>\$ 94,753</b>	<b>\$ (88,198)</b>	<b>\$ 6,555</b>

**Statement of profit and loss for the nine months ending September 30, 2019**

	NTG Canada	NTG Egypt	Consolidated Total
Revenue	\$ 4,279,644	\$ 1,947,593	\$ 6,227,237
<b>Total revenue</b>	<b>\$ 4,279,644</b>	<b>\$ 1,947,593</b>	<b>\$ 6,227,237</b>
Gross margin	\$ 1,261,013	\$ 480,095	\$ 1,741,107
Expenses	(3,022,958)	(711,604)	(3,725,300)
Depreciation / Amortization	(298,213)	(12,357)	(319,831)
Provision for bad debt	(2,379,114)	–	(2,379,114)
Interest	(667,075)	–	(667,075)
Exchange loss on translation	–	155,296	155,296
<b>Net income before taxes</b>	<b>\$ (5,106,347)</b>	<b>\$ (88,570)</b>	<b>\$ (5,194,917)</b>
Taxes	–	–	–
<b>Net income after taxes</b>	<b>\$ (5,106,347)</b>	<b>\$ (88,570)</b>	<b>\$ (5,194,917)</b>

**Statement of profit and loss for the nine months ending September 30, 2018**

	NTG Canada	NTG Egypt	Consolidated Total
Revenue	\$ 7,993,257	\$ 2,165,548	\$ 10,158,805
<b>Total revenue</b>	<b>\$ 7,993,257</b>	<b>\$ 2,165,548</b>	<b>\$ 10,158,805</b>
Gross margin	\$ 3,687,669	\$ 827,484	\$ 4,515,152
Expenses	(2,847,086)	(611,898)	(3,458,983)
Depreciation / Amortization	(303,725)	(16,106)	(319,831)
Interest	(383,842)	–	(383,842)
Exchange loss on translation	–	(169,090)	(169,090)
<b>Net income before taxes</b>	<b>\$ 153,016</b>	<b>\$ 30,390</b>	<b>\$ 183,406</b>
Taxes	–	–	–
<b>Net income after taxes</b>	<b>\$ 153,016</b>	<b>\$ 30,390</b>	<b>\$ 183,406</b>

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**

September 30, 2019 and 2018

**7. OPERATING SEGMENT INFORMATION (cont'd)**

The Corporation's assets are located in Canada and the Middle East.

**Long term asset additions for the three months ended September 30, 2019**

	NTG Canada	NTG Egypt	Consolidated Total
<b>Asset additions for the three months ending September 30, 2019</b>			
Property and equipment	\$ 558	\$ 292	\$ 850
Intangible assets	-	-	-
	<b>\$ 558</b>	<b>\$ 292</b>	<b>\$ 850</b>

**Long term asset additions for the three months ended September 30, 2018**

	NTG Canada	NTG Egypt	Consolidated Total
<b>Asset additions for the three months ending September 30, 2018</b>			
Property and equipment	\$ -	\$ 1,624	\$ 1,624
Intangible assets	-	-	-
	<b>\$ -</b>	<b>\$ 1,624</b>	<b>\$ 1,624</b>

**Long term assets for the nine months ended September 30, 2019**

	NTG Canada	NTG Egypt	Consolidated Total
<b>Assets as at September 30, 2019</b>			
Property and equipment	\$ 843	\$ 1,708	\$ 2,551
Intangible assets	-	-	-
	<b>\$ 843</b>	<b>\$ 1,708</b>	<b>\$ 2,551</b>

**Long term assets for the nine months ended September 30, 2018**

	NTG Canada	NTG Egypt	Consolidated Total
<b>Assets as at September 30, 2018</b>			
Property and equipment	\$ 2,013	\$ 18,481	\$ 20,494
Intangible assets	-	-	-
	<b>\$ 2,013</b>	<b>\$ 18,481</b>	<b>\$ 20,494</b>

The Corporation determines the geographic location of revenues based on the location of its customers.

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**

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**7. OPERATING SEGMENT INFORMATION (cont'd)**

Sales by geographic location for the three months ending

September 30,

	2019	2018
Canada	\$ 11,513	\$ 128,271
Saudi Arabia	14,665	1,319,659
Egypt	517,635	619,316
Kuwait	19,793	931,943
Oman	11,988	502,717
	<b>\$ 575,594</b>	<b>\$ 3,501,906</b>

Sales by geographic location for the nine months ending September 30,

	2019	2018
Canada	\$ 64,550	\$ 144,452
Saudi Arabia	2,692,625	4,232,780
Egypt	1,947,593	2,165,548
Kuwait	775,739	2,738,401
Oman	746,730	877,624
	<b>\$ 6,227,237</b>	<b>\$ 10,158,805</b>

The majority of the Corporation's revenue is derived from the telecommunication industry and was earned through service contracts from a few customers.

