



*Simplifying Business Solutions*

## **QUARTERLY REPORT**

## **NTG CLARITY NETWORKS INC.**

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

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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, 2022, for the three and nine months ended September 30, 2022 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, 2021.

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 and managed services to this same vertical. We have also expanded into the financial and government sectors, providing products and technical resources to assist customers with projects that include digital transformation.

We are headquartered in Toronto, Canada and have subsidiaries/branch offices in Cairo, Egypt; the USA; Riyadh, Saudi Arabia and Oman. 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 and Oman; and the Egypt segment, which is our software development group and also provides professional services, offshoring services and network services to customers in Egypt.

## Summary of Events in Q3 2022

In Q3 2022, we announced the following:

- In August, we announced a \$4.16M PO from a major financial institution in the Middle East to provide onshore and offshore professional resources.
- In September, we announced multiple POs valued of approximately \$6.33M with \$5.98M of the amount being for new work.

## Outlook

Customers continue to recognize our quality of work and track record and this has resulted in increased work from our major customers that include sales of our NTGapps software product. We have also gained 16 new customers, since Q3 2021, in various sectors which represents 19% of our YTD revenue.

Subsequent to quarter end, in October 2022, we announced

- multiple POs valued at approximately \$900K. \$390K was for our NTGapps product.
- the signing of a significant Memo of Understanding (MOU) with OMB (Outsource Management Business is a division under Etisalat Services Holding) to cooperate in providing IT products and services in the Middle East.
- multiple POs valued at approximately \$2.656M. \$1.148M was for the upgrade of our NTS OSS/BSS product.

KSA's continued economic strength, due in large part to a booming economy, has shown increased demand for our products and services and has resulted in a 47% increase in revenue contribution for the country this quarter. Our increased sales team and renewed focus on the region resulted in 4 new customers in KSA contributing 8% to our YTD revenue and increasing sales by 19% in the region. With KSA being reported as the world's fastest-growing major economy<sup>1</sup>, we are well-positioned to continue to grow our revenue here.

Egypt's revenue has increased 51% over the same period last year. This is due to a 200% increase in revenue from our top 3 customers and to 5 new customers in the region.

## Summary of Quarterly Results

Historically, NTG's operating results have fluctuated due to the timing of new contracts and their corresponding billing, and we expect this trend to continue. 2022 has had two quarter with the highest revenue amounts since 2016.

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

2022	Revenue	Net Income (Loss)	Profit (Loss) per Share	Diluted Profit per Share	Total Assets
Quarter One	\$ 4,320,604	\$ 554,342	\$ 0.00	\$ 0.00	\$ 6,524,801
Quarter Two	\$ 3,403,633	\$ 191,362	\$ 0.00	\$ 0.00	\$ 6,398,118
Quarter Three	\$ 4,185,208	\$ 434,489	\$ 0.01	\$ 0.01	\$ 7,260,075
<b>TOTAL</b>	<b>\$ 11,909,446</b>	<b>\$ 1,180,192</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>	<b>\$ 7,260,075</b>

<sup>1</sup> <https://www.eiu.com/n/saudi-arabia-set-to-be-the-worlds-fastest-growing-major-economy/>

<b>2021</b>	<b>Revenue</b>	<b>Net Income</b>	<b>Profit per Share</b>	<b>Diluted Profit per Share</b>	<b>Total Assets</b>
Quarter One	\$ 2,298,307	\$ 249,727	\$ 0.00	\$ 0.00	\$ 3,390,312
Quarter Two	\$ 2,621,252	\$ 459,813	\$ 0.00	\$ 0.00	\$ 4,409,643
Quarter Three	\$ 2,844,338	\$ 237,671	\$ 0.00	\$ 0.00	\$ 5,115,346
Quarter Four	\$ 4,132,046	\$ 416,748	\$ 0.01	\$ 0.01	\$ 6,490,706
<b>TOTAL</b>	<b>\$ 11,895,943</b>	<b>\$ 1,363,958</b>	<b>\$ 0.01</b>	<b>\$ 0.01</b>	<b>\$ 6,490,706</b>

<b>2020</b>	<b>Revenue</b>	<b>Net Income (Loss)</b>	<b>Profit (Loss) per Share</b>	<b>Diluted Profit per Share</b>	<b>Total Assets</b>
Quarter One	\$ 2,474,766	\$ (598,736)	\$ (0.01)	\$ (0.01)	\$ 2,750,861
Quarter Two	\$ 1,651,209	\$ (1,019,715)	\$ (0.01)	\$ (0.01)	\$ 2,165,928
Quarter Three	\$ 2,233,248	\$ 252,059	\$ 0.00	\$ 0.00	\$ 2,448,748
Quarter Four	\$ 1,547,766	\$ 267,776	\$ 0.00	\$ 0.00	\$ 3,406,422
<b>TOTAL</b>	<b>\$ 7,906,989</b>	<b>\$ (1,098,617)</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ 3,406,422</b>

## **Quarterly Results of Operations**

NTG's business continues to operate and support customers' operations, with the majority of COVID-19 restrictions being lifted. We have managed to keep quarter over quarter revenues strong with nine straight quarters of profitability. Cash flow remains a concern as NTG depends on collections to finance operations. In Q3 2022, collections have been within acceptable limits and management continues to work to reduce legacy payables.

Financial highlights for the three and nine months ended September 30, 2022:

### **Revenue**

Consolidated revenue for the three months ended September 30, 2022 was \$4,185,208 compared to \$2,844,338 for the same period in 2021 and is made up of product-related revenue and professional services. Year to date revenues are up by 53% from 2021 (\$11,909,446 compared to \$7,763,897).

Professional service revenue was \$7,017,681 or 91% of overall revenue in 2022 and continues to be an important strategic source of revenue, given its generally recurring nature. The contribution of product-related revenue was 9% in 2022.

For the Egypt operating segment, Q3 2022 consolidated revenue was \$1,111,361 compared to \$358,473 in Q3 2021. Year to date consolidated revenues were \$3,179,152 compared to \$1,551,489 in Q3 2021. The YTD 105% increase in revenue was primarily due to a 49% increase in the revenue from Egypt's top 3 customers.

For the Canada operating segment, revenues for Q3 2022 were \$3,073,847 compared to \$2,485,865 in Q3 2021. Year to date revenues were up 41% (\$8,730,294 compared to YTD 2021: \$6,212,408). This was due to increased revenue from existing customers and 11 new customers in the Canadian segment.

### **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. NTG 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 the required customer acceptance. For many contracts, revenue is recognized each month, but billed on a quarterly basis and we anticipate this to continue.

At September 30, 2022, unbilled revenue was \$602,749 compared to \$342,574 at December 31, 2021. This is due to the timing of billing for contracts.

### **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 cost of sales for the three and nine months ended September 30, 2022 was \$2,381,755 and \$6,786,307 (Q3 2021: \$1,630,801; YTD 2021: \$4,425,587). YTD the 53% increase was offset by a 53% increase in revenue.

The gross margin for Q3 2022 was \$1,803,453 or 43% compared to \$1,213,537 or 43% for Q3 2021. For the nine months ended September 30, 2022 the gross margin was \$5,123,139 or 43%, compared to \$3,338,310 or 43% for the same period in 2021.

### **Operating Expenses**

Now that COVID-19 restrictions have been lifted, salaries for existing sales and G&A staff have returned to pre-pandemic levels. Costs for travelling and marketing events have also increased, as has insurance and professional fees. NTG's operating expenses for the three and nine months ended September 30, 2022 were \$1,104,852 and \$3,248,990 compared to \$687,063 and \$1,677,129 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. Selling and marketing expenses for the three and nine months ended September 30, 2022 were \$324,538 and \$1,266,035 respectively compared to \$261,654 and \$616,117 in the previous year.

The significant YTD increase in the selling and marketing costs occurred as salaries returned to pre-pandemic levels, and we hired additional sales staff to service our increasing customer base. Increased revenue also resulted in larger commission costs.

Finally, we participated in several conferences this year, including:

- Mobile World Congress (MWC) in Barcelona (February 23-March 3, 2022), where we had the opportunity to meet existing and potential customers and partners and showcase our NTGapps software product.
- Mobile World Congress (MWC) in Las Vegas (September 28-31, 2022) where we presented our network inventory and telecom use cases that solve the urgent need for a fast, reliable digital enablement needs; all of them built using our 100% configurable platform - NTGapps.
- GITEX in Dubai (October 10-14, 2022), the world's largest tech show, where we signed an MOU with OMB (Outsource Management Business), a division under Etisalat Services Holding.
- AfricaCom in South Africa (November 8-10, 2022) where we engaged in several opportunities with companies in South Africa, Tanzania, Sudan, and introduced companies to our key products including NTS OSS/BSS and our NTGapps digital toolbox.

Trade show fees, travel and accommodation costs for these events also contributed to the YTD increase in selling and marketing.

#### **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. G&A expenses for the three and nine months ended September 30, 2022 were \$597,143 and \$1,835,638 respectively compared to \$397,016 and \$1,110,561 in the previous year.

