



**CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS (UNAUDITED)**

**For the three months ended March 31, 2016 and 2015**  
(Expressed in United States dollars)

**Norsat International Inc.**  
**Condensed Interim Consolidated Statements of Financial Position**  
(Expressed in United States dollars, except when otherwise indicated)  
(Unaudited)

|   | Notes     | March 31, 2016    | December 31, 2015    |
|---|-----------|-------------------|----------------------|
| <b>ASSETS</b>                                     |           |                   |                      |
| <b>Current assets</b>                             |           |                   |                      |
| Cash and cash equivalents                         | \$        | 7,171,748         | \$ 4,585,754         |
| Trade and other receivables                       |           | 8,582,428         | 8,987,392            |
| Inventories                                       |           | 10,693,529        | 10,956,524           |
| Prepaid expenses and other                        |           | 337,162           | 394,617              |
|   |           | 26,784,867        | 24,924,287           |
| <b>Non-current assets</b>                         |           |                   |                      |
| Property and equipment, net                       |           | 518,744           | 558,609              |
| Intangible assets, net                            |           | 4,550,131         | 4,724,490            |
| Goodwill  |           | 4,090,962         | 4,097,751            |
| Investment tax credits recoverable                |           | 5,076,349         | 4,985,139            |
| Deferred income tax assets                        |           | 1,784,413         | 2,218,848            |
|   |           | 16,020,599        | 16,584,837           |
| <b>Total assets</b>                               | <b>\$</b> | <b>42,805,466</b> | <b>\$ 41,509,124</b> |
| <b>LIABILITIES</b>                                |           |                   |                      |
| <b>Current liabilities</b>                        |           |                   |                      |
| Trade and other payables                          | \$        | 2,323,728         | \$ 1,906,703         |
| Accrued liabilities                               |           | 2,223,207         | 2,375,107            |
| Provisions  |           | 870,889           | 947,682              |
| Deferred revenue                                  |           | 191,415           | 286,432              |
|   |           | 5,609,239         | 5,515,924            |
| <b>Non-current liabilities</b>                    |           |                   |                      |
| Long-term deferred revenue                        |           | 25,068            | 45,889               |
| <b>Total liabilities</b>                          |           | <b>5,634,307</b>  | <b>5,561,813</b>     |
| <b>SHAREHOLDERS' EQUITY</b>                       |           |                   |                      |
| Issued capital                                    | 6         | 39,850,648        | 39,850,648           |
| Treasury shares                                   |           | (320,750)         | (320,750)            |
| Contributed surplus                               |           | 4,363,363         | 4,318,487            |
| Accumulated other comprehensive loss              |           | (4,656,874)       | (4,673,811)          |
| Deficit   |           | (2,065,228)       | (3,227,263)          |
| <b>Total shareholders' equity</b>                 |           | <b>37,171,159</b> | <b>35,947,311</b>    |
| <b>Total liabilities and shareholders' equity</b> | <b>\$</b> | <b>42,805,466</b> | <b>\$ 41,509,124</b> |

Commitments and Contingencies (*Note 11*)

See accompanying notes to the unaudited condensed interim consolidated financial statements.

Approved by the Board and authorized for issue on May 3, 2016

“Fabio Doninelli”  
Board of Directors

“James Topham”  
Board of Directors

**Norsat International Inc.**  
**Condensed Interim Consolidated Statements of Earnings and Comprehensive Income**  
(Expressed in United States dollars, except when otherwise indicated)  
(Unaudited)

