



Simplifying Software Solutions

QUARTERLY REPORT

NTG CLARITY NETWORKS INC.

FOR THE THREE MONTHS ENDING March 31, 2016 AND 2015

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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 May 26, 2015, for the three months ended March 31, 2016 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, 2015.

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

Forward-Looking Statements

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

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

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

Business Overview

We are a leading provider of telecommunications engineering, Information Technology, networking and related software solutions. We have been developing niche software products directed at telecom service providers and utilities markets since our inception in 1992. We also provide professional services and managed services to this same vertical. We are headquartered in Toronto, Canada and have subsidiaries in Cairo, Egypt and the USA and branch offices in Riyadh, Saudi Arabia; Oman and Kuwait. We have over 470 employees and consultants internationally, over 400 of whom have expertise in telecom and information technology.

2015 was an exceptional year in terms of projects, location and customer diversification. Cost of sales increased and selling and G&A increased significantly as we incurred expenses for our new offices in Oman and Kuwait. Q1 2016 continues this trend, however we are experiencing longer lead time to close

new projects. The uncertainty in the middle east due to lower oil prices has delayed the awarding of new projects, however with the stability of oil prices, we expect the start of new projects.

We continued delivering NTS - our Operations Support System/Business Support System (OSS/BSS) product and the associated consulting services and training to implement the product. NTS continues to generate revenue and is expected to generate positive net cash inflows into the foreseeable future.

Finally, the three areas of work initiated in 2015 continue in 2016; international field services, IT support and office supplies and equipment, and our newest software product offering - Stage Enterprise Management (StageEM). Combined these areas were responsible for 13% of our revenue in this period.

Field Services

Back in 2002-2004, we worked extensively in cell site build, providing site build and commissioning services for large mobile companies across Canada. This division was closed in 2004 as the networks became mature and the telecom sector experienced a slowdown.

In December 2015, a signed Frame Agreement with a Global Specialist in mobile broadband allowed us to start back into this field of work in Saudi Arabia (KSA). Under the agreement, we are providing field services including turnkey services for the build, installation, and commissioning of telecom sites and telecom equipment. To date, we have provided radio, transmission and civil work for over 250 cell sites in major cities in KSA. This work contributed 2% to our revenue in Q1 2016.

Services/Software/Office Equipment

In Q4 2015, we signed a frame agreement to provide products and services including software, hardware, and professional services. Though we have provided software and professional services to customers in the past, the sourcing and delivery of office supplies and equipment is a new area of business for NTG. We will provide the support as part of a package of offerings to this new customer, who is a large telecom service provider in the Gulf region.

Professional services will include the provision of a User Help Desk, the technical delivery of IT infrastructure consulting support and operational fulfilment services.

Software includes NTG's ADM (Advanced Dealer Management) software. ADM, part of the NTS family of products, allows a telecom operator to manage its dealers and enables operators to provide incentives to its dealers to sell more of the company's products. ADM is in high demand with operators as they are focusing on increasing their margins and improving their edge in a highly competitive market.

In Q1 2016, this work was responsible for 11% of our revenue (Q1 2015: \$Nil). We anticipate this volume to continue in 2016.

Stage EM

In 2015, we started work on an NTG-related product that fits into the Project Portfolio Management (PPM) marketplace. Development was initially driven by our telecom customers' demand, but we quickly found it attractive across multiple verticals with a beta version currently deployed at a few international enterprise clients. Feedback is positive as is the enthusiasm to implement the full version. Release of version 1.0 is currently planned for Q2 2016.

StageEM is a solution to accelerate growth and efficiency for every enterprise. The StageEM software suite allows companies to manage many current and/or proposed projects at the same time. Project managers/executives can control resources, budgets and other elements, across multiple projects to identify cross-project dependencies and deliver consistent project success. A powerful executive dashboard affords decision makers easy access to a company condition so important decisions can be based on accurate, real-time information that comes from a single source of data.

As an on-cloud and on-premise offering, StageEM integrates with Enterprise Resource Planning (ERP) solution providers such as Oracle, SAP, Microsoft Dynamics and others, and can help organizations make better investment decisions and manage implementation with less wasted resources and time.

StageEM is more than a PPM; its added value is in its predictive analytics. Organizations can tie together their corporate goals, corporate strategy, business planning, budget, demand and capacity and KPIs to minimize the risk of unknowns and propose optimum solutions. Additionally, predictive modelling allows you to strategize how the movement of resources and/or finances will affect project outcomes and timelines. Awareness of what your company has allows you to make the best use of your assets to optimize your company's performance.

Though historically NTG's target market has been telecom service providers and utilities. StageEM will reach across verticals and will be attractive to medium to large organizations alike. We are actively targeting construction, health care, municipalities, and financial institution verticals. The PPM market size is expected to grow from USD \$2.52 Billion in 2015 to USD \$4.63 Billion by 2020, at a Compound Annual Growth Rate (CAGR) of 12.9%¹. We are targeting to attract 1% of the PPM market by the end of 2017.