Receivables by segment	September 30, 2019	December 31, 2018
Canada	\$ 2,433,619	\$ 4,848,348
Egypt	927,285	1,102,797
	<b>\$ 3,360,904</b>	<b>\$ 5,951,145</b>

As at September 30, 2019, approximately 13% (December 31, 2018: 22%: Q3 2018: 26%) of the Corporation's trade accounts receivable balance was from two customers.

Payables by segment for the period ending	September 30, 2019	December 31, 2018
Canada	\$ 5,039,702	\$ 3,525,239
Egypt	459,646	451,478
	<b>\$ 5,499,348</b>	<b>\$ 3,976,717</b>

**8. INCOME TAXES**

The Corporation has available income tax losses in the amounts of \$9,553,066 for the Canadian federal and provincial tax purposes which may be carried forward to reduce future years' taxable income which expire as follows (as of December 31, 2018):

2036	\$ 8,616,359
2037	674,867
2038	261,840
	<b>\$ 9,553,066</b>

## NTG CLARITY NETWORKS INC.

### Notes to the Unaudited Interim Consolidated Financial Statements

September 30, 2019 and 2018

#### 9. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net income for the year attributable to ordinary equity holders of the parent by the weighted average number of common shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net income attributable to ordinary equity holders of the parent by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares, if any, that would be issued on conversion of all the dilutive potential effects. The outstanding number and type of securities that could potentially dilute basic net income per share in the future but that were not included in the computation of diluted net income per shares because to do so would have reduced the earnings per share (anti-dilutive) for the year presented are as noted below.

The following outstanding instruments could have a dilutive effect in the future:

##### As at September 30, 2019

Options – Share-based payments (Note a) 3,947,000

Note a: Of which 3,435,000 had vested as of September 30, 2019.

The following reflects the earnings and unit data used in the basic and diluted earnings per share computations:

September 30,	2019	2018
Net earnings attributable to ordinary equity holders of the parent for basic earnings	\$ (5,194,917)	\$ 183,406
<b>Net earnings attributable to ordinary equity holders of the parent adjusted for the effect of dilution</b>	<b>\$ (5,194,917)</b>	<b>\$ 183,406</b>

  

September 30,	2019	2018
Weighted average number of common shares outstanding for basic earnings per share	56,102,355	48,662,355
Weighted average number with the effect of dilution on common shares	59,836,540	52,471,355
<b>Income per share (basic)</b>	<b>\$-0.09</b>	<b>\$0.00</b>
<b>Income per share (diluted)</b>	<b>\$-0.09</b>	<b>\$0.00</b>

#### 10. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of cash at banks and on hand in the amount of \$24,297 as at September 30, 2019 (December 31, 2018: \$98,694; September 30, 2018: \$243,586).

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**

September 30, 2019 and 2018

**11. TRADE AND OTHER RECEIVABLES**

	September 30, 2019	December 31, 2018
Trade receivables	\$ 2,254,556	\$ 2,875,866
Less: Impaired	–	(174,838)
Trade receivables after impairment	2,254,556	2,701,028
Unbilled revenue	915,443	3,288,400
Less: Impaired	–	(107,772)
Unbilled revenue after impairment	915,443	3,180,628
Total trade receivables and unbilled revenue after impairment	3,169,999	5,881,656
Receivables from tax authorities	153,671	84,591
HST and foreign tax receivable (payable)	(45,049)	(64,613)
Cash Advance	24	–
Other receivables	82,259	49,511
<b>Total trade and other receivables</b>	<b>\$ 3,360,904</b>	<b>\$ 5,951,145</b>

Trade receivables are non interest bearing and are generally on 30-180 day terms.

At September 30, 2019, the Corporation had a provision for bad debt of \$2,379,114 (December 31, 2018: \$160,615).

	September 30, 2019	December 31, 2018
<b>Neither past due nor impaired</b>		
Current	\$ 914,484	\$ 338,002
30 – 60 days	219,127	413,072
61 – 90 days	533,082	552,639
91 – 180 days	237,209	1,572,153
<b>Past due but not impaired</b>		
Greater than 180 days	350,654	–
	<b>\$ 2,254,556</b>	<b>\$ 2,875,866</b>

Unbilled revenue consists of service revenue that has already been rendered as at September 30, 2019 and recognized in accordance with the Corporation's revenue recognition policy from Note 3.

**12. PREPAID EXPENSES AND DEPOSITS**

	September 30, 2019	December 31, 2018
Prepaid rent	\$ 97,203	\$ 111,229
Prepaid insurance	77,949	86,209
Other prepaids	5,185	10,272
	<b>\$ 180,337</b>	<b>\$ 207,710</b>

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**

September 30, 2019 and 2018

**13. PERFORMANCE AND BID BONDS**

At September 30, 2019, of the \$110,532 in performance bonds (December 31, 2018: \$111,536), \$29,913 (December 31, 2018: \$42,991) was for three performance bonds in Saudi Arabia (KSA), and one performance bond in Kuwait, to guarantee delivery against work on various projects. \$80,619 (December 31, 2018: \$68,545) 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 September 30, 2019, the Corporation also had one advance payment guarantee and one performance bond issued in its name and supported by EDC, in the amount of approximately \$145,501 (December 31, 2018: 151,672; Q2 2018: \$145,501). The bonds have been financed by a Canadian financial institution and are supported and 100% insured by EDC. Premiums for these bonds for the three and nine months ended September 30, 2019 were \$NIL and \$NIL (Q3 2018: \$NIL and \$8,092).