G&A costs have increased in YTD 2022 as salaries returned to pre-pandemic levels. Insurance costs in KSA have increased with more personnel at customer sites.

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

For the three and nine months ended September 30, 2022, the NTG recognized a foreign currency exchange loss of \$183,170 and \$147,317 respectively, compared to a loss of \$28,393 and a gain of \$49,549 for the same periods in 2021. Additionally, the YTD foreign exchange gain on translation of our Egypt subsidiary was \$160,084 (YTD 2021: loss of \$81,640).

#### **Research and Development**

With the exception of NTGapps, our flagship product, research and development is paid for by customer requests and is therefore, included in cost of sales.

#### **Amortization of Intangible Assets**

Intangible assets are related to the NTGapps low-code digital transformation platform initially capitalized in 2020 and 2021. Expenditures on development of the software are recognized as an asset from the time the Corporation has determined an indefinite future economic benefit exists.

The amortization costs for the three- and nine-months ending September 30, 2022 were \$75,567 and \$198,660 (Q3 2021: \$36,670; YTD 2021: \$86,289).

#### **Interest Expense**

As at September 30, 2022, the interest expense on loans and liabilities for the three and nine months was \$109,432 and \$311,256 as compared to \$95,357 and \$207,246 for the same periods in 2021. In addition to a higher cost of borrowing, increases were due to the Q1 2022 increase in the CIB loan in Egypt from a balance of 2M Egyptian pounds to 3.4M Egyptian pounds.

#### **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 five years after the grant date, and usually vest over one year but can have varying vesting periods.

2,755,000 and 7,045,000 stock options were granted during the three and nine months ended September 30, 2022 under the Corporation's incentive stock option plan (2021: 600,000 and 9,995,000). 500,000 options were exercised YTD 2022 (2021: 4,070,000). 17,945,000 options have vested and there are 18,195,000 issued. The difference of 250,000 will vest in the foreseeable future and the expense will be charged in the future quarters.

### **Income Taxes**

There are no income taxes for the taxation year ending December 31, 2021 as NTG has income tax losses in the amount of \$16,512,842 that are available for Canadian federal and provincial tax purposes which may be carried forward to reduce future years' taxable income (December 31, 2020: \$17,799,962).

### **Total Comprehensive Income after Taxes (Net Income)**

For Q3 2022, the NTG recorded a net income of \$434,489 compared to \$237,671 for the same period in 2021. For the nine months ended September 30, 2022, NTG recorded a net income of \$1,180,192 compared to \$947,210 in 2021.

The Egypt operating segment recorded a consolidated net income of \$289,658 and \$803,422 for the three and nine months ended September 30, 2022 (Q3 2021: \$141,612; YTD 2021: \$56,541).

The Canadian operating segment recorded a net income of \$144,831 and \$376,769 for the three and nine months ended September 30, 2022 (Q3 2021: \$96,059; YTD 2021: \$890,668).

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

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As of September 30, 2022, NTG had \$350,952 cash on hand (December 31, 2021: \$158,870; Q3 2021: \$223,893), bid/performance bonds of \$22,364 (December 31, 2021: \$55,764; Q3 2021: \$57,172) and prepaid amounts of \$145,995 (December 31, 2021: \$64,446; Q3 2021: \$101,850).

Differences in prepaid amounts are due to the timing of insurance and rental renewals. The decrease in bond values compared to year to date 2021 occurred because of bonds that expired in KSA.

### **Intangible asset**

In past years, intangible assets were related to the upgrade of our internally developed Operations Support System/Business Support System (OSS/BSS) software product called NTS, and StageEM, our enterprise solution that allows companies to manage many current and/or proposed projects and maintain control of resources, budgets and other elements. As of December 2019, these products were impaired and removed from NTG's balance sheet, though we consider both products to be valuable assets.

In 2021 and 2022, intangible assets relate to the upgrade of our internally developed NTGapps (formerly Smart2Go) platform. NTGapps is a powerful development tool that offers rapid application development and whose users need no knowledge of development languages. Powerful templates allow users to create their own tools for HR, CRM, asset management, etc. During the period ending September 30, 2022, NTGapps development was capitalized for \$1,020,665 (2021: \$936,669). The amortization cost for 2022 was \$198,660 (2021: \$86,289).

### **Property and equipment**

Property and equipment of \$267,033 as of September 30, 2022 (December 31, 2021: \$183,294; Q3 2021: \$188,036) consists mainly of computer equipment and office furniture with a useful life of 4-10 years. We are not dependent on tangible assets and expect the purchase and disposal of property and equipment to be consistently modest in the foreseeable future. NTG had additions of \$144,714 during YTD 2022 (2021: \$73,665) and depreciation of \$114,175 (2021: \$43,386).

### **Non-current liabilities**

As of September 30, 2022, NTG had the following non-current liabilities:

- The outstanding indebtedness of \$6,512,880 held by a numbered Company is disclosed as part of the long-term debt on the Statements of Financial Position. See Note 18(a) and Note 26 for more information.

- An amount due from and owed to related parties includes balances owing to key management and key management compensation. See Note 26 for more information.
- Several loans payable of \$694,488, provided by international investors. See Note 24 for more information.

## **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 2022, we funded operations, changes in non-cash working capital and capital expenditures using internally generated cash flows, cash on hand, and short-term loans.

As of September 30, 2022, we had a declining working capital deficit of \$3,199,366 compared to a deficit of \$3,757,061 at December 31, 2021. The improvement in working capital was primarily due to an increase in intangible and cash on hand and a \$743K decrease in accounts payable and accrued liabilities.

### **Cash Flow Provided by Operations**

The cash flow from operating activities for the three and nine months ended September 30, 2022 was an in-flow of \$569,842 and \$1,785,833, compared to an out-flow of \$(849,717) and \$(362,236) for the same periods in 2021. The primary improvements from the YTD compared to 2021 include:

- a net income of \$1.18M compared to \$900K in 2021, along with significantly larger amortization and depreciation costs.
- a decrease in accounts receivable of \$323,405 as we focused efforts on collections (2021: increase of \$886,586).
- a decrease in accounts payable and accrued liabilities of \$742,903 compared to \$624,904 in 2021).
- An increase in loans payable to assist with overseas taxes payable (increase of \$272,395 compared to a decrease of \$264,236 in 2021).

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

The cash flow from financing activities for the three and nine months ended September 30, 2022, was an out-flow of \$122,032 and \$428,372, compared to an in-flow of \$1,158,629 and \$1,516,666 for the same periods in 2021. The main differences from 2021 were:

- no Shares for Debt transaction in 2022. In Q3 2021 the issuance of shares was an amount of \$2,000,000.
- fewer share options were exercised in 2022 (\$25,000) compared to 2021 (\$278,000).
- a smaller increase in long-term debt of \$15,560 compared to an increase of \$557,501 in 2021.

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

The cash flow for investing activities for the three and nine months ended September 30, 2022 was similar to 2021; an out-flow of \$(398,666) and \$(1,165,378), compared to an out-flow of \$(336,833) and \$(1,075,175).

## **Commitments and Contractual Obligations**

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NTG was 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. As of June 1, 2021, we renewed the agreement and committed to pay \$6,639 monthly for the period from June 1, 2021 to May 31, 2022 and \$8,195 monthly for the period from June 1, 2022 to May 31, 2023.

Additionally, we are committed under agreements for the rental of office spaces in Egypt and Oman at a monthly rate ranging from \$800 to \$3000 for the periods from August 2021 to October 2023.

### **Debt and Credit Facilities**

As of September 30, 2022, NTG's indebtedness is controlled by a numbered Company, controlled by Ashraf Zaghoul, NTG CEO and Kristine Lewis, NTG President. The numbered Company retains the Indebtedness and the Security, and all the rights, title and interest together with the full benefit of all powers and all covenants and provisions contained in the Security. The Company has agreed to extend the grace period for principal installment repayments until December 2022. This has helped NTG significantly by helping with cash flow and reducing pressure on management to allow them to focus on business. The Indebtedness held by the Company is secured by a General Security Agreement (GSA) over the assets of the Corporation. It is listed as Long-term debt on the Interim Consolidated Statements of Financial Position.

Additionally, as of September 30, 2022, NTG Egypt Advanced Software, a subsidiary of NTG, had the following:

- an overdraft facility with QNB bank in Egypt in the amount of 7,091,584 Egyptian pounds (approximately \$499,511; Q3 2021: \$573,147) with an interest rate of 18%.
- a loan with CIB bank in Egypt in the amount of 3,400,000 Egyptian pounds at interest rate of 7% per annum, repayable in monthly principal payments of 141,667 Egyptian pounds plus interest. The loan matures on February 1, 2024. The loan amount outstanding at September 30, 2022 was 2,408,333 Egyptian pounds (approximately \$169,636; Q3 2021: \$192,498).

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

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

### **Transactions with Related Parties**

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

The standard key management compensation is listed in Note 26.

The Corporation's long-term debt is controlled by a numbered Company, controlled by Ashraf Zaghoul, NTG CEO and Kristine Lewis, NTG President.

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

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, 2022.