|   | Notes | Three months ended March 31 |                   |
|---|-------|-----------------------------|-------------------|
|   |       | 2016                        | 2015              |
| Revenue   | 8     | \$ 9,553,427                | \$ 8,410,325      |
| Cost of sales   | 4     | 5,378,280                   | 5,052,482         |
| <b>Gross profit</b>   | 8     | <b>4,175,147</b>            | <b>3,357,843</b>  |
| <b>Expenses:</b>  |       |                             |                   |
| Selling and distributing  | 4     | 1,403,942                   | 1,266,993         |
| General and administrative  | 4     | 882,101                     | 1,024,457         |
| Product development   | 4     | 783,995                     | 758,776           |
| Less: Government contributions  | 4&5   | (379,475)                   | (331,024)         |
| (Gain)/loss on foreign exchange   |       | (49,159)                    | 177,749           |
| Interest and bank charges   |       | 26,800                      | 35,398            |
| <b>Total expenses</b>   |       | <b>2,668,204</b>            | <b>2,932,349</b>  |
| <b>Earnings before income taxes</b>   |       | <b>1,506,943</b>            | <b>425,494</b>    |
| Current income tax recovery   |       | -                           | (66,068)          |
| Deferred income tax expense/(recovery)  |       | 344,908                     | (68,125)          |
| <b>Net earnings</b>   |       | <b>\$ 1,162,035</b>         | <b>\$ 559,687</b> |
| <b>Other comprehensive income (loss)</b>  |       |                             |                   |
| <b>Items that may subsequently be reclassified to income:</b>                                       |       |                             |                   |
| Exchange differences on translation of operations<br>in currencies other than United States dollars |       | 16,937                      | (543,779)         |
| <b>Total comprehensive income</b>   |       | <b>\$ 1,178,972</b>         | <b>\$ 15,908</b>  |
| <b>Net earnings per share</b>   |       |                             |                   |
| Basic earnings per share  | 7     | \$ 0.20                     | \$ 0.10           |
| Diluted earnings per share  | 7     | \$ 0.20                     | \$ 0.10           |
| <b>Weighted average number of shares outstanding</b>  |       |                             |                   |
| Basic   | 6&7   | 5,766,952                   | 5,766,177         |
| Diluted   | 6&7   | 5,789,421                   | 5,788,977         |

*See accompanying notes to the unaudited condensed interim consolidated financial statements.*

**Norsat International Inc.**  
**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity**  
(Expressed in United States dollars, except when otherwise indicated)  
(Unaudited)

|                              | Notes | Issued capital | Treasury shares | Contributed surplus | Accumulated other comprehensive loss | Deficit        | Total shareholders' equity |
|------------------------------|-------|----------------|-----------------|---------------------|--------------------------------------|----------------|----------------------------|
| <b>As at January 1, 2016</b> |       | \$ 39,850,648  | \$ (320,750)    | \$ 4,318,487        | \$ (4,673,811)                       | \$ (3,227,263) | \$ 35,947,311              |
| Net earnings for the period  |       | -              | -               | -                   | -                                    | 1,162,035      | 1,162,035                  |
| Other comprehensive income   |       | -              | -               | -                   | 16,937                               | -              | 16,937                     |
|                              |       | 39,850,648     | (320,750)       | 4,318,487           | (4,656,874)                          | (2,065,228)    | 37,126,283                 |
| Share-based payments         | 6     | -              | -               | 44,876              | -                                    | -              | 44,876                     |
| <b>As at March 31, 2016</b>  |       | \$ 39,850,648  | \$ (320,750)    | \$ 4,363,363        | \$ (4,656,874)                       | \$ (2,065,228) | \$ 37,171,159              |

|                              | Notes | Issued capital | Treasury shares | Contributed surplus | Accumulated other comprehensive loss | Deficit         | Total shareholders' equity |
|------------------------------|-------|----------------|-----------------|---------------------|--------------------------------------|-----------------|----------------------------|
| <b>As at January 1, 2015</b> |       | \$ 39,850,648  | \$ (326,527)    | \$ 4,371,778        | \$ (3,033,963)                       | \$ (11,877,494) | \$ 28,984,442              |
| Net earnings for the period  |       | -              | -               | -                   | -                                    | 559,687         | 559,687                    |
| Other comprehensive loss     |       | -              | -               | -                   | (543,779)                            | -               | (543,779)                  |
|                              |       | 39,850,648     | (326,527)       | 4,371,778           | (3,577,742)                          | (11,317,807)    | 29,000,350                 |
| Share-based payments         | 6     | -              | -               | 53,951              | -                                    | -               | 53,951                     |
| <b>As at March 31, 2015</b>  |       | \$ 39,850,648  | \$ (326,527)    | \$ 4,425,729        | \$ (3,577,742)                       | \$ (11,317,807) | \$ 29,054,301              |

See accompanying notes to the unaudited condensed interim consolidated financial statements.