**14. PROPERTY AND EQUIPMENT**

The amount of borrowing costs capitalized during the period ending September 30, 2019 was \$NIL (2018: \$NIL).

	Furniture and Equipment	Computer Equipment	Computer Software	Total
<b>Cost:</b>				
At December 31, 2017	\$570,091	\$785,745	\$400,996	\$1,756,832
Additions	2,457	17,231	1,104	20,792
Disposals	1,747	178	-	1,925
<b>At September 30, 2018</b>	<b>\$570,801</b>	<b>\$802,798</b>	<b>\$402,100</b>	<b>\$1,777,699</b>
Additions	4,620	3,756	-	8,376
Disposals	-	-	1,104	1,104
<b>At December 31, 2018</b>	<b>\$575,421</b>	<b>\$806,554</b>	<b>\$400,996</b>	<b>\$1,782,971</b>
Additions	1,281	1,269	-	2,551
Disposals	-	-	-	-
<b>At September 30, 2019</b>	<b>\$576,702</b>	<b>\$807,823</b>	<b>\$400,996</b>	<b>\$1,785,522</b>

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**

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**14. PROPERTY AND EQUIPMENT (cont'd)**

	Furniture and Equipment	Computer Equipment	Computer Software	Total
<b>Depreciation and impairment:</b>				
At December 31, 2017	\$412,819	\$727,763	\$356,309	\$1,496,891
Depreciation for the period	15,814	30,542	-	46,356
Impairment	-	-	-	-
Disposals	-	-	-	-
<b>At September 30, 2018</b>	<b>\$426,633</b>	<b>\$758,305</b>	<b>\$356,309</b>	<b>\$1,543,247</b>
Depreciation for the period	5,998	11,746	-	17,744
Impairment	-	-	-	-
Disposals (Write up)	-	-	-	-
<b>At December 31, 2018</b>	<b>\$434,631</b>	<b>\$770,051</b>	<b>\$356,309</b>	<b>\$1,560,991</b>
Depreciation for the period	14,580	22,898	-	37,478
Impairment	-	-	-	-
Disposals	-	-	-	-
<b>At September 30, 2019</b>	<b>\$449,211</b>	<b>\$792,949</b>	<b>\$356,309</b>	<b>\$1,598,469</b>
<b>Net book value:</b>				
At September 30, 2019	\$127,491	\$14,875	\$44,687	\$187,053
At December 31, 2018	\$140,790	\$36,503	\$44,687	\$221,980
At September 30, 2018	\$142,652	\$46,819	\$45,791	\$235,262

**15. INTANGIBLE ASSETS**

Intangible assets related to the upgrade of the internally developed NTS software product and to the new software product (StageEM) in 2016. Expenditures on development of the software are recognized as an asset from the time the Corporation has determined an indefinite future economic benefit exists.

NTS is a retail management software for telecommunication companies. The development costs are determined to have a useful life of 10 years are amortized on a straight line basis. The amount capitalized as at September 30, 2019 is \$NIL (December 31, 2018: \$NIL) in development costs. During the period, an amortization expense of \$91,104 (Q3 2018: \$91,104; December 31, 2018: \$364,416) was recognized. The NTS software will be fully amortized by 2023.

StageEM is a goal-focused integrated software solution that improves organizational efficiency. During Q3 2019, \$NIL was capitalized, amortized or written off (Q3 2018: \$NIL). During Q3 2019, \$NIL was capitalized (Q3 2018 - \$NIL), \$NIL was amortized (Q3 2018: \$NIL), and \$NIL was written off (Q3 2018: \$NIL).

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**15. INTANGIBLE ASSETS (cont'd)**