Organization Awareness | Optimization | Performance

Business Highlights

In January 2016, signed Phase 1 of a \$1.8 Million Utility Billing contract, with one of the largest Water Utility companies in Egypt.

One of the reasons for our customer growth is a renewed international focus on state-of-the-art technology and networking capabilities. Mobile applications have been a fast growing technology trend with NTG's mobile application development being increasingly chosen as a leading product in these markets. NTG provides mobile application development and outsourcing of experienced resources to the industry. We develop apps and portals for our customers and have also developed them for our own suite of products. NTG is also focusing on the development of StageEM, we have started a couple of customer trials that are progressing well.

While we continue to offer professional telecom services in the North American market, it is extremely competitive. Our professional services offerings have been successful with large carriers in the Middle East. We continue to aggressively market our products and services in the international marketplace, where a significant portion of our growth has been recognized over the past few quarters.

Egypt

Egypt continues to be a challenging place to do business. The inflation rate remained steady between 9-10% in Q1 2016.² and interest rates were steady at 9.25 - 9.5% in Q1 2016, but subsequent to period end, the Central Bank of Egypt increased rates to 10.75%³. Export Development Canada's (EDC) Country Summary Report gives Egypt a high risk rating, citing the central bank's monthly limits on foreign currency deposits and low foreign exchange reserves as challenges for the country's economy. "Egypt's growth

¹ <http://marketsandmarkets.com>; Publishing Date: February 2016 Report Code: TC 2938

² <http://www.tradingeconomics.com/egypt/inflation-cpi>

³ <http://www.tradingeconomics.com/egypt/interest-rate>

outlook in the medium term remains modest due to weak energy infrastructure and depressed tourism receipts.”⁴

Despite the political and economic difficulties in the region, NTG Egypt’s revenue growth continues to be very strong, now contributing 51% of the Corporation’s revenue in Q1 2016 (Q1 2015: 10%). NTG Egypt’s revenue has increased 155% over the same period last year, with a significant increase in professional services provided to tier 1 telecom and utility customers in the country, sales of operating system licenses, support, hardware and networks.

The number of outsourced personnel has increased by 45% to help realize this increased revenue. Hardware/network sales increased over 12%. Work continues on recently awarded projects and management anticipates this trend to continue with the ongoing delivery/implementation of NTG software products at a major new customer and other existing customers. We expect to sign contracts with two major water and waste water companies in the next quarter.

To help mitigate the risks involved in doing business in Egypt, NTG insures the receivables for three of NTG Egypt’s tier 1 telecom customers (through EDC). These customers were responsible for about 46% of NTG Egypt’s revenue in Q1 2016 (Q1 2015: 26%). Additionally we are looking at Political Risk Insurance which will insure against any possible asset and bank deposit appropriation.

Saudi Arabia

Saudi Arabia (KSA) continues to have significant challenges with the lower cost of oil world-wide and a new monarch, however it still maintains a low-medium risk rating from Export Development Canada. "The commercial environment is strengthened by a positive growth outlook and government capital investments that are generating private sector opportunities.”⁵. In January 2016, we obtained ISO 9001:2008 certification for Quality management in KSA. This, along with our newly developed software (StageEM), will allow us access to new opportunities as we actively pursue municipal and other government customers.

"The Kingdom’s external debt is at negligible levels, and foreign exchange reserves exceed the country’s total stock of private and public foreign debt. However, the persistence of low oil prices is expected to force the country to resume issuing foreign debt beginning in 2016.”⁶

NTG has been doing business in KSA since 2004, and ongoing initiatives continue to show returns with 39% of our professional service work and 36% of revenue being from KSA (Q1 2015: 74%). Work to diversify our customer base within the region was successful in 2015 with 11 new customers being added to our base. Field service work in the region brought 2% of our revenue in Q1 2016.

Qatar, Kuwait and Oman

In 2016, we continue our sales and marketing efforts in Qatar, Kuwait and Oman to open new markets and increase and diversify our revenue sources.

In Q1 2016, we closed our Qatar office as revenue could not sustain the ongoing investment. Qatar currently has three customers which contributed 1% to NTG’s revenue (Q1 2015: 1%). We continue to support our existing customers and ongoing business development activities in the country.

⁴ Source Spring 2016, <http://www.edc.ca/EN/Knowledge-Centre/Economic-Analysis-and-Research/Documents/country-risk-quarterly-mea.pdf>

⁵ IBID

⁶ IBID

Kuwait has been a region of substantial growth in 2015 with the 3 year \$11 million professional services contract awarded to NTG in December 2015. We continue to actively work on large list of opportunities for services and products in the telecom, smart building and government sectors. Kuwait has contributed 12% to NTG's revenue in Q1 2016 (Q1 2015: 4%). From our new office we are actively pursuing new opportunities with both existing and potential new customers.