Significant accounting policies are presented in detail in Note 3 of our audited consolidated financial statements for the year ended December 31, 2021. These are available on SEDAR ([www.sedar.com](http://www.sedar.com)).

## **Proposed Transactions**

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There are no Proposed Transactions.

## **Business Risk and Management**

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NTG is exposed to market risk, interest rate risk, foreign exchange risk, credit risk, and liquidity risk. A complete description of the risks and uncertainties affecting NTG is included in the Annual Report filed April 12, 2022 or in the Annual MD&A for the year ended December 31, 2021. These can be found on *SEDAR* at [www.sedar.com](http://www.sedar.com).

Some risks have evolved since the most recent year-end report. We are monitoring these risk factors and doing what we can to minimize them; however, many are outside of our control and it is impossible to completely mitigate these risks.

Additional risks and uncertainties not described or not presently known may also impact our business. If any of these risks occur, the business, financial condition or results of operations could be harmed and the trading price of NTG'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.

### **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. NTG's exposure to the risk of changes in foreign exchange rates relates primarily to our operating activities, when revenue or expenses are in a different currency from our functional currency. The parent entity's functional currency is the Canadian dollar. To help mitigate currency risks in other countries, we invoice in USD wherever possible and/or invoice and pay expenses in the local currency. This quarter, we recognized a foreign exchange gain in both operations and on translation of foreign operations.

### **Credit risk**

As of September 30, 2022, NTG had receivables in the amount of \$3,423,641 (December 31, 2021: \$3,747,046) and unbilled revenue of \$602,749 (December 31, 2021: \$342,574). 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 due to their payment history. Management does recognize the risk though the majority of our customers are tier 1 telecom, utility and banking customers.

### **Devaluation of Egyptian pound**

Subsequent to period end, towards the end of October 2022, the Egyptian pound (EGP) was floated, and its value dropped from around 14.5 EGP to the Canadian dollar to about 18.72 EGP to the Canadian dollar. The EGP had already been allowed to fall by roughly 31% since March 2022. Other effects in the economy include a central bank increase in interest rates.

In 2016, a similar EGP currency devaluation resulted in NTG recording a year-end revenue devaluation of about \$1M and FX loss on translation of just under \$1M.

NTG Egypt's revenue has grown by more than 100% over 2021 amounts. Though no effects were recognized in Q3 2022, we anticipate the effects at year-end will be similar to those in 2016. Going forward, we also anticipate having to increase salaries to retain critical personnel.

In Egypt we historically have invoiced and paid expenses in the local currency to help mitigate risk. Management has decided to work on alternatives that include outsourcing internationally to increase our USD revenue.

### **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 June 30, 2022 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 is 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 of November 28, 2022, 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. 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 Company discloses that its auditors have not reviewed the unaudited interim consolidated financial statements for the period ended September 30, 2022.

November 28, 2022

MARKHAM, ONTARIO

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

(In Canadian Dollars)

	Sept. 30, 2022	Dec. 31, 2021
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents (Note 10)	\$ 350,952	\$ 158,870
Trade and other receivables (Note 11)	3,423,641	3,747,046
Prepaid expenses and deposits (Note 12)	145,995	64,446
Bid/performance bonds (Note 13)	22,364	55,764
Total current assets	\$ 3,942,952	\$ 4,026,126
Non-current assets		
Property, plant and equipment (Note 14)	\$ 267,033	\$ 183,294
Intangible assets (Note 15)	3,002,801	2,180,796
Right-of-use of assets (Note 16)	47,289	100,490
Total non-current assets	3,317,123	2,464,580
Total Assets	\$ 7,260,075	\$ 6,490,706
<b>LIABILITIES</b>		
Current liabilities		
Current portion of leasehold liability (Note 16)	\$ 46,339	\$ 74,049
Accounts payable and accrued liabilities (Note 17)	5,796,324	6,540,227
Current portion of long-term debt (Note 18)	105,656	120,750
Bank indebtedness (Note 18)	499,511	626,068
Loans payable (Note 25)	694,488	422,093
Total current liabilities	\$ 7,142,318	\$ 7,783,187
Non-current liabilities		
Long-term leasehold liability (Note 16)	14,567	39,005
Long-term debt (Note 18) (Note 26)	6,586,860	6,587,326
Total non-current liabilities	\$ 6,601,427	\$ 6,626,331
Total liabilities	\$ 13,743,745	\$ 14,409,518
<b>SHAREHOLDER'S EQUITY</b>		
Capital stock (Note 20)	13,606,986	13,561,986
Contributed surplus (Note 21)	2,518,973	2,309,023
Foreign exchange account	(203,250)	(363,334)
Deficit	(22,406,380)	(23,426,487)
Total shareholders' equity (deficit)	(6,483,671)	(7,918,812)
Total liabilities and shareholders' equity	\$ 7,260,075	\$ 6,490,706

Approved on behalf of the Board:

*"Ashraf Zaghoul"*

Director

*"Kristine Lewis"*

Director

See accompanying notes to consolidated financial statements.

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

For the periods ended September 30, 2022 and 2021

(In Canadian Dollars)

	Share Capital	Contributed Surplus	Deficit	Foreign Exchange Reserve	Total Shareholders' Equity
<b>Balance, January 1, 2021</b>	\$ 10,808,186	\$ 1,809,523	\$ (24,796,574)	\$ (357,204)	\$ (12,536,069)
Income from continuing operations	–	–	1,028,850	–	1,028,850
Other comprehensive deficit	–	–	–	(81,640)	(81,640)
Shares for debt exchange (Note 20)	2,000,000	–	–	–	2,000,000
Issuance of share capital (Note 20)	278,000	–	–	–	278,000
Reallocation of contributed surplus (Note 20)	171,800	(171,800)	–	–	–
Share-based compensation (Note 20)	–	295,410	–	–	295,410
<b>Balance, September 30, 2021</b>	\$ 13,257,986	\$ 1,933,133	\$ (23,767,724)	\$ (438,844)	\$ (9,015,449)
Income from continuing operations	–	–	341,238	–	341,238
Other comprehensive income	–	–	–	75,510	75,510
Issuance of share capital (Note 20)	165,000	–	–	–	165,000
Reallocation of contributed surplus (Note 20)	139,000	(139,000)	–	–	–
Share-based compensation (Note 20)	–	514,890	–	–	514,890
<b>Balance, December 31, 2021</b>	\$ 13,561,986	\$ 2,309,023	\$ (23,426,487)	\$ (363,334)	\$ (7,918,812)
Income from continuing operations	–	–	1,020,107	–	1,020,107
Other comprehensive income	–	–	–	160,084	160,084
Issuance of share capital (Note 20)	25,000	–	–	–	25,000
Reallocation of contributed surplus (Note 20)	20,000	(20,000)	–	–	–
Share-based compensation (Note 20)	–	229,950	–	–	229,950
<b>Balance, September 30, 2022</b>	\$ 13,606,986	\$ 2,518,973	\$ (22,406,380)	\$ (203,250)	\$ (6,483,671)

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

(In Canadian Dollars)

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2022	2021	2022	2021
<b>REVENUE</b> (Note 7)	\$ 4,185,208	\$ 2,844,338	\$ 11,909,446	\$ 7,763,897
<b>COST OF SALES</b> (Note 23)	2,381,755	1,630,801	6,786,307	4,425,587
<b>GROSS PROFIT</b>	1,803,453	1,213,537	5,123,138	3,338,310
<b>EXPENSES</b>				
Selling and marketing (Note 24)	324,538	261,654	1,266,035	616,117
General and administrative (Note 24)	597,143	397,016	1,835,638	1,110,561
(Gain) loss on foreign exchange	183,170	28,393	147,317	(49,549)
Total expenses	1,104,852	687,063	3,248,991	1,677,129
<b>INCOME (LOSS) FROM OPERATIONS</b>	\$ 698,602	\$ 526,474	\$ 1,874,147	\$ 1,661,180
<b>OTHER EXPENSES</b>				
Depreciation, (Note 14) (Note 16)	38,320	20,964	114,175	43,386
Amortization, intangibles assets (Note 15)	75,567	36,670	198,660	86,289
Interest, net	109,430	95,357	311,256	207,246
Share-based payment (Note 20)	98,300	120,681	229,950	295,410
Total other expenses	321,617	273,673	854,040	632,331
<b>INCOME FROM CONTINUING OPERATIONS</b>	\$ 376,985	\$ 252,801	\$ 1,020,107	\$ 1,028,850
Other comprehensive income				
Exchange gain (loss) arising on translation of foreign operations	57,504	(15,130)	160,084	(81,640)
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>	\$ 434,489	\$ 237,671	\$ 1,180,192	\$ 947,210
<b>Earnings per share</b> (Note 9)				
Basic	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01
Diluted	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.01
<b>Weighted average number of shares outstanding</b>				
Basic	147,972,355	144,172,355	147,972,355	144,172,355
Diluted	165,941,328	151,000,519	165,941,328	151,000,519