	NTS Development Costs		StageEM Development Costs		Total
<b>Cost:</b>					
At January 1, 2018	\$	3,644,168	\$	4,433,136	\$ 8,077,304
Additions		–		–	–
Disposals		–		–	–
<b>At September 30, 2018</b>	<b>\$</b>	<b>3,644,168</b>	<b>\$</b>	<b>4,433,136</b>	<b>\$ 8,077,304</b>
Additions		–		–	–
Disposals		–		–	–
<b>At December 31, 2018</b>	<b>\$</b>	<b>3,644,168</b>	<b>\$</b>	<b>4,433,136</b>	<b>\$ 8,077,304</b>
Additions		–		–	–
Disposals		–		–	–
<b>At September 30, 2019</b>	<b>\$</b>	<b>3,644,168</b>	<b>\$</b>	<b>4,433,136</b>	<b>\$ 8,077,304</b>
<b>Amortization and impairment:</b>					
At January 1, 2018	\$	2,270,350	\$	4,433,136	\$ 6,703,486
Amortization for the period		273,313		–	273,313
Impairment		–		–	–
Disposals		–		–	–
<b>At September 31, 2018</b>	<b>\$</b>	<b>2,543,662</b>	<b>\$</b>	<b>4,433,136</b>	<b>\$ 6,976,798</b>
Amortization for the period		182,208		–	182,208
Impairment		–		–	–
Disposals		–		–	–
<b>At December 31, 2018</b>	<b>\$</b>	<b>2,634,767</b>	<b>\$</b>	<b>4,433,136</b>	<b>\$ 7,067,903</b>
Amortization for the period		273,313		–	273,313
Impairment		–		–	–
Disposals		–		–	–
<b>At September 30, 2019</b>	<b>\$</b>	<b>2,908,080</b>	<b>\$</b>	<b>4,433,136</b>	<b>\$ 7,341,216</b>
<b>Net book value:</b>					
At September 30, 2019	\$	736,089	\$	–	\$ 736,089
At December 31, 2018	\$	1,009,402	\$	–	\$ 1,009,402
At September 30, 2018	\$	1,100,506	\$	–	\$ 1,100,506

The Corporation had no indicators of impairment of the NTS development costs for the period ended September 30, 2019. An impairment test is performed on non-current assets at year end, or when indicators warrant it.

The Corporation had indicators of impairment of the StageEM development costs for the period ended December 31, 2016. An impairment test was performed on the non-current assets at year end and the net book value of the development costs was fully impaired.

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**

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**16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	September 30, 2019	December 31, 2018
Trade payables	\$ 3,464,247	\$ 2,472,421
Accrued liabilities	243,939	33,497
Related parties payable	166,866	73,040
Taxes payable	(36,902)	45,316
Other accounts payable	1,661,199	1,352,443
	<b>\$ 5,499,348</b>	<b>\$ 3,976,717</b>

**17. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES****(a) Other financial liabilities****Bank indebtedness**

	September 30, 2019	December 31, 2018
	\$ 7,517,468	\$ 7,228,567

As of September 30, 2019, the Corporation had credit facilities with RBC Royal Bank:

- \$2.7 million based on marginable receivables (revolving Facility 1)
- \$3.1 million for the pre-shipping (revolving Facility 2)
- \$250,000 for issuance of LGs (revolving Facility 3), with EDC support
- \$2,241,890 non-revolving Facility 4 (balance owing \$1,401,890)

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 EDC and Euler Hermes.

On September 17, 2019, the Corporation announced that it had received a formal demand for payment of its Bank facilities, requesting payment in full by no later than (10) days from September 16, 2019. See Note 29 for more information.

**(b) Fair values**

Set out below is a comparison by class of the carrying amount and fair value of the Corporation's financial instruments that are carried in the financial statements.

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**

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**17. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (cont'd)**

	Carrying Amount		Fair Value	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
<b>Financial assets</b>				
Cash and cash equivalents	\$ 24,297	\$98,694	\$ 24,297	\$98,694
Trade and accounts receivable	3,360,904	5,951,145	3,360,904	5,951,145
Performance bonds	110,532	111,536	110,532	111,536
<b>Total Financial Assets</b>	<b>\$3,495,733</b>	<b>\$6,161,375</b>	<b>\$3,495,733</b>	<b>\$6,161,375</b>

	Carrying Amount		Fair Value	
	September 30, 2019	December 31, 2018	September 30, 2019	December 31, 2018
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	\$ 5,499,348	\$3,976,717	\$ 5,499,348	\$3,976,717
Operating line	7,517,468	7,228,567	7,517,468	7,228,567
Long term debt	—	—	—	—
<b>Total Financial Liabilities</b>	<b>\$13,016,816</b>	<b>\$11,205,284</b>	<b>\$13,016,816</b>	<b>\$11,205,284</b>

The fair value of the financial assets and financial liabilities are included at the amount at which the instrument could be exchanged in an orderly transaction between market participants in an arm's length transaction at the measurement date.

The following methods and assumptions were used to estimate the fair values:

- Trade and other accounts receivables, accounts payable and accrued liabilities, other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.
- Fair values of quoted instruments are based on price quotations at the reporting date. The fair value of unquoted instruments and other financial liabilities (loans payable) are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk, and remaining maturities.

**Fair value hierarchy**

As at September 30, 2019, the Corporation held cash measured at fair value. The Corporation uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- **Level 1:** quoted (unadjusted) prices in active markets for identical assets or liabilities.
- **Level 2:** other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- **Level 3:** techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**

September 30, 2019 and 2018

**17. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (cont'd)**

Assets measured at fair value	September 30, 2019	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 24,297	\$ 24,297	\$ –	\$ –
<b>No liabilities were measured at fair value</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>

During the reporting period ending September 30, 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

**18. EQUITY INSTRUMENTS****(a) Common shares**

As at September 30, 2019, the authorized share capital consists of an unlimited number of first preferred shares, second preferred shares and common shares.