We estimate that our existing project in Oman will be completed in Q2 2016. From our new office in Oman, we are actively pursuing additional business opportunities for our software products, for StageEM, and for professional services. Oman did not contribute to NTG's revenue in Q1 2016 (Q1 2015: 10%).

Segments

The majority of the Corporation's operations, assets and employees are located in Canada, Egypt and Saudi Arabia. Operating and geographic segments are described in Note 6 of the notes to the consolidated annual financial statements.

Outlook

In addition to existing customers and projects, in 2016, we continue to focus on developing business for our new offices in USA, Oman and Kuwait. We will be aggressively looking for an acquisition to increase our customer base, revenue and geographical presence.

In Q1 2016, our Gross Margin was 29% compared to 35% in Q1 2015. The higher cost of skilled personnel continues to affect our margins. We are working to balance between the growth and expenses to help generate increased margins.

Looking towards the future, we remain committed to our growth strategy and continue to focus on growing organic operations, expanding our marketing reach geographically and enhancing our product offering. We are also looking to increase our reach through acquisitions and/or partnerships with global system integrators.

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

Summary of Quarterly Results

Traditionally, Q1 revenue is weaker due to timing of new budgets and projects. Revenue for the first quarter 2016 is a significant decline over the same period in 2015, but is closer to our 2014 value. This quarter's decrease was mainly due to a longer lead time to close new projects for new customers. Uncertainty in the middle east due to lower oil prices has delayed the awarding of new projects, however with the stability of oil prices, we expect the start of new projects.

We invested in the research and development activities to introduce new products to expand our customer base and increase sales. We also increased our marketing activities to expand and diversify our customer base. This resulted in our successfully acquiring new strategic customers.

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

2016	Revenue	Net Income (Loss)	Profit (Loss) per Share	Diluted Profit per Share	Total Assets
Quarter One	\$ 2,433,333	\$ (1,986,457)	\$ (0.05)	\$ (0.04)	\$ 15,913,024
TOTAL	\$ 2,433,333	\$ (1,986,457)	\$ (0.05)	\$ (0.04)	\$ 15,913,024

2015		Revenue	Net Income	Profit per Share	Diluted Profit per Share	Total Assets
Quarter One	\$	5,002,161	\$ 722,489	\$ 0.02	\$ 0.02	\$ 15,884,333
Quarter Two		3,031,041	166,270	0.00	0.00	14,892,004
Quarter Three		3,626,919	254,260	0.01	0.01	16,251,546
Quarter Four		3,872,393	(774,576)	(0.02)	(0.02)	16,812,328
TOTAL	\$	15,532,514	\$ 368,443	\$ 0.01	\$ 0.01	\$ 16,812,328

2014		Revenue	Net Income	Profit per Share	Diluted Profit per Share	Total Assets
Quarter One	\$	2,933,749	\$ 202,502	\$ 0.006	\$ 0.006	\$ 10,006,012
Quarter Two		3,895,196	631,722	0.018	0.016	12,807,974
Quarter Three		4,557,801	712,674	0.020	0.018	14,405,840
Quarter Four		4,116,455	(304,975)	(0.010)	(0.010)	16,237,178
TOTAL	\$	15,503,201	\$ 1,241,923	\$ 0.034	\$ 0.030	\$ 16,237,178

Quarterly Results of Operations

The following table shows selected consolidated financial information for the periods indicated. Investors should read this information in conjunction with the financial statements and related notes. The operating results for any past period are not necessarily indicative of results for any future period. The selected information below has been derived from the interim unaudited consolidated financial statements.

(in CDN \$)	3 months ended Mar 31 (unaudited)		Change \$	% Change
	2016	2015		
Revenue	\$ 2,433,333	\$ 5,002,161	\$ (2,568,828)	-51%
Cost of sales	1,737,332	3,247,342	(1,510,010)	-46%
Gross Margin	696,001	1,754,819	(1,058,819)	-60%
EXPENSES				
Selling	505,472	359,312	146,160)	41%
General & administration	1,465,251	573,856	891,395	155%
Loss (gain) on foreign exchange	14,512	(302,070)	316,582	-105%
Total expenses	\$ 1,985,235	\$ 631,098	\$ 1,354,137	215%
Income From Operations	\$ (1,289,235)	\$ 1,123,721	\$ (2,412,957)	-215%
Other Expenses	377,125	213,739	163,386)	76%
Net Income before Income Taxes	\$ (1,666,359)	\$ 909,982	\$ (2,576,342)	-283%
Income Tax Expense	--	\$ 187,493	\$	
Other loss - exchange loss on translation of foreign operations	(320,098)	--		
Total Comprehensive Income	\$ (1,986,457)	722,489	\$ (2,708,946)	-375%
Basic income per share	\$ (0.05)	\$ 0.02	\$ (0.07)	
Diluted income per share	\$ (0.04)	\$ 0.02	\$ (0.06)	