**Norsat International Inc.**  
**Condensed Interim Consolidated Statements of Cash Flows**  
(Expressed in United States dollars, except when otherwise indicated)  
(Unaudited)

|  | Notes | Three months ended March 31 |                     |
|--|-------|-----------------------------|---------------------|
|  |       | 2016                        | 2015                |
| Cash and cash equivalents provided by/(used in)                            |       |                             |                     |
| <b>Operating activities:</b>   |       |                             |                     |
| Net earnings for the period  |       | \$ 1,162,035                | \$ 559,687          |
| Adjustments for items not affecting cash:                                  |       |                             |                     |
| Depreciation and amortization  | 4     | 229,328                     | 328,049             |
| Write-off of property and equipment  |       | -                           | 31,139              |
| Unrealized foreign exchange loss   |       | 24,856                      | 177,748             |
| Acquisition loan cost amortization   |       | -                           | 2,262               |
| Current income tax recovery  |       | -                           | (66,068)            |
| Deferred income tax expense/(recovery)                                     |       | 344,908                     | (68,125)            |
| Share-based payments   | 6     | 44,876                      | 53,951              |
| Government contributions   | 5     | (379,475)                   | (331,024)           |
| Changes in non-cash working capital  | 9     | 233,338                     | (911,428)           |
| <b>Net cash flows provided by/(used in) operating activities</b>           |       | <b>1,659,866</b>            | <b>(223,809)</b>    |
| <b>Investing activities:</b>   |       |                             |                     |
| Purchase of intangible assets, property and equipment                      |       | (23,418)                    | (56,095)            |
| <b>Net cash flows used in investing activities</b>                         |       | <b>(23,418)</b>             | <b>(56,095)</b>     |
| <b>Financing activities:</b>   |       |                             |                     |
| Repayment of acquisition loan  |       | -                           | (980,000)           |
| Government contributions   | 5     | 954,460                     | 763,484             |
| <b>Net cash flows provided by/(used in) financing activities</b>           |       | <b>954,460</b>              | <b>(216,516)</b>    |
| <b>Effect of foreign currency translation on cash and cash equivalents</b> |       |                             |                     |
|  |       | (4,914)                     | 340,221             |
| Increase/(decrease) in cash and cash equivalents                           |       | 2,585,994                   | (156,199)           |
| Cash and cash equivalents, beginning of period                             |       | 4,585,754                   | 5,513,733           |
| <b>Cash and cash equivalents, end of period</b>                            |       | <b>\$ 7,171,748</b>         | <b>\$ 5,357,534</b> |

Supplemental cash flow and other disclosures (Note 9)

See accompanying notes to the unaudited condensed interim consolidated financial statements.

**Norsat International Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**Three months ended March 31, 2016 and 2015**  
**(Expressed in United States dollars, except when otherwise indicated)**  
**(Unaudited)**

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**1. Basis of Preparation**

Statement of Compliance

These condensed interim consolidated financial statements for the three months ended March 31, 2016 and 2015, including comparatives, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34 *Interim Financial Reporting*. They do not include all of the information required in annual financial statements in accordance with IFRS as issued by the IASB and should be read in conjunction with the Company’s 2015 annual consolidated financial statements.

The condensed interim consolidated financial statements for the three months ended March 31, 2016 and 2015 have been approved and authorized for issue by the Board of Directors on May 3, 2016.