To date, no first or second preferred shares have been issued. Before any shares of a particular preferred share series are issued the directors of the Corporation, by resolution shall fix the dividend rates, whether the dividends are cumulative and the redemption price of the redeemable shares.

Subsequent to quarter end, on October 8, 2019 the IIROC (Investment Industry Regulatory Organization of Canada) halted trading for the Corporation citing the reason as “Pending Company Contact”.

Changes in the issued common shares of the Corporation are as follows:

	Common Shares	Amount
Balance, January 1, 2018	48,562,355	\$ 9,740,186
Shares issued on exercise of share options (i)	100,000	10,000
Allocation of contributed surplus (i)	–	2,000
<b>Balance, September 30, 2018</b>	<b>48,662,355</b>	<b>\$ 9,752,186</b>
Shares issued on exercise of share options (i)	–	–
Allocation of contributed surplus (i)	–	–
Shares issued on debt for shares transaction (ii)	–	–
<b>Balance, December 31, 2018</b>	<b>48,662,355</b>	<b>\$ 9,752,186</b>
Shares issued on exercise of share options (ii)	240,000	24,000
Allocation of contributed surplus (ii)	–	12,000
Shares issued on debt for shares transaction (iii)	7,200,000	360,000
<b>Balance, September 30, 2019</b>	<b>56,102,355</b>	<b>\$ 10,148,186</b>

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**

September 30, 2019 and 2018

**18. EQUITY INSTRUMENTS (cont'd)****(a) Common shares (cont'd)**

- (i) Over the course of the 2018 fiscal year, consultant(s) exercised a total of 100,000 options, with a total value of \$10,000. The transaction resulted in a re-allocation of contributed surplus to capital stock in the amount of \$2,000.
- (ii) In 2019, a total of 240,000 options were exercised, with a total value of \$24,000. This resulted in a re-allocation of contributed surplus to capital stock in the amount of \$12,000.
- (iii) In 2019, the Corporation offered employees and consultants the opportunity to participate in debt for shares private placement. Subsequent to TSX approval, on February 28, 2019, the Corporation closed the offering and issued 7,200,000 common shares (at \$0.05 per share) for a total value \$360,000. 5,160,000 of these shares were issued to directors of the Corporation.

**(b) Share-based payments**

The Corporation has a formal stock option plan allowing the Corporation to issue options to its directors, officers, employees and consultants in order to attract and retain qualified and experienced individuals.

The Board of Directors determines the exercise price and the number of options to be granted as well as all the terms of conditions of the options. All options granted by the Corporation are nonassignable. The options generally expire three years subsequent to the date of grant and vest over two years.

No options were granted to non-employees during Q3 2019. Details of stock options are as follows:

	Options	Weighted average exercise price
Balance, 1 January 2018	3,359,000	\$ 0.16
Granted	2,082,000	\$ 0.10
Exercised	(100,000)	0.10
Expired	(1,432,000)	0.25
<b>Balance, September 30, 2018</b>	<b>3,909,000</b>	<b>\$ 0.11</b>
Granted	–	–
Exercised	–	–
Expired	(339,000)	0.16
<b>Balance, December 31, 2018</b>	<b>3,570,000</b>	<b>\$ 0.10</b>
Granted	870,000	\$ 0.10
Exercised	(240,000)	0.10
Expired	(253,000)	0.11
<b>Balance, September 30, 2019</b>	<b>3,947,000</b>	<b>\$ 0.10</b>

The stock options expire at various dates between October 2019 and September 2022.

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**

September 30, 2019 and 2018

**18. EQUITY INSTRUMENTS (cont'd)****(b) Share-based payments (cont'd)**

The weighted average expected contractual lives of outstanding and exercisable options are as follows:

Exercise Price	Options Outstanding		Options Exercisable	
	Number of outstanding September 30/18	Expected life of option (years)	Number of outstanding September 30/18	Expected life of option (years)
\$ 0.10	3,947,000	1.55	3,435,000	1.08
<b>Total</b>	<b>3,947,000</b>	<b>1.55</b>	<b>3,435,000</b>	<b>1.08</b>

For the three months ended September 30, 2019, the Corporation recorded \$7,702 (Q3 2018: \$6,826) as contributed surplus and compensation expense, which is measured at fair value at the date of grant and is expensed over the option's vesting period.

For the nine months ended September 30, 2019, the Corporation recorded \$17,421 (Q3 2018: \$80,079) as contributed surplus and compensation expense, which is measured as above. The weighted average fair value of options granted during Q3 2019 is \$0.10 (Q3 2018: \$0.10).