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,	
	2022	2021	2022	2021
<b>OPERATION ACTIVITIES</b>				
Net income (loss)	\$ 434,489	\$ 237,671	\$ 1,180,192	\$ 947,210
Items not affecting cash:				
Depreciation (Note 14)	38,320	20,964	114,175	43,386
Amortization (Note 15)	75,567	36,670	198,660	86,289
Interest expense	109,430	95,357	311,256	207,246
Share-based payment	98,300	120,681	229,950	295,410
	756,107	511,344	2,034,232	1,579,540
Net change in non-cash working capital items:				
Decrease (increase) in accounts receivable	(564,143)	(473,859)	323,405	(886,586)
Decrease in bid/performance bonds	(554)	(45)	33,400	3,061
Decrease in deferred revenue	–	–	–	(133,797)
Decrease (increase) in prepaid expenses and other assets	36,661	19,479	(81,549)	(34,349)
Increase (decrease) in accounts payable and accrued liabilities	372,045	(917,402)	(743,903)	(624,904)
(Decrease) in current leasehold liability	(20,843)	–	(52,148)	(1,551)
(Decrease) in loans payable	(9,431)	10,766	272,395	(264,236)
<b>TOTAL CASH (OUT-FLOW) IN-FLOW FROM OPERATION ACTIVITIES</b>	\$ 569,842	\$ (849,717)	\$ 1,785,833	\$ (362,822)
<b>FINANCING</b>				
Increase (decrease) long-term debt (Note 18)	(24,996)	(775,325)	(15,560)	(557,501)
Increase (decrease) in bank indebtedness (Note 18)	12,395	19,310	(126,557)	3,413
Shares for debt (Note 20)	–	2,000,000	–	2,000,000
Issuance of common shares (Note 20)	–	10,000	25,000	278,000
Interest paid	(109,432)	(95,357)	(311,256)	(207,246)
<b>TOTAL CASH (OUT-FLOW) IN-FLOW FROM FINANCING ACTIVITIES</b>	\$ (122,032)	\$ 1,158,629	\$ (428,372)	\$ 1,516,666
<b>INVESTING</b>				
(Purchase) of property, plant and equipment (Note 14)	(88,666)	(4,867)	(144,714)	(73,665)
Capitalization of intangibles (Note 15)	(310,000)	(330,492)	(1,020,664)	(936,669)
Due from related party (Note 26)	–	(1,475)	–	(64,842)
<b>TOTAL CASH (OUT-FLOW) FROM INVESTING</b>	\$ (398,666)	\$ (336,833)	\$ (1,165,378)	\$ (1,075,175)
<b>NET INCREASE (DECREASE) IN CASH</b>	\$ 49,144	\$ (27,921)	\$ 192,083	\$ 78,669
Cash balance, beginning of period	\$ 301,809	\$ 251,813	\$ 158,870	\$ 145,224
Cash balance, end of period	\$ 350,952	\$ 223,893	\$ 350,952	\$ 223,893

See accompanying notes to consolidated financial statements.

## **NTG CLARITY NETWORKS INC.**

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

September 30, 2022 and 2021

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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.

The Corporation 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. NTG continues to offer professional telecom and IT 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 of September 30, 2022, the Corporation had a working capital deficit of \$3,199,366 (December 31, 2021: deficit of \$3,757,061), an YTD income from operations of \$1,874,147 (September 30, 2021: \$1,661,180) and accumulated losses since inception of \$22,406,380 (December 31, 2021: accumulated loss of \$23,426,4874).

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.

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

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

##### **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, 2022.

## **NTG CLARITY NETWORKS INC.**

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

September 30, 2022 and 2021

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

##### **Statement of Compliance (cont'd)**

Management of the Corporation prepared the consolidated financial statements of the Corporation during July and August 2022, 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, 2022, and the Board of Directors approved them at its meeting on November 28, 2022.

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 unaudited interim consolidated financial statements comprise the financial statements of the Corporation and its subsidiaries As of September 30, 2022.

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, 2022 is its 95% owned subsidiary, NTG Egypt Advanced Software, and its wholly owned U.S. subsidiary, NTG Clarity Networks US Inc.

## **NTG CLARITY NETWORKS INC.**

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

September 30, 2022 and 2021

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

##### **(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;
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.

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

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

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.

**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 intra-group balances and intra-group transactions of a subsidiary (see Consolidated Financial Statements). However, an intra-group monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intra-group 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.

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

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

**Translation of a foreign operation (cont'd)**

Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference is recognized in profit or loss or, if it arises from the circumstances described in IAS 21, it is recognized 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).

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.

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

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

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

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 professional services.

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.

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**September 30, 2022 and 2021

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

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). 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.

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.

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**September 30, 2022 and 2021

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

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.

Revenues from customers of Zaha Tech (Note 30) are recognized on a net basis, as the Corporation does not control the services provided by Zaha Tech to the end user. NTG invoices the customers of Zaha Tech, and retains a 10% administrative fee upon receipt of the funds from the customer. All liabilities of the contract lie with Zaha Tech and NTG holds no obligation for the performance of the contract.

**(d) Taxes****Current income tax**

Current income tax assets and liabilities for the 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.

**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.

**NTG CLARITY NETWORKS INC.**

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

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

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

**Deferred tax (cont'd)**

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.

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.

**NTG CLARITY NETWORKS INC.**

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

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

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

**Sales tax (cont'd)**

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.

**(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.

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

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

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.

**(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.

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

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

**(ii) Financial liabilities (cont'd)**

**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.

**(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.

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

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

**(g) Compound Instruments (cont'd)**

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, 2022 and September 30, 2021.

**(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.

**(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.

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**September 30, 2022 and 2021

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**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****(j) Property and equipment (cont'd)**

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:

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.

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 years September 30, 2022 and September 30, 2021, 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.

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**September 30, 2022 and 2021

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

Borrowing costs consist of interest and other costs that the Corporation incurs in connection with the borrowing of funds. For the years ending September 30, 2022 and September 30, 2021, 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.

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.

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

**(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 years ending September 30, 2022 and September 30, 2021.

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.

**(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.

## **NTG CLARITY NETWORKS INC.**

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

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

##### **(r) Provisions (cont'd)**

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 period by the weighted average number of common shares outstanding during the period. 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 period.

##### **(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.

## **NTG CLARITY NETWORKS INC.**

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

September 30, 2022 and 2021

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

##### **(t) Share-based compensation (cont'd)**

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 unconsolidated interim 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 revenues**

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.

##### **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.

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**September 30, 2022 and 2021

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

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.

**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.

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**September 30, 2022 and 2021

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

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.

**Useful life of an intangible asset**

Intangible assets with finite lives are amortized on a straight-line basis over their expected useful life once the asset is available for use. Many factors are considered in determining the useful life of an intangible asset, including technical, technological, commercial or other types of obsolescence and typical product life cycles for the asset. Changes to the expected useful life of an asset is accounted for prospectively.

**Treatment of development costs**

Costs to develop products are capitalized to the extent that the criteria are met for recognition as intangible assets in accordance with IAS 38. Such criteria require that the product is technically and economically feasible, the Company has the intention and ability to use the asset, and that the asset will generate future benefits to the Company.

Management assessed the capitalization of development costs based on the attributes of each development project, perceived user needs, industry trends and expected future economic conditions. Management considers these factors in aggregate and applies significant judgment to determine whether the product is technically and economically feasible.

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

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As at November 28, 2022, 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.

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

**7. OPERATING SEGMENT INFORMATION**

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For management purposes, the Corporation is organized into two operating segments. The Corporation's chief decision makers; the Chief Executive Officer, 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 analyses the segments based on expenditures and revenue growth.

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**7. OPERATING SEGMENT INFORMATION (cont'd)****Statement of profit and loss for the three months ending September 30, 2022**

For the three months ending September 30, 2022	NTG Canada	NTG Egypt	Consolidated Total
Revenue	\$ 3,073,847	\$ 1,111,361	\$ 4,185,208
<b>Total revenue</b>	<b>\$ 3,073,847</b>	<b>\$ 1,111,361</b>	<b>\$ 4,185,208</b>
Gross margin	\$ 1,368,276	\$ 435,177	\$ 1,803,453
Expenses	(1,044,169)	(158,979)	(1,203,149)
Provision for bad debt	–	–	–
Depreciation / Amortization	(96,857)	(17,031)	(113,887)
Interest	(82,419)	(27,013)	(109,432)
Exchange (loss) on translation	–	57,504	57,504
<b>Net income before taxes</b>	<b>\$ 144,831</b>	<b>\$ 289,658</b>	<b>\$ 434,489</b>
Taxes	–	–	–
<b>Net income after taxes</b>	<b>\$ 144,831</b>	<b>\$ 289,658</b>	<b>\$ 434,489</b>

**Statement of profit and loss for the three months ending September 30, 2021**

For the three months ending September 30, 2022	NTG Canada	NTG Egypt	Consolidated Total
Revenue	\$ 2,485,865	\$ 358,473	\$ 2,844,338
<b>Total revenue</b>	<b>\$ 2,485,865</b>	<b>\$ 358,473</b>	<b>\$ 2,844,338</b>
Gross margin	\$ 875,133	\$ 338,404	\$ 1,213,537
Expenses	(667,380)	(140,365)	(807,745)
Provision for bad debt	–	–	–
Depreciation / Amortization	(41,513)	(16,121)	(57,634)
Interest	(70,182)	(25,176)	(95,357)
Exchange (loss) on translation	–	(15,130)	(15,130)
<b>Net income before taxes</b>	<b>\$ 96,059</b>	<b>\$ 141,612</b>	<b>\$ 237,671</b>
Taxes	–	–	–
<b>Net income after taxes</b>	<b>\$ 96,059</b>	<b>\$ 141,612</b>	<b>\$ 237,671</b>