First Quarter Highlights 2016

Financial Highlights for the three months ended March 31, 2016:

- Revenue for three months was down 51% over same quarter last year, which was our highest quarter to date (Q1 2015: \$5,002,161). This was primarily due to a foreign exchange loss, and project delays and the timing of awarded projects.
- Gross margin for the three months was 29% (Q1 2015: 35%). The lower gross margin this quarter was due to the lower product related sales. Product sales typically have a higher margin than our professional services. Cost of travel for staff for projects in Oman, Kuwait and KSA also contributed to the higher cost of sales for the period. We expect the margins to fluctuate for the foreseeable future, as the product mix will vary.
- Selling expenses increased to \$505,472 from \$359,312 in Q1 2015. The increase is due to the timing of payments for trade shows and other sales activities, and the salaries for new business development staff in Egypt, Oman and KSA. We anticipate that our selling efforts will continue as we work to expand into new markets.
- General and administration increased to \$1,465,251 compared to \$573,856 in Q1 2015. The majority of the increase is due to salaries for our highly skilled personnel in expectation of new projects. We continue to monitor and adjust these expenses to ensure levels are optimized. Other general and administration expenses; such as insurance, office equipment and supplies remained stable over the period.
- In the course of the three month period, the foreign exchange loss of \$14,512 and Exchange loss arising on translation of foreign operations of (\$320,098) were attributed to the volatile changes in currencies in the period and losses incurred when converting currencies as we transfer between various branches (Q1 2015: gain of \$302,070).
- Other Expenses represents:
 - amortization and depreciation increased by 68% compared to 2015 as we added depreciation of our new intangible asset (Stage EM) and continue to depreciate equipment and computers purchased for new professional service staff placed at customer sites in Egypt.
 - interest expense incurred in Q1 2016 was \$62,865 compared to \$39,659 for the same period in 2015. The significant increase is due to a higher amount carried on our credit facility.
 - share based compensation increased to \$42,834 from \$28,853.
- The above resulted in a net loss of (\$1,986,457) compared to a net income of \$722,489 in Q1 2015. The differences are due to the foreign exchange loss, project delays and higher G&A, which contains salaries for our highly skilled personnel, after the completion of projects, which we consider to be valuable assets for the Corporation.

Revenue

Consolidated revenue for the three months ended March 31, 2016 decreased to \$2,433,333 compared to \$5,002,161 for the same period in 2015 and is made up of product-related revenue, professional services and a small amount for field services and hardware/office supplies.

A trend in the previous quarters of rising average revenue was interrupted. Historically, the second and fourth quarters tend to be stronger than the first quarters. However, the first quarter of 2015 was a particularly exceptional one and being the strongest revenue quarter in our history. In particular, and as we announced towards the end of 2015 of launching of our StageEM product, a number of large

transactions that we had originally expected to close in the first quarter of 2016 were delayed. Such delays are often reflective of an opportunity growing in size and scale; potentially a good long-term outcome but of course the impact on the year under review can be unwelcome.

Professional service revenue continues to be an important strategic source of revenue for us, given its generally recurring nature. 79% of overall revenue for the period was derived from professional services, compared to 53% in the same period in 2015. This is because of increased new and expanded contracts with existing customers, primarily in Egypt. This represents an important strategic source of revenue for us, given its generally recurring nature.

Product-related revenue was 12% of overall revenue for Q1 2016, compared to 47% in Q1 2015 due to the timing of new product release. Our new revenue streams of field services and office/hardware supplies generated 2% and 8% of revenue respectively. We expect this to increase as this offering matures.

Over the past two years, training revenue was not significant as training is usually provided to customers as an added service to complement our software offering. NTG also offers corporate training to customers. We are working towards reaching a more balanced split between professional services and product related sales, however the revenue mix varies from quarter to quarter. Much of our professional services revenue arises from our product sales.

Consolidated revenues for the Egypt operating segment, for the three months ended March 31, 2016 increased by 155% to \$1,236,541 (Q1 2015: \$484,865). The significant increase in the Egypt segment revenue was due to delivery of most of Phase 1 for our utility billing project as well as hardware sales to the same customer.

The Middle East continues to be where the majority of NTG's revenue comes from and as of March 31, 2016, represents 99% of total revenue. We anticipate this trend in revenue by geography to continue as we focus marketing efforts on existing customers and on diversifying our customers within the various countries in the region.

Though expanded efforts in Kuwait, Oman, and KSA have not yet resulted in increasing revenues, we are hopeful to see results from our efforts with both existing and new customers. Additionally, once our software product, StageEM is released, we anticipate efforts in California will move forward.

Despite the political and economic difficulties in Egypt, business development efforts have resulted in an unprecedented increase in revenue of 155% over Q1 2015. With a significant increase in professional services provided to tier 1 telecom and utility customers in the country, and sales of operating system licenses, support, and networks, Egypt contributed 51% of the Corporation's revenue in Q1 2016 (Q1 2015: 10%).