In determining the amount of share-based compensation, the Corporation used the Black-Scholes option pricing model to establish the fair value of options granted by applying the following assumptions:

September 30	2019	2018
Stock price	\$0.01	\$0.04
Risk-free interest rate	1.65%	1.48%
Expected life (years)	3 years	3 years
Expected dividend yield	0%	0%
Expected volatility	104.99-135.35%	125.9%
Fair value of options issued in the period	0.026	0.033

**19. CONTRIBUTED SURPLUS**

Contributed surplus for the period ending September 30, 2019 consisted of \$17,421 (Q3 2018: \$80,079; December 31, 2018: \$91,633) for share-based payments and re-allocation of contributed surplus on exercise of share options \$12,000 (December 31, 2018: \$2,000; Q3 2018: \$2,000).

Opening balance January 1, 2019	\$ 1,788,593
Share-based payments	17,421
Reallocation on exercise of share options	(12,000)
<b>Balance as at September 30, 2019</b>	<b>\$ 1,794,014</b>

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**

September 30, 2019 and 2018

**20. DIVIDENDS PAID AND PROPOSED****Cash dividends**

The Corporation's practice is to not make dividend payments to shareholders.

**21. COST OF SALES**

The details of the Corporation's cost of sales are as follows:

	For the three months ended		For the nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Salaries	\$ 1,240,986	\$ 1,697,167	\$ 4,118,256	\$ 5,147,630
Travel	59,823	22,331	165,134	173,412
Other	92,809	46,720	202,740	322,612
<b>Total</b>	<b>\$ 1,393,617</b>	<b>\$ 1,766,218</b>	<b>\$ 4,486,129</b>	<b>\$ 5,643,653</b>

**22. EXPENSES: DISCLOSURE OF FUNCTION EXPENSES**

The details of the Corporation's function expenses are as follows:

Selling	For the three months ended		For the nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Salary and wages	\$ 273,464	\$ 187,131	\$ 838,062	\$ 786,643
Marketing and advertising	199,276	126,424	390,091	322,855
Mailing and courier	147	2,882	3,483	7,621
Professional services	103,647	111,530	117,821	140,575
Travel and entertainment	40,915	44,335	134,048	122,218
<b>Total</b>	<b>\$ 617,450</b>	<b>\$ 472,302</b>	<b>\$ 1,483,505</b>	<b>\$ 1,379,912</b>

General and Administrative	For the three months ended		For the nine months ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Salary and wages	\$ 492,119	\$ 212,999	\$ 937,411	\$ 883,197
Occupancy	62,152	97,204	240,818	286,754
Consulting	14,995	68,493	80,798	99,390
Professional fees	22,360	49,278	140,858	139,842
Insurance	129,405	93,436	314,584	274,335
Dues and subscriptions	10,062	8,946	24,413	27,775
Penalties and fees	3,278	4,690	17,389	15,586
Telecommunication	4,396	12,294	44,611	48,206
Office equipment	694	999	2,618	3,196
Other	201,821	97,587	217,250	101,149
<b>Total</b>	<b>\$ 941,281</b>	<b>\$ 645,926</b>	<b>\$ 2,020,750</b>	<b>\$ 1,879,430</b>

## NTG CLARITY NETWORKS INC.

### Notes to the Unaudited Interim Consolidated Financial Statements

September 30, 2019 and 2018

#### 23. RELATED PARTY DISCLOSURES

The financial statements include the financial statements of the Corporation and the subsidiaries listed in the following table:

Name	Country of Incorporation	Equity Interest
NTG Egypt Advanced Software (subsidiary)	Egypt	95%
NTG Clarity Networks US Inc. (subsidiary)	USA	100%

The following tables provide the balances owing to key management and key management compensation for the years:

	Amounts Owed by Related Parties	Amounts Owed to Related Parties	
Key management personnel of the Corporation:			
September 30, 2019	\$ 300,000		
September 30, 2018	300,000		
<b>Key management compensation</b>			
		<b>September 30, 2019</b>	<b>September 30, 2018</b>
Short term employee benefits		\$ 748,100	\$ 386,528
Share based payments		2,000	35,000
<b>Total</b>		<b>\$ \$ 762,100</b>	<b>\$ \$ 430,528</b>

#### The Ultimate Parent

The Corporation is the ultimate parent entity.

#### Related Party Transactions

Certain intercompany transactions between the Corporation and its subsidiaries, which are related parties to the Corporation, have been eliminated.

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.

#### Entity with significant influence over the Corporation

No single entity or party has significant influence over the Corporation. As at September 30, 2019 the Corporation has 56,102,355 common shares outstanding. Related parties (direct and indirect) holdings are as follows:

Ashraf Zaghoul, CEO	8,748,729
Kristine Lewis, CFO	6,226,749
Mohamed Adel Zaghoul	1,890,000
Nick Hamilton-Piercy	310,714
Mohamed Saleem Siddiqi	150,000

## **NTG CLARITY NETWORKS INC.**

### **Notes to the Unaudited Interim Consolidated Financial Statements**

September 30, 2019 and 2018

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#### **23. RELATED PARTY DISCLOSURES (cont'd)**

##### **Terms and conditions of transactions with related parties**

Outstanding amounts owed by related parties in the amount of \$300,000 (Q3 2018: \$300,000) are unsecured, bear 2% interest per annum. In August 2018, the repayment date was extended to May 2020. All other outstanding balances with related parties at the year-end are unsecured.