**Statement of profit and loss for the nine months ending September 30, 2022**

For the nine months ending September 30, 2022	NTG Canada	NTG Egypt	Consolidated Total
Revenue	\$ 8,730,294	\$ 3,179,152	\$ 11,909,446
<b>Total revenue</b>	<b>\$ 8,730,294</b>	<b>\$ 3,179,152</b>	<b>\$ 11,909,446</b>
Gross margin	\$ 3,996,393	\$ 1,126,747	\$ 5,123,139
Expenses	(3,128,091)	(350,849)	(3,478,940)
Provision for bad debt	–	–	–
Depreciation / Amortization	(262,624)	(50,212)	(312,835)
Interest	(228,908)	(82,348)	(311,256)
Exchange (loss) on translation	–	160,084	160,084
<b>Net income before taxes</b>	<b>\$ 376,769</b>	<b>\$ 803,422</b>	<b>\$ 1,180,192</b>
Taxes	–	–	–
<b>Net income after taxes</b>	<b>\$ 376,769</b>	<b>\$ 803,422</b>	<b>\$ 1,180,192</b>

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

September 30, 2022 and 2021

**7. OPERATING SEGMENT INFORMATION (cont'd)****Statement of profit and loss for the nine months ending September 30, 2021**

For the nine months ending September 30, 2021	NTG Canada	NTG Egypt	Consolidated Total
Revenue	\$ 6,212,408	\$ 1,551,489	\$ 7,763,897
<b>Total revenue</b>	<b>\$ 6,212,408</b>	<b>\$ 1,551,489</b>	<b>\$ 7,763,897</b>
Gross margin	\$ 2,750,130	\$ 588,181	\$ 3,338,310
Expenses	(1,617,541)	(354,998)	(1,972,539)
Provision for bad debt	–	–	–
Depreciation / Amortization	(100,822)	(28,854)	(129,675)
Interest	(141,098)	(66,148)	(207,246)
Exchange (loss) on translation	–	(81,640)	(81,640)
<b>Net income before taxes</b>	<b>\$ 890,668</b>	<b>\$ 56,541</b>	<b>\$ 947,210</b>
Taxes	–	–	–
<b>Net income after taxes</b>	<b>\$ 890,668</b>	<b>\$ 56,541</b>	<b>\$ 947,210</b>

**Long term asset additions for the three months ended September 30, 2022**

	NTG Canada	NTG Egypt	Consolidated Total
<b>Asset additions for the three months ending September 30, 2022</b>			
Property and equipment	\$ –	\$ 89,604	\$ 89,604
Intangible assets	310,000	–	310,000
	<b>\$ 310,000</b>	<b>\$ 89,604</b>	<b>\$ 399,604</b>

**Long term asset additions for the three months ended September 30, 2021**

	NTG Canada	NTG Egypt	Consolidated Total
<b>Asset additions for the three months ending September 30, 2022</b>			
Property and equipment	\$ –	\$ 4,868	\$ 4,868
Intangible assets	330,492	–	330,492
	<b>\$ 330,492</b>	<b>\$ 4,868</b>	<b>\$ 335,360</b>

**Long term assets for the nine months ended September 30, 2022**

	NTG Canada	NTG Egypt	Consolidated Total
<b>Assets as at September 30, 2022</b>			
Property and equipment	\$ 2,555	\$ 142,159	\$ 144,714
Intangible assets	1,020,665	–	1,020,665
	<b>\$ 1,023,220</b>	<b>\$ 142,159</b>	<b>\$ 1,165,379</b>

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

September 30, 2022 and 2021

**7. OPERATING SEGMENT INFORMATION (cont'd)****Long term assets for the nine months ended September 30, 2021**

	NTG Canada	NTG Egypt	Consolidated Total
<b>Assets as at September 30, 2021</b>			
Property and equipment	\$ 4,814	\$ 68,851	\$ 73,665
Intangible assets	936,669	–	936,669
	<b>\$ 941,483</b>	<b>\$ 68,851</b>	<b>\$ 1,010,334</b>

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

<b>Sales by geographic location for the three months ending Sept. 30,</b>	<b>2022</b>	<b>2021</b>
North America	\$ 123,147	\$ 134,956
Iraq	299,750	–
Saudi Arabia	2,441,241	2,278,508
Egypt	1,111,362	358,473
Kuwait	–	–
Oman	209,708	72,401
	<b>\$ 4,185,208</b>	<b>\$ 2,844,338</b>

<b>Sales by geographic location for the nine months ending Sept. 30,</b>	<b>2022</b>	<b>2021</b>
North America	\$ 334,671	\$ 350,496
Iraq	997,491	–
Saudi Arabia	6,381,000	5,371,101
Egypt	3,179,152	1,551,489
Kuwait	85,669	–
Oman	931,463	490,811
	<b>\$ 11,909,446</b>	<b>\$ 7,763,897</b>

The majority of the Corporation's revenue is derived from the telecommunication industry and was earned through service contracts from a few customers. In Q3 2022, 15% (December 31, 2021: 29%; Q3 2021: 26%) of the Corporation's revenue was derived from one customer.

<b>Receivables by segment</b>	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Canada	\$ 2,172,906	\$ 2,595,374
Egypt	1,250,735	1,151,672
	<b>\$ 3,423,641</b>	<b>\$ 3,747,046</b>

As at September 30, 2022, approximately 14% (December 31, 2021: 34%; Q3 2021: 18%) of the Corporation's trade accounts receivable balance was from one customer.

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

September 30, 2022 and 2021

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

Payables by segment for the period ending	September 30, 2022	December 31, 2021
Canada	\$ 5,036,814	\$ 5,819,456
Egypt	759,510	720,771
	<b>\$ 5,796,324</b>	<b>\$ 6,540,227</b>

Bank indebtedness by segment for the period ending	September 30, 2022	December 31, 2021
Canada	\$ –	\$ –
Egypt	499,511	626,068
	<b>\$ 499,511</b>	<b>\$ 626,068</b>

**8. INCOME TAXES**

As of December 31, 2021, the Corporation has available income tax losses in the amounts of \$16,512,842 for the Canadian federal and provincial tax purposes which may be carried forward to reduce future years' taxable income which expire as follows:

2037	\$ 7,995,688
2039	6,834,650
2040	1,682,504
	<b>\$ 16,512,842</b>

**9. EARNINGS PER SHARE**

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

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 period 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 period presented are as noted below.

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

**As at September 30, 2022**

Options – Share-based payments (Note a)	18,195,000
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**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**

September 30, 2022 and 2021

**9. EARNINGS PER SHARE (cont'd)**

Note a: Of which 17,945,000 had vested as of September 30, 2022.

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

September 30,	2022		2021	
Net earnings (loss) attributable to ordinary equity holders of the parent for basic earnings	\$	1,180,192	\$	947,210
<b>Net earnings (loss) attributable to ordinary equity holders of the parent adjusted for the effect of dilution</b>	<b>\$</b>	<b>1,180,192</b>	<b>\$</b>	<b>947,210</b>

  

September 30,	2022		2021	
Weighted average number of common shares outstanding for basic earnings per share		147,972,355		100,102,355
Weighted average number with the effect of dilution on common shares		165,941,328		151,000,519
<b>Income per share (basic)</b>		<b>\$ 0.01</b>		<b>\$ 0.00</b>
<b>Income per share (diluted)</b>		<b>\$ 0.01</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 \$350,952 as at September 30, 2022 (December 31, 2021: \$158,870; September 30, 2021: \$223,893).

**11. TRADE AND OTHER RECEIVABLES**

	September 30, 2022	December 31, 2021
Trade receivables	\$ 2,461,086	\$ 3,035,110
Less: allowance for doubtful debt	–	(36,741)
Trade receivables after impairment	2,461,086	2,998,369
Unbilled revenue	602,749	342,574
Less: Impaired	–	–
Unbilled revenue after impairment	602,749	342,574
Total trade receivables and unbilled revenue after impairment	3,063,835	3,340,943
Receivables from tax authorities	351,356	303,639
Other receivables	8,450	102,464
<b>Total trade and other receivables</b>	<b>\$ 3,423,641</b>	<b>\$ 3,747,046</b>

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

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**September 30, 2022 and 2021

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**11. TRADE AND OTHER RECEIVABLES (cont'd)**

At September 30, 2022, the Corporation had no provision for debt (December 31, 2021: \$36,741), no impairment of trades receivables (December 31, 2021: \$21,524) and no impairment of unbilled revenues (December 31, 2021: \$Nil).