Change in Functional Currency

Effective January 1, 2016, the Company’s Canadian division of Sinclair Technologies has changed its functional currency from Canadian dollars to U.S. dollars. The Company performed an analysis of the primary and secondary indicators in IAS 21 *The Effect of Changes in Foreign Exchange Rates*, and determined that there has been an increased economic exposure to the U.S. dollar due to increased levels of U.S. dollar expenditures, as well as significant Canadian dollar pricing changes to raw materials, that are being influenced by the U.S. dollar. As a result of this increased exposure, management has determined that the functional currency of the Canadian division of the Sinclair Technologies is the U.S. dollars.

The Company has accounted for this change prospectively, as provided for under IAS 21, and any amounts that were previously accumulated in other comprehensive income (“AOCI”) prior to the change will continue to be included in AOCI until the disposal of the operation.

Seasonal Fluctuations

Quarterly results from the Company’s two operating segments fluctuate from quarter to quarter due to seasonal influences on sales volumes. In the Company’s Land Mobile Radio (“Sinclair Technologies”) segment, the first and second quarters are historically the strongest, as most of Sinclair Technologies’ customers build inventories as they commence installation in the fall and winter seasons. For the Satellite Communications segment, the third and fourth quarters are typically the strongest, as these are traditionally the periods when military sales occur. The timing of contract awards also creates significant fluctuations in the Company’s quarterly results as some large contracts represent a significant share of sales for a given quarter. The timing of these orders can vary and cannot be predicted with historical patterns.

**2. Significant Accounting Policies**

The condensed interim consolidated financial statements have been prepared using accounting policies and accounting estimates consistent with those used in the preparation of the annual consolidated financial statements for the year ended December 31, 2015.

**3. Significant Management Judgments and Estimation Uncertainty**

The preparation of condensed interim consolidated financial statements in conformity with IFRS requires the Company’s management to undertake a number of judgments, estimates and assumptions that affect amounts reported in the condensed interim consolidated financial statements and accompanying notes.

**Norsat International Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**Three months ended March 31, 2016 and 2015**  
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Actual amounts may ultimately differ from these estimates and assumptions.

The judgments, estimates and assumptions applied in the condensed interim consolidated financial statements, including key sources of estimation uncertainty, were the same as those applied in the Company's last annual consolidated financial statements for the year ended December 31, 2015, with the exception of the change in functional currency for the Canadian division of Sinclair Technologies effective January 1, 2016 as described in Note 1.

**4. Cost of Sales and Expenses**

|  | <b>Three months ended March 31</b> |                     |
|--|------------------------------------|---------------------|
|  | <b>2016</b>                        | <b>2015</b>         |
| <b>Cost of sales</b>                               |                                    |                     |
| Raw materials and overhead costs                   | \$ 4,516,773                       | \$ 4,209,423        |
| Labour costs                                       | 839,553                            | 819,306             |
| Depreciation and amortization                      | 21,954                             | 23,753              |
|  | <b>\$ 5,378,280</b>                | <b>\$ 5,052,482</b> |
| <b>Selling and distributing expenses</b>           |                                    |                     |
| Direct expenses                                    | \$ 549,241                         | \$ 480,939          |
| Labour costs                                       | 756,496                            | 624,228             |
| Depreciation and amortization                      | 98,205                             | 161,826             |
|  | <b>\$ 1,403,942</b>                | <b>\$ 1,266,993</b> |
| <b>General and administrative expenses</b>         |                                    |                     |
| Direct expenses                                    | \$ 532,526                         | \$ 546,121          |
| Labour costs                                       | 489,050                            | 543,605             |
| Depreciation and amortization                      | 64,398                             | 90,793              |
|  | <b>1,085,974</b>                   | <b>1,180,519</b>    |
| Capitalized to inventory/transfer to cost of sales | (203,873)                          | (156,062)           |
|  | <b>882,101</b>                     | <b>1,024,457</b>    |
| <b>Product development expenses</b>                |                                    |                     |
| Direct expenses                                    | \$ 256,540                         | \$ 192,332          |
| Labour costs                                       | 498,355                            | 514,767             |
| Depreciation and amortization                      | 44,771                             | 51,677              |
|  | <b>799,666</b>                     | <b>758,776</b>      |
| Capitalized to inventory/transfer to cost of sales | (15,671)                           | -                   |
|  | <b>783,995</b>                     | <b>758,776</b>      |
| Less: Government contributions (Note 5)            | (379,475)                          | (331,024)           |
|  | <b>\$ 404,520</b>                  | <b>\$ 427,752</b>   |