There have been no guarantees provided or received for any related party receivables or payables. All transactions with the related parties are carried out in the normal course of operations, and are recorded at fair value.

#### **24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

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The Corporation's primary risk management objective is to protect the Corporation's balance sheet and cash flow. The Corporation's principal financial liabilities comprise of bank overdraft, long term debt and trade and other payables. The main purpose of these financial liabilities is to raise finances for the Corporation's operations. The Corporation is exposed to market risk, interest rate risk, foreign exchange risk, credit risk, and liquidity risk.

The Corporation's senior management oversees the management of these risks. The Corporation's senior management is supported by a Committee that advises on financial risks and the appropriate financial risk governance framework for the Corporation.

The Committee provides assurance to the Corporation's senior management that the Corporation's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured, and managed in accordance with the Corporation's policies and group risk appetite.

All derivative activities, if any, for risk management purposes are carried out by a team that has the appropriate skills, experience, and supervision. It is the Corporation's policy that no trading in derivatives for speculative purposes shall be undertaken.

The Board of Directors reviews and agrees policies for managing each of these risks which are summarized below.

##### **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.

##### **Interest rate risk**

The Corporation's exposure to interest rate fluctuations is primarily interest paid on its bank indebtedness and loans. The Corporation has performed sensitivity analysis on interest rates at September 30, 2019 to determine how a change in interest rates would impact equity and net loss.

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**

September 30, 2019 and 2018

**24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)**

During the three months and nine months ended September 30, 2019, the Corporation paid \$338,132 and \$667,075 in interest on its loans and liabilities (2018: \$131,789 and \$383,842). An increase or decrease of 100 basis points in the average interest rate paid during the quarter would have adjusted net earnings by approximately \$33,813(Q3 2018: \$13,179).

**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. The Corporation's exposure to the risk of changes in foreign exchange rates relates primarily to the Corporation's operating activities, when revenue or expense are denominated in a different currency from the Corporation's functional currency. The parent entity's functional currency is the Canadian dollar.

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 September 30, 2019 would have the following approximate impacts:

	<b>U.S. Dollar</b>	<b>Omani Riyal</b>	<b>Kuwait Dinar</b>	<b>Saudi Riyal</b>	<b>Qatari Riyal</b>	<b>Egyptian Pound</b>
<b>10% impact to:</b>	<b>USD</b>	<b>OMR</b>	<b>KWD</b>	<b>SAR</b>	<b>QAR</b>	<b>LE</b>
P&L in CAD	49,799	16,527	120,254	35,767	414	67,637
Equity in CAD	36,603	12,148	86,387	26,289	304	49,713

A 10% change in exchange rates on September 30, 2018 would have the following approximate impacts:

	<b>U.S. Dollar</b>	<b>Omani Riyal</b>	<b>Kuwait Dinar</b>	<b>Saudi Riyal</b>	<b>Qatari Riyal</b>	<b>Egyptian Pound</b>
<b>10% impact to:</b>	<b>USD</b>	<b>OMR</b>	<b>KWD</b>	<b>SAR</b>	<b>QAR</b>	<b>LE</b>
P&L in CAD	38,435	126,281	161,433	147,229	669	48,682
Equity in CAD	28,249	92,816	118,653	108,213	491	35,781

**Commodity price risk**

The Corporation is not subject to price risk from fluctuations in market prices of commodities.

**Equity price risk**

The Corporation has no exposure to equity price risk.

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**September 30, 2019 and 2018

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**24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)****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. The Corporation's financial instruments that are exposed to credit risk consist primarily of trade receivable.

The Corporation's exposure to credit risk is impacted by the economic conditions for the industry which could affect the customers' ability to satisfy their obligations. In order to reduce risks, the Corporation performs 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. The Corporation also mitigates credit risk through credit insurance coverage with Export Development Canada and Euler Hermes Canada as explained in Note 24.

The aging of trade accounts receivable is shown in Note 11.

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 September 30, 2019, the Corporation has insured receivables in the amount of \$3,409,337 (December 31, 2018: \$2,208,355; September 30, 2018: 2,295,038) and unbilled revenue in the amount of \$915,443 (December 31, 2018: \$3,288,400; September 30, 2018: 3,624,748).

**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 September 30, 2019:

<b>Contractual obligations</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022 and after</b>	<b>Total</b>
Operating line of credit	\$ 7,517,468	\$ –	\$ –	\$ –	\$ 7,517,468
Accounts payable and accrued liabilities	5,499,348	–	–	–	5,499,348
Operating leases	65,941	180,301	103,985	8,291	358,518

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**

September 30, 2019 and 2018

**24. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)**

Long term debt is calculated by adding the current portion of long term debt and the interest due in 2018. The interest due ranges from prime + 1.05% to prime + 2.05%. The Corporation accrues expenses when incurred. Accounts are deemed payable once an event occurs that requires payment by a specific date. The contractual maturity of the majority of accounts payable is within one month.