Unbilled Revenue

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

Revenue can be recognized for projects based on time and materials, for professional services or on a percentage of completion basis for product implementation and support. Both can result in unbilled revenue until the customer is invoiced. Based on NTG's contracts, the customer is invoiced upon the completion of defined milestones, and/or required customer acceptance. Historically, NTG has not written-off any unbilled revenue balances, and its bad debt write-offs on accounts receivable remain minimal.

The table below shows the proportion of revenue which is considered unbilled revenue, as a percentage of receivables, at March end 2014 and 2015, December 31, 2015, and at March 31, 2016.

	March 31 2014	March 31 2015	Dec 31 2015	March 31 2016
Unbilled revenue	2,184,503	\$ 3,144,267	\$ 3,780,270	\$ 3,852,831
Total Receivable at period end	\$ 6,608,283	\$ 11,319,667	\$ 10,981,806	\$9,554,888
Unbilled % of Receivable	33%	28%	34%	40%

Unbilled revenue was \$3,852,831 at March 31, 2016 compared to \$3,780,270 at December 31, 2015. The fluctuation of unbilled revenue over the last few quarters is due to the difference in timing of billings and revenue recognized in accordance with IFRS. This amount consists of implementation work and professional services resources allocated on an hourly basis and is recognized once work is performed and timesheets are signed off by the respective customers. The billings are based on the terms of the contract which are typically on a quarterly basis.

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.

Cost of Sales	March 31, 2016	March 31, 2015
Salaries and wages	\$ 1,460,540	\$ 2,986,683
Travel	217,438	212,154
Other	59,354	48,505
Total	\$ 1,737,331	\$ 3,247,342

Cost of sales for the Egypt operating segment, for the three months ended March 31, 2016 was \$621,514 (Q1 2015: \$53,408). The substantial increase in cost of sales compared to 2015 was because of:

- the increase in professional services, which resulted in a 155% increase in revenue over the same period last year
- mobilization costs for new projects not yet invoiced.

For the Canadian operating segment, cost of sales for the three months ended March 31, 2016 was \$1,115,818 (Q1 2015: \$3,193,934). Though Canada's cost of sales decreased by 65%, it was not in line with our decrease in revenue. We elected to retain skilled personnel in a competitive market, in anticipation of new contracts as these are important assets for the Corporation. We continue to work in all regions to optimize the cost of sales for our revenue growth.

Gross margin for Q1 2016 decreased to \$696,001 from \$1,754,819, or to 29% from 35%, for the same period in 2015. This margin reduction was because of the foreign exchange loss, project delays and salaries for skilled personnel which we consider valuable company assets.

Operating Expenses

The Corporation's operating expenses were \$1,985,235 in Q1 2016 compared to \$631,098 in the same period last year. This is primarily due to:

- a 155% increase in G&A costs, which contains salaries for our skilled workforce, in anticipation of new contracts as these are important assets for the Corporation. Additionally we are carrying higher rental and communication costs associated with our new offices.
- a 41% increase in selling and marketing activities that included more business development personnel in our new offices in Kuwait, Oman, KSA and Egypt, to diversify the business and increase the customer base.

- a loss on foreign exchange, compared to a substantial gain for the same period last year. This was due to the stronger Canadian compared to year end 2015.

	March 31, 2016	March 31, 2015	% Change
EXPENSES			
General and administrative, (Note 24)	1,465,251	573,856	155%
Selling and marketing, (Note 24)	\$ 505,472	\$ 359,312	41%
Gain on foreign exchange	14,512	(302,070)	-105%
Total expenses	\$ 1,985,235	\$ 631,098	215%

Selling and Marketing

Selling and marketing expenses consist primarily of sales staff remuneration, commissions, travel, advertising, consulting, and trade show costs. Sales and marketing expenses for the three months ended March 31, 2016 increased to \$505,472 compared to \$359,312 for Q1 2015.

The 41% increase in selling and marketing was due to more business development personnel in our new offices in Kuwait, Oman, KSA and Egypt, to diversify the business and increase the customer base. The selling and marketing costs helped us to actively target new markets and mitigate the risk of depending on a few specific countries/customers for revenue.

Selling and marketing for the Egypt operating segment, for the three months ended March 31, 2016 was \$161,309 (Q1 2015: \$202,828). The decrease in the current quarter was due to the temporary reassignment of some pre-sales engineers to billable projects.

For the Canadian operating segment, selling and marketing for the three months ended March 31, 2016 was \$344,163 compared to \$156,484 for the same period last year. We aggressively increased our marketing and sales activities to continue diversifying our customer base and acquire business in North America and Kuwait.