Labour costs include wages, salaries, bonuses, sales commissions, share-based payments, social security contributions, extended health premiums, government medical services plan payments, Registered Retirement Savings Plan contributions and vacation accrual.

**5. Government Contributions**

For the three months ended March 31, 2016, the Company recorded government contributions of \$379,475 (2015 - \$331,024) as a reduction to product development expenses in the Condensed Interim Consolidated Statements of Earnings and Comprehensive Income.

**Norsat International Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**Three months ended March 31, 2016 and 2015**  
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Strategic Aerospace & Defense Initiative (“SADI I”)

As at March 31, 2016, the Company calculated the SADI I repayment amount to be \$nil as the 2016 year-to-date gross business revenue did not meet the criteria for repayment pursuant to the repayment terms of the SADI I agreement and the Company’s accounting policy relating to SADI repayment.

Strategic Aerospace & Defense Initiative (“SADI II”)

For the three months ended March 31, 2016, the Company recorded \$344,010 (2015 - \$331,024) as a reduction to product development expenses related to SADI II in the Condensed Interim Consolidated Statements of Earnings and Comprehensive Income.

As at March 31, 2016, the Company has recorded total claims of Cdn\$6,342,950 (December 31, 2015 - Cdn\$5,828,102) of the maximum funding amount of Cdn\$13,270,265 under SADI II.

As at March 31, 2016, reimbursements for eligible costs related to SADI II of \$8,353 (December 31, 2015 - \$625,380) were included in trade and other receivables.

For the three months ended March 31, 2016, total cash received under SADI II was \$949,154 (2015 - \$763,484).

SADI II repayment is contingent on performance benchmarks established at the end of the Company’s fiscal 2017 year-end and is capped at the lesser of 1.5 times the contribution received (actual amounts disbursed by the Minister). These amounts will be repaid over a period of 15 years, commencing in 2018. The annual repayment amount is calculated based on a percentage of gross business revenue as defined in the agreement multiplied by the adjustment rate (based on the growth of gross business revenue over the previous year).

As at March 31, 2016, the Company did not accrue any liability for repayment relating to SADI II as the amount to be repaid cannot yet be determined since the repayment amount is contingent on 2018 financial results compared to those achieved in 2017.

Industrial Research Assistance Program (“IRAP”)

For the three months ended March 31, 2016, the Company recorded \$35,465 (2015 - \$nil) as a reduction to product development expenses related to IRAP in the Condensed Interim Consolidated Statements of Earnings and Comprehensive Income.

As at March 31, 2016, the Company has recorded total claims of Cdn\$66,139 (December 31, 2015 - Cdn\$21,092) of the maximum funding amount of Cdn\$150,000 under IRAP.

As at March 31, 2016, reimbursements for eligible costs related to IRAP of \$45,398 (December 31, 2015 - \$15,239) were included in trade and other receivables.

For the three months ended March 31, 2016, total cash received under IRAP was \$5,306 (2015 - \$nil).

**Norsat International Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
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**6. Issued Capital**

Shares Issued and Outstanding

Total shares issued and outstanding as at March 31, 2016 and December 31, 2015 were 5,831,658 at a book value of \$39,850,648.

Share Purchase Option Plan

During the three months ended March 31, 2016, a total of 57,642 stock purchase options were granted at an average exercise price of Cdn\$5.99 and weighted average fair value of Cdn\$1.49, which included 31,137 stock purchase options granted to a Director and senior management at an average exercise price of Cdn\$5.92 and fair value of Cdn\$1.47.