<b>Neither past due nor impaired</b>	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Current	\$ 1,828,043	\$ 2,092,958
31 – 60 days	140,446	351,627
61 – 90 days	147,873	74,706
91 – 180 days	111,754	378,893
<b>Past due but not impaired</b>		
Greater than 180 days	232,970	136,926
	<b>\$ 2,461,086</b>	<b>\$ 3,035,110</b>

Unbilled revenue consists of service revenue that has already been rendered as at September 30, 2022 and recognized in accordance with the Corporation's revenue recognition policy from Note 3.

**12. PREPAID EXPENSES AND DEPOSITS**

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	<b>September 30, 2022</b>	<b>December 31, 2021</b>
Prepaid rent	\$ 62,617	\$ 46,380
Prepaid insurance	73,514	12,343
Other prepaids	9,863	5,723
	<b>\$ 145,995</b>	<b>\$ 64,446</b>

**13. BID/PERFORMANCE AND BID BONDS**

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At September 30, 2022, all of the \$22,364 in bid/performance bond amounts were for various bid bonds in Egypt (December 31, 2021: \$55,764). 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.

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

September 30, 2022 and 2021

**14. PROPERTY AND EQUIPMENT**

The amount of borrowing costs capitalized during the period ending September 30, 2022 was \$Nil (September and December 31, 2021: \$Nil).

	Furniture and Equipment	Computer Equipment	Computer Software	Total
<b>Cost:</b>				
At December 31, 2020	\$578,805	\$834,285	\$400,996	\$1,814,086
Additions	2,074	71,591	–	73,665
Disposals	–	–	–	–
<b>At September 30, 2021</b>	<b>\$580,879</b>	<b>\$905,876</b>	<b>\$400,996</b>	<b>\$1,887,751</b>
Additions	-30	23,397	–	23,367
Disposals	–	–	–	–
<b>At December 31, 2021</b>	<b>\$580,849</b>	<b>\$929,273</b>	<b>\$400,996</b>	<b>\$1,911,118</b>
Additions	41,945	102,768	–	144,714
Disposals	–	–	–	–
<b>At September 30, 2022</b>	<b>\$622,794</b>	<b>\$1,032,041</b>	<b>\$400,996</b>	<b>\$2,055,832</b>
<b>Depreciation and impairment:</b>				
At December 31, 2020	\$470,549	\$829,450	\$356,330	\$1,656,329
Depreciation for the period	11,416	31,970	–	43,386
Impairment	–	–	–	–
Disposals	–	–	–	–
<b>At September 30, 2021</b>	<b>\$481,965</b>	<b>\$861,420</b>	<b>\$356,330</b>	<b>\$1,699,715</b>
Depreciation for the period	3,788	24,321	–	28,109
Impairment	–	–	–	–
Disposals	–	–	–	–
<b>At December 31, 2021</b>	<b>\$485,753</b>	<b>\$885,741</b>	<b>\$356,330</b>	<b>\$1,727,824</b>
Depreciation for the period	12,598	48,376	–	60,974
Impairment	–	–	–	–
Disposals	–	–	–	–
<b>At September 30, 2022</b>	<b>\$498,351</b>	<b>\$934,117</b>	<b>\$356,330</b>	<b>\$1,788,798</b>
<b>Net book value:</b>				
At September 30, 2022	\$124,443	\$97,924	\$44,666	\$267,033
At December 31, 2021	\$95,096	\$43,532	\$44,666	\$183,294
At June 30, 2021	\$128,698	\$30,769	\$44,666	\$204,133

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

September 30, 2022 and 2021

**15. INTANGIBLE ASSETS**

Intangible assets related to the internally developed the NTGapps (formerly Smart2Go) platform initially capitalized in 2020/2021. Expenditures on development of the software are recognized as an asset from the time the Corporation has determined an indefinite future economic benefit exists.

The development costs are determined to have a useful life of 10 years are amortized on a straight-line basis. During Q3 2022, \$310,000 was capitalized (Q3 2021: \$330,492) and \$75,567 was amortized (Q3 2021: \$36,670). YTD figures can be seen below.

	<b>NTGapps Development Costs</b>	
<b>Cost:</b>		
At January 1, 2021	\$	860,636
Additions		1,451,381
Disposals		-
<b>At December 31, 2021</b>	<b>\$</b>	<b>2,312,017</b>
Additions		1,020,665
Disposals		-
<b>At September 30, 2022</b>	<b>\$</b>	<b>3,332,682</b>
At January 1, 2021	\$	-
Amortization charge for the year		131,221
Impairment		-
Disposals		-
<b>At December 31, 2021</b>	<b>\$</b>	<b>131,221</b>
Amortization charge for the period		198,660
Impairment		-
Disposals		-
<b>At September 30, 2022</b>	<b>\$</b>	<b>329,881</b>
<b>Net book value:</b>		
At September 30, 2022	\$	3,002,801
At December 31, 2021	\$	2,180,796
At December 31, 2020	\$	860,636

**NTG CLARITY NETWORKS INC.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
September 30, 2022 and 2021

**16. RIGHT OF USE ASSET**

<b>Right-of-use of Asset as at January 1, 2021</b>	\$ –
Present value of lease commitments at a borrowing rate of 19%	141,868
Depreciation	(41,378)
<b>Right-of-use Asset as at December 31, 2021</b>	<b>\$ 100,490</b>
Depreciation	(53,201)
<b>Right-of-use Asset as at September 30, 2022</b>	<b>\$ 47,289</b>

On June 1, 2021, the Corporation leased office space for a period of 2 years, expiring May 31, 2023. The Corporation recognized right-of-use assets and lease liability of \$141,868 (2020: \$Nil). The lease liabilities were measured at the present value of the remaining lease payments, discounted at the Corporation's incremental borrowing rate of 19% (2020: Nil), which represents a significant accounting judgment. As of September 30, 2022, the right-of-use asset was \$47,289.

**Lease liability**

The lease liability as at September 30, 2022 is as follows:

<b>Lease Liability as at January 1, 2021</b>	–
Add: present value of new lease commitments at a borrowing rate of 19%	141,868
Add: interest accretion during the reporting period	17,658
Subtract: lease payments during the reporting period	(46,472)
<b>Lease Liability as at December 31, 2021</b>	<b>\$ 113,054</b>
Add: interest accretion during the reporting period	13,827
Subtract: lease payments during the reporting period	(65,975)
<b>Lease Liability as at September 30, 2022</b>	<b>\$ 60,906</b>
Current portion	60,906
Long-term portion	–

The undiscounted future lease payments are as follows:

2022	\$ 24,585
2023	40,974
	<b>\$ 65,559</b>

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

September 30, 2022 and 2021

**17. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	September 30, 2022	December 31, 2021
Trade payables	\$ 1,429,473	\$ 2,176,036
Accrued liabilities	443,605	45,702
Related parties payable	1,429,129	1,376,360
Payroll liability	99,000	1,330,148
Payroll taxes payable	78,428	111,622
Sales taxes payable	486,971	719,964
Other accounts payable	1,829,718	780,395
	<b>\$ 5,796,324</b>	<b>\$ 6,540,227</b>

**18. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES****(a) Other financial liabilities****Long-term debt**

	September 30, 2022	December 31, 2021
Long-term debt (i)	\$ 6,512,880	\$ 6,512,880
CEBA loan (Note 19)	10,000	34,196
Long-term portion of CIB loan (Note 18)	63,980	40,250
	<b>\$ 6,586,860</b>	<b>\$ 6,587,326</b>

- (i) On September 16, 2019, the Corporation received a formal demand for payment of its Bank facilities, requesting payment in full within ten (10) days. The Bank assigned the Bank Indebtedness and the Security to 2729252 Ontario Inc., a company controlled by Ashraf Zaghloul, NTG CEO and Kristine Lewis, NTG President.

Effective December 16, 2019, all the rights, title and interest of the Bank Indebtedness and the Security together the full benefit of all powers and all covenants and provisions contained in the Security were assigned to the above company.

The loan remains secured by a General Security Agreement over the assets of the Corporation and has an interest rate of bank prime plus 2.05%. There are no specific repayment terms. YTD, the Corporation recognized interest expense of \$51,657, which is included in accounts payable and accrued liabilities.

	September 30, 2022	December 31, 2021
<b>Bank indebtedness (i)</b>		
Bank indebtedness	\$ 499,511	\$ 626,068
<b>Long-term debt (ii)</b>		
Long-term debt Payable (CIB Loan)	\$ 169,636	\$ 161,000
- Current portion of long-term debt	\$ 105,656	\$ 120,750
- Long term debt payable	\$ 63,980	\$ 40,250

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

September 30, 2022 and 2021

**18. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (cont'd)****(a) Other financial liabilities (cont'd)**

As of September 30, 2022, NTG Egypt Advanced Software has the following credit facilities:

- (i) an overdraft facility with QNB bank in Egypt in the amount of 7,091,584 Egyptian pounds (approximately \$499,511; Q3 2021: \$573,147) with an interest rate of 18%.
- (ii) a loan with CIB bank in Egypt in the amount of 3,400,000 Egyptian pounds at interest rate of 7% per annum, repayable in monthly principal payments of 141,667 Egyptian pounds plus interest. The loan matures on February 1, 2024. The loan amount outstanding at September 30, 2022 was 2,408,333 Egyptian pounds (approximately \$169,636), (Q3 2021: \$192,498).