Selling	March 31, 2016	March 31, 2015
Salary and wages	\$ 261,325	\$ 101,414
Marketing and advertising	224,716	221,038
Mailing and courier	—	2,193
Professional services	8,167	28,396
Meals and entertainment	11,265	6,271
Total	\$ 505,472	\$ 359,312

General and Administrative

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

G&A expenses for the three months ended March 31, 2016 were \$1,465,251 compared to \$573,856 in Q1 2015. Significantly higher than normal G&A expenses were the result of:

- research activities related to our new software product StageEM to advance and optimize the interfaces with other commercial ERP and CRM. Including innovative features related to demand and capacity, business planning, analytics, and dashboard modules required extensive research time, resources and skilled consultants.
- the retention of highly skilled employees after the completion of projects, in preparation for future contracts. Moving forward, once the development of StageEM is completed, and these high caliber employees moved to billable contracts, the G&A expenses will be back to optimized levels.

G&A for the Egypt operating segment, for the three months ended March 31, 2016 was \$63,413 compared to \$29,494 for the same period in 2015, primarily due to leasehold improvements and moving

expenses related to our new office space. We are working to optimize the G&A for the increased revenue amounts.

For the Canadian operating segment, G&A for the three months ended March 31, 2016 was \$1,401,838 (Q1 2015: \$544,362). The significant increase is described above.

The total G&A changes for the period end, compared to the prior period are as follows:

General and Administrative	March 31, 2016	March 31, 2015
Salary and wages	\$ 1,273,606	\$ 416,558
Occupancy	114,439	53,090
Consulting	2,537	18,286
Professional fees	15,517	28,924
Insurance	10,706	8,386
Dues and subscriptions	12,567	11,473
Penalties and fees	23,593	23,948
Telecommunication	11,086	11,991
Office equipment	1,200	1,200
Total	\$ 1,465,251	\$ 573,856

The increased costs are necessary to support our expanded presence and anticipated growth. Going forward, we will be monitoring these expenses carefully to optimize for our business.

Foreign Exchange Gain/Loss

The Corporation's consolidated financial statements are presented in Canadian dollars. Each entity in the Corporation determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency and presentation currency of the parent entity is the Canadian dollar. The functional currency and the presentation currency of the parent entity is the Canadian dollar. 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.

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the re-translation of unsettled monetary assets and liabilities are recognized immediately in profit or loss, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation, in which case exchange differences are recognized in other comprehensive income and accumulated in the foreign exchange reserve along with the exchange differences arising on the retranslation of the foreign operation.

Exchange gains and losses arising on the retranslation of monetary available for sale financial assets are treated as a separate component of the change in fair value and recognized in profit or loss. Exchange gains and losses on non-monetary available for sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

On consolidation, the results of overseas operations are translated into CU at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognized in other comprehensive income and accumulated in the foreign exchange reserve.

Exchange differences recognized profit or loss in Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to other comprehensive income and accumulated in the foreign exchange reserve on consolidation.

On disposal of a foreign operation, the cumulative exchange differences recognized in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

For the quarter ended March 31, 2016, the Corporation recognized a foreign currency exchange loss of \$14,512, compared to a gain of (\$302,070), in the same period in 2015. The gain for the fiscal year 2015 was primarily due to the strengthening of currencies in relation to the Canadian dollar.

Transactions in currencies other than the Canadian dollar are translated at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are translated to the functional currency at the rates prevailing at that date.

Research and Development

Research and development is paid for by customer requests and is therefore, included in cost of sales. The Corporation had been capitalizing development expenditures in 2013 and 2012 as permitted under IFRS and completed development on the current version of NTS at the end of Q2 2013. For Q1 2016, amortization was \$148,812. Charges should remain consistent for the remainder of the life of the asset. The Corporation assesses the useful life of the asset each year and expects the amortization charge to be reflective of the year end results.

The Corporation had no indicators of impairment for the period ended March 31, 2016. An impairment test is performed on the non-current assets at year end, or when indicators warrant it. A test was performed at year end 2015 and there was no impairment. The Corporation will continue to assess on a quarterly basis for indicators of impairment.

Other Expenses

The following table shows other expenses:

(in CDN \$)	3 months ended March 31 (unaudited)		Change \$	% Change
	2016	2015		
OTHER EXPENSES				
Amortization	148,812	91,104	57,708	63%
Depreciation	95,371	54,123	41,248	76%
Interest	62,865	39,659	23,206	59%
Provision for bad debt	27,243	-	27,243	100%
Share based compensation	42,834	28,853	13,981	48%
Total expenses	\$ 377,125	\$ 213,739	\$ 163,386	76%

Share-based compensation increased 48% over 2015 as lower priced options continue to be exercised. Employees and consultants exercised a total of 70,000 options in Q1 2016 compared to 20,000 options in Q1 2015, with a total value of \$7,250 (Q1 2015: \$2,000). These transactions resulted in a re-allocation of contributed surplus to capital stock in the amount of \$4,855 (Q1 2015: \$1,390).