During the three months ended March 31, 2015, a total of 26,352 stock purchase options were granted at an average exercise price of Cdn\$6.84 and weighted average fair value of Cdn\$2.23, which included 4,642 stock purchase options granted to senior management at an average exercise price of Cdn\$6.86 and fair value of Cdn\$2.23.

Options typically vest in two years and expire five years from the grant date.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models may not necessarily provide a reliable measure of the fair value of the Company's share purchase options. The weighted average assumptions used to estimate the fair value of options granted during the three months ended March 31, 2016 and 2015 were as follows:

|                         | <b>Three months ended March 31</b> |             |
|-------------------------|------------------------------------|-------------|
|                         | <b>2016</b>                        | <b>2015</b> |
| Risk-free interest rate | 0.43%                              | 0.53%       |
| Expected life           | 2.5 years                          | 3.1 years   |
| Vesting period          | 2 years                            | 2 years     |
| Expected volatility     | 39%                                | 47%         |
| Expected dividends      | Nil                                | Nil         |
| Average fair value      | Cdn\$1.49                          | Cdn\$2.20   |
| Forfeiture rate         | 20%                                | 18%         |

The exercise price of all share purchase options granted during the period is equal to the closing market price on the grant date. The Company calculated share-based payment from the vesting of share purchase options using the Black-Scholes Option Pricing Model with assumptions noted above and recorded related compensation expense as follows for the three months ended March 31, 2016 and 2015:

|                                | <b>Three months ended March 31</b> |             |
|--------------------------------|------------------------------------|-------------|
|                                | <b>2016</b>                        | <b>2015</b> |
| Share-based payments - options | \$ 5,673                           | \$ 13,628   |

**Norsat International Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**Three months ended March 31, 2016 and 2015**  
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Share purchase options outstanding as at December 31, 2015 and March 31, 2016 were as follows:

| Share purchase options outstanding | Number of options | Weighted average<br>exercise price<br>Cdn\$ |
|------------------------------------|-------------------|---|
| <b>Balance, December 31, 2015</b>  | <b>229,814</b>    | <b>\$ 6.03</b>                              |
| Granted                            | 57,642            | \$ 5.99                                     |
| Expired                            | (25,000)          | \$ 7.96                                     |
| Forfeited                          | (6,671)           | \$ 6.42                                     |
| <b>Balance, March 31, 2016</b>     | <b>255,785</b>    | <b>\$ 5.82</b>                              |

The following table summarizes information pertaining to the Company's share purchase options outstanding at March 31, 2016:

| Range of<br>exercise prices<br>Cdn\$ | Options outstanding                 |   |  | Options exercisable                 |  |
|--------------------------------------|-------------------------------------|---|--|-------------------------------------|--|
|                                      | Number of<br>options<br>outstanding | Weighted average<br>remaining contractual<br>life (years) | Weighted<br>average<br>exercise price<br>Cdn\$ | Number of<br>options<br>exercisable | Weighted<br>average<br>exercise price<br>Cdn\$ |
| \$0 to \$4.99                        | 40,600                              | 0.86  | 4.81   | 40,100                              | 4.80   |
| \$5.00 to \$9.99                     | 215,185                             | 2.82  | 6.01   | 106,308                             | 5.89   |
|                                      | <b>255,785</b>                      | <b>2.51</b>   | <b>5.82</b>                                    | <b>146,408</b>                      | <b>5.59</b>                                    |

Restricted Share Unit ("RSU") Plan

The Company charged the following share-based payments to operating expenses in connection with the Company's RSU plan, with a corresponding increase in contributed surplus:

|                             | Three months ended March 31 |           |
|-----------------------------|-----------------------------|-----------|
|                             | 2016                        | 2015      |
| Share-based payments - RSUs | \$ 39,203                   | \$ 40,323 |