**(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.

	Carrying Amount		Fair Value	
	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
<b>Financial assets</b>				
Cash and cash equivalents	\$ 350,952	\$ 158,870	\$ 350,952	\$ 158,870
Trade and accounts receivable	3,423,641	3,747,046	3,423,641	3,747,046
Bid/performance bonds	22,364	55,764	22,364	55,764
<b>Total Financial Assets</b>	<b>\$ 3,796,957</b>	<b>\$3,961,680</b>	<b>\$ 3,796,957</b>	<b>\$3,961,680</b>

	Carrying Amount		Fair Value	
	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	\$ 5,796,324	\$ 6,540,227	\$ 5,796,324	\$6,540,227
Bank indebtedness	499,511	626,068	499,511	626,068
Long-term debt (current)	105,656	120,750	105,656	120,750
Long-term debt	6,586,860	6,587,326	6,586,860	6,587,326
<b>Total Financial Liabilities</b>	<b>\$ 12,988,351</b>	<b>\$13,874,371</b>	<b>\$ 12,988,351</b>	<b>\$13,874,371</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.

## NTG CLARITY NETWORKS INC.

### Notes to the Unaudited Interim Consolidated Financial Statements

September 30, 2022 and 2021

#### 18. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES (cont'd)

##### (b) Fair values (cont'd)

- 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, 2022, 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.

	September 30, 2022	Level 1	Level 2	Level 3
<b>Assets measured at fair value</b>				
Cash and cash equivalents	\$ 350,952	\$ 350,952	\$ –	\$ –
<b>No liabilities were measured at fair value</b>	\$ –	\$ –	\$ –	\$ –

During the reporting period ending June 30, 2022, 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.

#### 19. GOVERNMENT GRANT

In 2020, the Corporation received \$60,000 for the Canadian Emergency Business Account (CEBA) loan. The loan amount is interest-free and \$20,000 is forgivable if the \$40,000 amount is paid by December 31, 2023, after which the full amount is subject to a 5% annual interest rate and due on December 31, 2025. Initial recognition of the \$60,000 was at its fair value at a discount rate of 19.99%, representing the Corporation's estimated unsecured credit risk.

In March 2022, the Corporation repaid \$30,000 against the loan. As of September 30, 2022, \$10,000 as debt and \$5,804 is recognized as a government grant.

#### 20. EQUITY INSTRUMENTS

##### (a) Common shares

As at September 30, 2022, 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.

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

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

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.

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

	Common Shares	Amount
Balance, January 1, 2021	100,102,355	\$ 10,808,186
Shares issued on exercise of share options (i)	4,070,000	278,000
Allocation of contributed surplus (i)	–	171,800
Shares issued on debt for shares transaction (ii)	40,000,000	2,000,000
<b>Balance, September 30, 2021</b>	<b>144,172,355</b>	<b>\$ 13,257,986</b>
Shares issued on exercise of share options (iii)	3,300,000	165,000
Allocation of contributed surplus (iii)	–	139,000
<b>Balance, December 31, 2021</b>	<b>147,472,355</b>	<b>\$ 13,561,986</b>
Shares issued on exercise of share options (iv)	500,000	25,000
Allocation of contributed surplus (iv)	–	20,000
<b>Balance, September 30, 2022</b>	<b>147,972,355</b>	<b>\$ 13,606,986</b>

- (i) In YTD 2021, a total of 4,070,000 options were exercised, with a total value of \$278,000. This resulted in a re-allocation of contributed surplus to capital stock in the amount of \$171,800.
- (ii) In Q3 2021, the Corporation offered employees and consultants the opportunity to participate in debt for shares private placement. Subsequent to TSX approval, on August 10, 2022, the Corporation closed the offering and issued 40,000,000 common shares (at \$0.05 per share) for a total value \$2,000,000. 5,090,000 of these shares were issued to directors of the Corporation and 15,000,000 shares were issued to the numbered company holding the indebtedness of the Corporation.
- (iii) In Q4 2021, a total of 3,300,000 options were exercised, with a total value of \$165,000. This resulted in a re-allocation of contributed surplus to capital stock in the amount of \$139,000.
- (iv) In 2022, a total of 500,000 options were exercised, with a total value of \$25,000. This resulted in a re-allocation of contributed surplus to capital stock in the amount of \$20,000.

**(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 non-assignable. The options generally expire three to five years subsequent to the date of grant and vest from immediately up to two years.

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

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

Details of stock options are as follows:

	Options	Weighted average exercise price
Balance, 1 January 2021	<b>3,412,000</b>	<b>\$ 0.10</b>
Granted	9,995,000	0.05
Exercised	(4,070,000)	0.05
Expired	(797,000)	0.10
<b>Balance, September 30, 2021</b>	<b>8,540,000</b>	<b>\$ 0.05</b>
Granted	7,420,000	\$ 0.05
Exercised	(3,300,000)	0.05
Expired	(185,000)	0.10
<b>Balance, December 31, 2021</b>	<b>12,475,000</b>	<b>\$ 0.05</b>
Granted	7,045,000	\$ 0.05
Exercised	(500,000)	0.05
Expired	(825,000)	0.08
<b>Balance, September 30, 2022</b>	<b>18,195,000</b>	<b>\$ 0.05</b>

The stock options expire at various dates between December 2022 and August 2027.

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

Exercise Price	Options Outstanding		Options Exercisable	
	Number of outstanding Sept. 30/22	Expected life of option (years)	Number of outstanding Sept. 30/22	Expected life of option (years)
\$ 0.05	17,940,000	3.88	17,690,000	3.86
\$ 0.10	255,000	0.19	255,000	0.19
<b>Total</b>	<b>18,195,000</b>	<b>2.03</b>	<b>17,945,000</b>	<b>2.03</b>

Activity related to share based compensation is as follows:

For the three months ended September 30, 2022 the Corporation recorded \$98,300 (Q3 2021: \$120,681) 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, 2022 the Corporation recorded \$229,950 (YTD 2021: \$295,410) as contributed surplus and compensation expense, which is measured as above. The weighted average fair value of options granted during 2022 is \$0.033 (YTD 2021: \$0.02).

## NTG CLARITY NETWORKS INC.

### Notes to the Unaudited Interim Consolidated Financial Statements

September 30, 2022 and 2021

## 20. EQUITY INSTRUMENTS (cont'd)

### (b) Share-based payments (cont'd)

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	2022	2021
Stock price	\$0.04	\$0.05
Risk-free interest rate	3.14%	0.18%
Expected life (years)	5 years	5 years
Expected dividend yield	0%	0%
Expected volatility	162.98 – 166.05%	141.55 – 141.77%
Fair value of options issued in the period	0.04	0.02

## 21. CONTRIBUTED SURPLUS

Contributed surplus for the period ending September 30, 2022 consisted of \$229,950 (December 31, 2021: \$810,300; Q3 2021: \$295,410) for share-based payments and a re-allocation of contributed surplus on exercise of share options of \$20,000 (December 31, 2021: \$310,800; Q3 2021: \$171,800).

Opening balance January 1, 2022	\$ 2,309,023
Share-based payments	229,950
Reallocation on exercise of share options	(20,000)
<b>Balance as at September 30, 2022</b>	<b>\$ 2,518,973</b>

## 22. DIVIDENDS PAID AND PROPOSED

### Cash dividends

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

## 23. 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, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Salaries	\$ 2,053,097	\$ 1,585,993	\$ 6,011,820	\$ 3,919,745
Travel	284,590	27,538	532,312	260,135
Other	44,068	17,270	242,176	245,707
<b>Total</b>	<b>\$ 2,381,755</b>	<b>\$ 1,630,801</b>	<b>\$ 6,786,307</b>	<b>\$ 4,425,587</b>

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

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**24. 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, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Salary and wages	\$ 262,155	\$ 245,932	\$ 1,058,439	\$ 455,703
Marketing and advertising	49,907	8,487	173,325	125,288
Mailing and courier	52	44	237	267
Professional services	9,741	6,774	27,089	21,079
Meals and entertainment	2,682	416	6,946	13,780
<b>Total</b>	<b>\$ 324,537</b>	<b>\$ 261,654</b>	<b>\$ 1,266,035</b>	<b>\$ 616,117</b>

General and Administrative	For the three months ended		For the nine months ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Salary and wages	\$ 316,854	\$ 115,740	\$ 1,142,705	\$ 469,951
Occupancy	44,238	53,807	124,207	188,296
Consulting	13,045	29,256	48,117	73,231
Professional fees	41,193	7,594	113,556	74,894
Insurance	84,126	53,955	173,188	105,784
Dues and subscriptions	6,091	15,201	29,041	33,686
Bank setup and penalties	3,610	72,739	20,673	75,206
Telecommunication	8,012	5,900	28,784	38,226
Office equipment	890	759	2,635	2,577
Other	79,084	42,065	152,732	48,710
<b>Total</b>	<b>\$ 597,143</b>	<b>\$ 397,016</b>	<b>\$ 1,835,638</b>	<b>\$ 1,110,561</b>

**25. LOANS PAYABLE**

In 2020, the Corporation entered into an agreement for funding on a sales project in the amount of \$343,627 (US\$266,667). The agreement states that the lender will be paid 67% for one-sixth of the profit from the project. The Corporation renewed the agreement in July 2021, increasing the amount by \$309,264 (US\$240,000). As per the revised term, the investor will be paid 63% for one-eleventh of the profit from the project, and the capital investment is payable by December 31, 2022. All other terms remain same. This transaction does not qualify as a joint arrangement or a principal-agent relationship. The amount is non-secured.