Amortization of Intangible Assets

Intangible assets relate to:

- the upgrade of the internally developed Operations Support System/Business Support System (OSS/BSS) software product called NTS.
- the development project for StageEM, our new enterprise solution that allows companies to manage many current and/or proposed projects at the same time, and maintain control of resources, budgets and other elements. A powerful executive dashboard affords decision makers easy access so important decisions can be based on accurate, real-time information that comes from a single source of data.

As per IFRS, development expenditures have been capitalized for both assets as development costs can be measured reliably, the product is technically and commercially feasible, and future economic benefits exist, and the Corporation intended to and had sufficient resources to complete development and to use or sell the asset. The assets are being amortized over a 10 year period. The amortization cost for Q1 2016 was \$148,812 (Q1 2015: \$91,104). As of Q2 2013, NTG completed the capitalization of the NTS software product. Capitalization for the development for StageEM started in Q2 2015 and is ongoing.

Management considers NTS to be a valuable asset, however the percentage of product-related revenue varies depending on the timing of product licenses and support billing. In Q1 2016, NTS was responsible for approximately 12% of the Corporation's revenue (Q1 2015: 47%).

Management considers StageEM to be an important next step to increasing our product offering and diversifying our customer base. Development was initially driven by our telecom customers' demand, but we quickly found it attractive across multiple verticals with a beta version currently deployed at a few international enterprise clients. Release of version 1.0 is currently planned for Q2 2016.

Interest Expense

As at December 31, 2015, the interest expense was \$62,685 in Q1 2016 as compared to \$39,659 in Q1 2015. The increase was primarily due to a higher balance in our credit facility. It is important to note that though the credit facility balance was larger, the overall debt amount was similar (\$7,287,525 compared to \$7,242,080).

In January and February 2016, the Corporation had a \$6 Million demand credit facility and \$3 Million bonding facility with RBC Royal Bank of Canada, Knowledge Based Industries Banking Group – Ontario. It had an annual interest rate of bank prime plus 2.05%. \$3 Million of the available credit is an operating line based on marginable receivables and \$3 million is a revolving facility to support pre-shipping costs associated with exports. The facilities are secured by a General Security Agreement over the assets of the Corporation and are supported by Export Development Canada (EDC).

In March 2016, the credit limits were increased to \$7.7 Million; \$3.2 million based on marginable receivables with an annual interest rate of bank prime plus 2.05%, and \$4.5 million for the revolving facility with an annual interest rate of bank prime plus 1.05%. The facilities are secured by a General Security Agreement over the assets of the Corporation and are supported

The Corporation uses the credit facilities for working capital, general corporate purposes and capital expenditures. The facilities are secured by the assets of NTG and its subsidiaries. We will continue to rely on income from operations to support growth and will avoid future debt where possible.

Foreign Taxes

Foreign taxes are primarily taxes paid by NTG as a foreign entity working in Saudi Arabia, and some taxes paid by NTG Egypt. Foreign tax expense for the three months ended March 31, 2016 was \$NIL compared to \$NIL for the same period in 2015.

Share Based Compensation

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

Stock options granted in Q1 2016 totalled 70,000 (Q1 2015: 50,000). 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:

March 31	2016	2015
Stock price	\$0.21	\$0.28
Risk-free interest rate	0.46%	0.57%
Expected life (years)	3 years	3 years
Expected dividend yield	0%	0%
Expected volatility	92.96 – 141.67%	107.45 – 107.74%
Fair value of options issued in the period	0.133	0.228

The weighted average expected contractual lives of outstanding and exercisable options are noted below. 3,499,500 options have vested and there are 4,283,000 issued. The difference of 783,500 will vest in the foreseeable future and the expense will be charged in the future quarters.

Exercise Price	Options Outstanding		Options Exercisable	
	Number of outstanding Mar 31/16	Expected life of option (years)	Number of outstanding Mar 31/16	Expected life of option (years)
\$ 0.10	250,000	0.14	250,000	0.14
0.15	132,000	1.05	52,000	0.25
0.16	50,000	2.98	–	–
0.17	281,000	2.77	–	–
0.19	20,000	1.37	20,000	1.37
0.20	398,000	0.28	398,000	0.28
0.23	240,000	1.71	230,000	1.53
0.24	30,000	0.99	30,000	0.99
0.25	80,000	1.36	80,000	1.36
0.26	498,000	1.52	155,500	0.61
0.27	150,000	2.28	150,000	2.28
0.28	211,000	0.77	211,000	0.77
0.30	800,000	2.07	800,000	2.07
0.31	50,000	2.23	–	–
0.32	145,000	0.91	145,000	0.91
0.40	78,000	0.51	78,000	0.51
0.42	220,000	0.43	220,000	0.43
0.60	650,000	0.54	650,000	0.54
Total	4,283,000	1.33	3,469,500	0.94

Income Taxes

There are no income taxes for this quarter (Q1 2015: \$187,493).

Net Income

For Q4 2016, the Corporation recorded a net loss of (\$1,986,457) as compared to a net income of \$722,489 in Q1 2015.