RSUs outstanding as at December 31, 2015 and March 31, 2016 were as follows:

|                                   | No. of units  |
|-----------------------------------|---------------|
| <b>Balance, December 31, 2015</b> | <b>77,037</b> |
| Granted                           | -             |
| Vested                            | -             |
| Forfeited                         | (1,397)       |
| <b>Balance, March 31, 2016</b>    | <b>75,640</b> |

**Norsat International Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**Three months ended March 31, 2016 and 2015**  
**(Expressed in United States dollars, except when otherwise indicated)**  
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**7. Earnings per Share**

The reconciliation of the numerators and denominators of the basic and diluted earnings per share (“EPS”) calculations was as follows for the three months ended March 31, 2016 and 2015:

|   | <b>Three months ended March 31</b> |             |
|---|------------------------------------|-------------|
|   | <b>2016</b>                        | <b>2015</b> |
| <b><u>Numerator</u></b>                 |                                    |             |
| Net earnings                            | \$ 1,162,035                       | \$ 559,687  |
| <b><u>Denominator</u></b>               |                                    |             |
| Weighted average number of shares       |                                    |             |
| outstanding used to compute basic EPS   | 5,766,952                          | 5,766,177   |
| Dilution from exercise of stock options | 22,469                             | 22,800      |
| Weighted average number of shares       |                                    |             |
| outstanding used to compute diluted EPS | 5,789,421                          | 5,788,977   |
| <b><u>Net earnings per share</u></b>    |                                    |             |
| Basic                                   | \$ 0.20                            | \$ 0.10     |
| Diluted                                 | \$ 0.20                            | \$ 0.10     |

The calculation of assumed exercise of share purchase options includes the effect of the dilutive options. Where their effect was anti-dilutive because their exercise prices were higher than the average market price of the Company’s common shares at the end of the periods shown in the table, assumed exercise of those particular share purchase options was not included.

**8. Segmented Information**

The Company’s business operates primarily through two operating segments – Land Mobile Radio (“Sinclair Technologies”) and Satellite Communications. These operating segments are monitored by the Company’s chief operating decision makers, and strategic decisions are made on the basis of segment operating results.

The Company’s operating segments are strategic business units that offer different products and services. They are managed separately because each business is in a different stage in its life cycle and they require different marketing strategies.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies in the annual consolidated financial statements for the year ended December 31, 2015, except for the change in functional currency for the Sinclair Technologies operating segment effective January 1, 2016 (Note 3).

The following tables set forth sales and gross profit information by operating segments for the three months ended March 31, 2016 and 2015:

**Norsat International Inc.**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
**Three months ended March 31, 2016 and 2015**  
**(Expressed in United States dollars, except when otherwise indicated)**  
**(Unaudited)**

|                                    | Three months ended March 31 |              |
|------------------------------------|-----------------------------|--------------|
|                                    | 2016                        | 2015         |
| <b>Sales to external customers</b> |                             |              |
| Sinclair Technologies              | \$ 4,460,730                | \$ 4,644,798 |
| Satellite Communications           | 5,092,697                   | 3,765,527    |
|                                    | \$ 9,553,427                | \$ 8,410,325 |
| <b>Gross profit</b>                |                             |              |
| Sinclair Technologies              | \$ 2,189,815                | \$ 2,005,639 |
| Satellite Communications           | 1,985,332                   | 1,352,204    |
|                                    | \$ 4,175,147                | \$ 3,357,843 |

The following table provides assets information by operating segments as at March 31, 2016 and 2015:

|                                    | Sinclair<br>Technologies | Satellite<br>Communications | Consolidated  |
|------------------------------------|--------------------------|-----------------------------|---------------|
| <b>As at March 31, 2016</b>        |                          |                             |               |
| Total assets related to operations | \$ 22,469,274            | \$ 20,336,192               | \$ 42,805,466 |
| Property and equipment, net        | \$ 179,093               | \$ 339,651                  | \$ 518,744    |
| Intangible assets, net             | \$ 4,450,096             | \$ 100,035                  | \$ 4,550,131  |
| <b>As at December 31, 2015</b>     |                          |                             |               |
| Total assets related to operations | \$ 21,802,701            | \$ 19,706,423               | \$ 41,509,124 |
| Property and equipment, net        | \$ 184,912               | \$ 373,697                  | \$ 558,609    |
| Intangible assets, net             | \$ 4,612,041             | \$ 112,449                  | \$ 4,724,490  |