As at September 30, 2022, the Loans Payable amount owed is \$694,488 (US\$506,667).

**NTG CLARITY NETWORKS INC.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
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**26. RELATED PARTY DISCLOSURES**

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

<b>Name</b>	<b>Country of Incorporation</b>	<b>Equity Interest</b>
NTG Egypt Advanced Software (Subsidiary)	Egypt	95%
NTG Clarity Networks US Inc. (Subsidiary)	USA	100%

- a) The following tables provide the balances owing to key management and key management compensation for the periods:

	<b>Interest Received</b>	<b>Amounts Owed by Related Parties</b>	<b>Amounts Owed to Related Parties</b>
Loans from/to shareholders			
September 30, 2022	\$ –	\$ –	\$ –
September 30, 2021	\$ –	\$ 64,842	\$ –
Key management personnel of the Corporation:			
September 30, 2022 (i)	–	\$ –	\$ 1,692,860
September 30, 2021 (ii)	–	\$ –	\$ 1,280,991
<b>Key management compensation</b>			
		<b>September 30, 2022</b>	<b>September 30, 2021</b>
Short term employee benefits		\$ 99,000	\$ 99,000
Post-retirement employee benefits		27,812	33,375
Share-based payments		215,000	93,500
<b>Total</b>		<b>\$ 341,812</b>	<b>\$ 225,875</b>

- (i) As of September 30, 2021, management (Ashraf Zaghoul and Kristine Lewis) was owed a total of \$1,280,991 for unpaid salaries, expenses, benefits and compensation, outstanding since 2016. These amounts are part of Other Accounts Payable in Note 17.
- (ii) As of September 30, 2022, management (Ashraf Zaghoul and Kristine Lewis) is owed a total of \$1,692,860 for unpaid salaries, expenses, benefits and compensation, outstanding since 2016. These amounts are part of Other Accounts Payable in Note 17.

**b) The Ultimate Parent**

The Corporation is the ultimate parent entity.

**Related Party Transactions**

Certain inter-company 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.

## **NTG CLARITY NETWORKS INC.**

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

September 30, 2022 and 2021

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

- c) During the period ended September 30, 2022, directors and officers of the company were granted a total number of 4,300,000 options (2021: 1,550,000), as described in Note 20 (b), that were valued at \$215,000 (2021: \$63,000). In Q2 2022, the directors and officer exercised Nil options (Q2 2021: Nil).

On November 29, 2019, the Corporation entered into an Assignment of Debt and Security agreement with Royal Bank of Canada and 2729252 Ontario Inc. The debt amount of \$7,100,712 was assigned to 2729252 Ontario Inc., which is a private company owned by two directors of the Corporation. See Note 18 (a) for more information. All terms, including annual interest rates, remain the same as with the Bank (bank prime plus 2.05%). The Indebtedness held by the Company is secured by a General Security Agreement over the assets of the Corporation. As of September 30, 2022, the long-term loan amount is \$6,512,880 (Q3 2021: \$6,439,285).

#### **27. 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.

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

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**27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)****Interest rate risk**

The Corporation's exposure to interest rate fluctuations is primarily interest paid on its bank indebtedness and long-term loans. The Corporation has performed sensitivity analysis on interest rates at September 30, 2022 to determine how a change in interest rates would impact equity and net loss.

During the three and nine months ended September 30, 2022, the Corporation paid \$109,430 and \$311,256 respectively (Q3 2021: \$95,357; YTD 2021: \$207,246) interest on its loans and liabilities. An increase or decrease of 100 basis points in the average interest rate paid during the period would have adjusted net earnings by approximately \$10,943 (Q3 2021: \$9,536). This analysis assumes that all other variables remain constant.

**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, 2022 would have the following approximate impacts:

		Omani Riyal OMR	Kuwait Dinar KWD	Saudi Riyal SAR	Turkish Lira TRY	Iraqi Dinar IQD	Egyptian Pound LE
<b>10% impact to:</b>	<b>USD</b>						
P&L in CAD	23,925	18,224	35,017	13,430	458	88	56,500
Equity in CAD	17,585	13,395	25,737	9,871	336	64	41,527

A 10% change in exchange rates on September 30, 2021 would have the following approximate impacts:

		Omani Riyal OMR	Kuwait Dinar KWD	Saudi Riyal SAR	Turkish Lira TRY	Egyptian Pound LE
<b>10% impact to:</b>	<b>USD</b>					
P&L in CAD	21,717	3,192	17,968	97,101	199	64,821
Equity in CAD	15,962	2,346	13,207	71,369	146	47,643

**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.

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

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**27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)****Credit risk (cont'd)**

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. 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 aging of trade accounts receivable are as follows:

Neither past due nor impaired	September 30, 2022	December 31, 2021
Current	\$ 1,828,043	\$ 2,092,958
31 – 60 days	140,446	351,627
61 – 90 days	147,873	74,706
91 – 180 days	111,754	378,893
<b>Past due but not impaired</b>		
Greater than 180 days	232,970	136,926
	<b>\$ 2,461,086</b>	<b>\$ 3,035,110</b>

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.

**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, 2022:

Contractual obligations	2022	2023	2024	2025 and after	Total
Operating line of credit	\$ 499,511	\$ –	\$ –	\$ –	\$ 499,511
Accounts payable and accrued liabilities	5,796,324	–	–	–	5,796,324
Operating lease	42,872	103,006	–	–	145,878
Long-term debt	6,586,860	–	–	–	6,586,860
Loans payable	694,488	–	–	–	694,488

**NTG CLARITY NETWORKS INC.****Notes to the Unaudited Interim Consolidated Financial Statements**September 30, 2022 and 2021

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**27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)****Liquidity risk (cont'd)**

The aging of trade accounts payable are as follows:

	September 30, 2022	December 31, 2021
Current	\$ 267,855	\$ 1,531,550
31 – 60 days	133,450	1,959
61 – 90 days	107,290	6,898
91 – 180 days	269,626	13,106
More than 180 days	651,252	622,523
	<b>\$ 1,429,473</b>	<b>\$ 2,176,036</b>

**Capital management**

The Corporation manages its capital, which consists of cash provided from operations and long-term debt, with the primary objective being safeguarding sufficient working capital to sustain operations. The Board of Directors has not established capital benchmarks or other targets.

As at September 30, 2022, the Corporation was pursuing additional capital through the issuance of additional equity or debt financing. There can be no guarantee that they will be successful in raising additional capital.

There have been no changes in the Corporation's approach to capital management during the period ending September 30, 2022. Also, no changes were made in the objectives, policies, or processes during the period ending September 30, 2022. 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

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## 28. COMMITMENTS, CONTINGENCIES, AND GUARANTEES

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### Operating lease commitments – Corporation as lessee

The Corporation is committed under agreements for the rental of office spaces in Egypt and Oman at a monthly rate ranging from \$800 to \$3000 for the periods from August 2021 to October 2023.

September 30, 2022	
2022	\$ 42,872
2023	103,006
	<b>\$ 145,878</b>

### Legal claim contingency

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

### Guarantees

The Corporation indemnifies its directors and officers against claims reasonably incurred and resulting from the performance of their services to the Corporation, and maintains liability insurance for its directors and officers. In March 2020, the Corporation was unable to renew its Directors and Officers insurance.

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## 29. 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, 2022, and September 30, 2021.

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## 30. SALE OF ENTERPRISE LICENSES

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On May 1, 2020, NTG signed an Agreement for licensing a copy of Product IP Rights and Support with an Egyptian company, owned by a former Director of the Corporation. This Board-approved agreement allowed the Egyptian company to purchase NTG Egypt's Enterprise business including a copy of the non-exclusive rights for the IP of two software products (Utility Billing and HMIS) for 1.2 million Egyptian pounds.

As per the Agreement, NTG invoices the customers and retains a 10% fee upon collection of the dues from these customers, and recognizes revenue on a Net basis. During the period ending September 30, 2022, the Corporation recognized net revenue of \$1,016 under these contracts (Q3 2021: \$2,958).

**NTG CLARITY NETWORKS INC.**

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

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**31. COMPARATIVE FIGURES**

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Certain of the 2021 figures have been reclassified to conform with the current period's financial statement presentation.

**32. EVENTS AFTER REPORTING PERIOD**

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- a) In October 2022, the Egyptian pound was floated, and its value dropped from around 14.5 EGP to the Canadian dollar to about 17 EGP to the Canadian dollar. See Business Risk and Management on page 12 for more information.