The aging of trade accounts payable are as follows:

	September 30, 2019	December 31, 2018
Current	\$ 1,003,459	\$ 1,169,027
31 – 60 days	42,920	143,003
61 – 90 days	88,153	93,386
91 – 180 days	725,292	236,399
More than 180 days	1,604,424	830,606
	<b>\$ 3,464,247</b>	<b>\$ 2,472,421</b>

**Capital management**

The Corporation manages its capital, which consists of cash provided from operations and short term loans 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 September 30, 2019, 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.

The Corporation's approach to capital management during the period ending September 30, 2019 was to obtain short term loans from overseas to support the cash flow requirements. No changes were made in the objectives, policies, or processes during the period ending September 30, 2019.

The Corporation 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.

The Corporation 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.

In order to maintain or adjust the capital structure, the Corporation may issue new shares. The Corporation is not subject to externally imposed capital requirements.

## NTG CLARITY NETWORKS INC.

### Notes to the Unaudited Interim Consolidated Financial Statements

September 30, 2019 and 2018

## 25. COMMITMENTS, CONTINGENCIES, AND GUARANTEES

### Export Development Canada

At the bank's request, the Corporation continues to insure pre-shipping costs through EDC. During the three and nine months ended September 30, 2019, the Corporation recorded premiums of \$12,040 and \$49,360 included for this in general and administration expenses. The claim submitted to EDC in the amount of \$184,556 USD for overdue accounts receivable with one of the Corporation's customers insured by EDC is ongoing. Management made the decision to make a claim to reduce exposure with the customer. This amount is insured by EDC (90% of this overdue amount as per EDC's insurance policy).

### Euler Hermes Canada

The Corporation has a Credit Insurance agreement with Euler Hermes whereby they agreed to provide ninety percent (90%) insurance coverage for the Corporation's invoiced sales and work in progress. Coverage is based on customers approved by Euler Hermes. The policy period is from November 1, 2018 to October 31, 2019.

A yearly premium is paid based on the Corporation's estimated revenue for the year, payable in installments. During the three and nine months ended September 30, 2019, the Corporation recorded total premiums of \$44,830 and \$133,511 (2018: \$NIL) in prepaid and general and administration expenses.

Subsequent to period end, as of November 1, 2019, the Corporation did not renew its insurance with Euler Hermes Canada due to cash flow and the current situation with the Bank.

### Operating lease commitments – Corporation as lessee

The Corporation is committed under agreements for the rental of office space in Canada at a monthly rate of \$9,232 for the period from June 1, 2016 to May 31, 2021. The Corporation is committed under an agreement for the rental of office spaces in Oman, KSA and Egypt at monthly rates ranging from \$1,983 to \$4,836 for the periods from March 1, 2017 to December 31, 2019.

The lease commitments for the office premises are as follows:

	<u>September 30, 2019</u>	<u>December 31, 2018</u>
2019	65,941	\$ 214,337
2020	180,301	145,485
2021	103,985	80,866
2022 and thereafter	8,291	–
	<u>\$ 358,518</u>	<u>\$ 440,688</u>

### 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.

## **NTG CLARITY NETWORKS INC.**

### **Notes to the Unaudited Interim Consolidated Financial Statements**

September 30, 2019 and 2018

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#### **25. COMMITMENTS, CONTINGENCIES, AND GUARANTEES (cont'd)**

These matters are subject to inherent uncertainties and management's view of these matters may change in the future. As of September 30, 2019, the Corporation has an ongoing small claims case pending in Ontario for \$25,000. Management feels the case is baseless and has submitted a defense.

##### **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.

#### **26. COLLATERAL**

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The Corporation has pledged its assets under a General Security Agreement ("GSA") as disclosed in Note 17. The Corporation did not hold collateral at September 30, 2019, and September 30, 2018.

#### **27. COMPARATIVE FIGURES**

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Certain of the 2018 figures have been reclassified to conform with the current year's financial statement presentation.

#### **29. EVENTS AFTER THE REPORTING PERIOD**

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On September 17, 2019, the Corporation announced that it had received a formal demand for payment of its Bank facilities, requesting payment in full by no later than (10) days from September 16, 2019.

Subsequent to quarter end, the following occurred:

- on October 7, 2019, the Corporation announced the resignation of its two independent Board members
- on October 8, 2019, IIROC (Investment Industry Regulatory Organization of Canada) halted trading for the Corporation citing the reason as "Pending Company Contact".
- on October 9, 2019, The Bank obtained a court order placing the Corporation under interim receivership. Management has been in discussions with the Bank with a view to avoiding full receivership of the Corporation.

Subsequent to period end, as of November 1, 2019, the Corporation did not renew its insurance with Euler Hermes Canada due to cash flow and the current situation with the Bank.