The Company generated revenues from external customers located in the following geographic locations:

|                  | Three months ended March 31 |              |
|------------------|-----------------------------|--------------|
|                  | 2016                        | 2015         |
| United States    | \$ 4,230,392                | \$ 4,885,804 |
| Europe and other | 4,263,320                   | 2,221,194    |
| Canada           | 1,059,715                   | 1,303,327    |
|                  | \$ 9,553,427                | \$ 8,410,325 |

Substantially all of the Company's property and equipment, intangible assets and goodwill are located in Canada.

Economic dependence:

For the three months ended March 31, 2016, two customers (2015 – nil) represented 38% of the Company's consolidated revenue.

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**9. Supplemental Cash Flow and Other Disclosures**

|   | Three months ended March 31 |                     |
|---|-----------------------------|---------------------|
|   | 2016                        | 2015                |
| <b>Changes in non-cash working capital:</b> |                             |                     |
| Trade and other receivables                 | \$ (158,462)                | \$ 3,703            |
| Inventories                                 | 265,144                     | (505,624)           |
| Prepaid expenses and other                  | 57,714                      | (62,396)            |
| Trade and other payables                    | 417,249                     | (542,229)           |
| Accrued liabilities                         | (154,831)                   | (483,059)           |
| Provisions                                  | (76,793)                    | 166,248             |
| Deferred revenue                            | (116,683)                   | 511,929             |
|   | <b>\$ 233,338</b>           | <b>\$ (911,428)</b> |
| <b>Supplementary information:</b>           |                             |                     |
| Interest (received)/paid                    | \$ (1,558)                  | \$ 14,505           |

**10. Related Party Transactions**

The following table discloses the compensation amount of Board of Directors and key management personnel in the ordinary course of their employment recognized as an expense during the reporting periods. Key management personnel include the Company's President and Chief Executive Officer, Chief Financial Officer and General Manager.

|                              | Three months ended March 31 |                   |
|------------------------------|-----------------------------|-------------------|
|                              | 2016                        | 2015              |
| Directors' fees              | \$ 22,945                   | \$ 26,098         |
| Short-term employee benefits | 245,122                     | 261,326           |
| Share-based payments         | 36,104                      | 38,549            |
| Total                        | <b>\$ 304,171</b>           | <b>\$ 325,973</b> |

**11. Commitments and Contingencies**

Future minimum payments at March 31, 2016 under purchasing commitments and operating lease obligations for each of the next two calendar years are approximately as follows:

|                | Inventory purchase<br>obligations | Operating lease<br>obligations | Total               |
|----------------|-----------------------------------|--------------------------------|---------------------|
| Remaining 2016 | \$ 5,217,465                      | \$ 498,262                     | \$ 5,715,727        |
| 2017           | 185,660                           | 172,232                        | 357,892             |
|                | <b>\$ 5,403,125</b>               | <b>\$ 670,494</b>              | <b>\$ 6,073,619</b> |

The Company has operating lease commitments extending to June 2017. The Company also enters into purchase commitments, including inventory purchase obligations in the normal course of business as disclosed above. In addition, the Company is required to make contingent repayment of SADI I and SADI II government contributions pursuant to the repayment terms of the agreement. As at March 31, 2016, the Company did not accrue any liability for repayment (Note 5).

Legal Proceedings

From time to time, the Company may be involved with legal proceedings relating to certain potential claims. Management is of the opinion, based on legal assessment and information available, that it is not

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probable that any liability would be material in relation to the Company's Condensed Interim Consolidated Statements of Financial Position.

**12. Comparative Figures**

Certain comparative figures have been reclassified to conform to the current period's financial statements presentation.