For the Egypt operating segment, for the three months ended March 31, 2016, consolidated net loss was (\$42,188) (Q1 2015: net income \$224,272). On consolidation, Egypt incurred a loss of (\$320,098) resulting in a net loss for the segment. Unconsolidated, net income increased by 82% over Q1 2016. This was due to a significant increase in professional service projects.

For the Canadian operating segment, the net loss for the three months ended March 31, 2016 was (\$1,944,269) (Q1 2015: \$498,216). Factors contributing to the reduction in revenue included the following increased expenditures:

- The slightly higher cost of sales and resulting gross margin (Q1 2016: 29% and Q1 2015: 35%). This was due to increased salaries and wages to retain skilled personnel. Travel and other costs remained steady.
- A 120% increase in marketing and sales expenses for the period compared to 2015, as we work to expand and diversify our geographical and customer base:
 - participated in the MWC'15 in Barcelona trade show (March 2016). Expenses consisted of booth rental, accommodation and airfare for business development participants, marketing material for distribution.
 - supported additional business development staff in Oman, Kuwait, KSA and Egypt. Expanded business development activities in California and Toronto, Canada.
- A 155% increase in G&A expenses for the period included:
 - a 115% increase in rental expenses for our new offices/accommodations in USA, Oman and Kuwait, and increased rent expense in Canada to accommodate our StageEM development team.
 - a significant increase in salaries and wages for staff in KSA included staff originally on customer projects. The highly skilled personnel have been retained pending the start of new projects. It is important to note that these personnel are the company's main assets.

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

March 31,	2016	2015
Net earnings attributable to ordinary equity holders of the parent for basic earnings	\$ (1,986,457)	\$ 722,489
Net earnings attributable to ordinary equity holders of the parent adjusted for the effect of dilution	\$ (1,986,457)	\$ 722,489

March 31,	2016	2015
Weighted average number of common shares outstanding for basic earnings per share	36,224,891	36,144,891
Weighted average number with the effect of dilution on common shares	40,460,488	39,256,001
Income per share (basic)	(\$0.05)	\$0.02
Income per share (diluted)	(\$0.04)	\$0.02

Assets and non-current liabilities

Cash

As of March 31, 2016, the Corporation had \$523,593 cash on hand (December 31, 2015: \$356,218) and performance bonds of \$76,773 (2015: \$63,780). The increase in cash is attributed mainly to the timing of vendor payments.

Intangible asset

Intangible assets relate to:

- the upgrade of the internally developed Operations Support System/Business Support System (OSS/BSS) software product called NTS.
- the development project for StageEM, our new enterprise solution that allows companies to manage many current and/or proposed projects at the same time, and maintain control of resources, budgets and other elements. A powerful executive dashboard affords decision makers easy access so important decisions can be based on accurate, real-time information that comes from a single source of data.

Development expenditures are capitalized as development costs can be measured reliably, the product is technically and commercially feasible, future economic benefits exist, and the Corporation intends to use or sell the asset (see Note 15 to the financial statement for more information). The net book value as of March 31, 2016 is \$4,801,743 (December 31, 2015: \$4,339,980). The assets are being amortized over a 10 year period.

Property and equipment

Property and equipment of \$275,258 as of March 31, 2016 (Q1 2015: \$194,968) consists mainly of computer equipment and office furniture with a useful life of 4-10 years. The Corporation is not dependant on tangible assets and expects the purchase and disposal of property and equipment to be modest in the foreseeable future. The Corporation had additions of \$34,824 during 2016 (Q1 2015: \$25,362) and depreciation of \$95,371 (Q1 2015: \$54,123).

Non-current liabilities

As of December 31, 2015, there are no non-current liabilities.

Liquidity and Capital Resources

NTG's principal requirement for capital is to provide working capital to fund its operations and support its organic growth. Historically, we have funded operations through the issuance of equity and by using profits generated by operations. In 2016, we funded operations, changes in non-cash working capital and capital expenditures using internally generated cash flows, cash on hand, and our operating line.

Working capital as at March 31, 2016 was \$2,278,764 compared to \$4,667,79 at December 31, 2015. The significant decrease in working capital was primarily due to the combination of a \$1.4 million reduction in accounts receivable and a \$1 million increase in accounts payable and bank indebtedness.

Our efforts to address our working capital needs in 2016 included:

- In March 2016, the credit limits were increased to \$7.7 Million; \$3.2 million based on marginable receivables with an annual interest rate of bank prime plus 2.05%, and \$4.5 million for the revolving facility with an annual interest rate of bank prime plus 1.05%. The facilities are secured by a General Security Agreement over the assets of the Corporation and are supported by Export Development Canada (EDC). All other details are unchanged.

The aging of trade accounts payable are as follows:

	March 31, 2016	December 31, 2015
Current	\$ 1,121,294	\$ 758,103
31 – 60 days	114,797	31,388
61 – 90 days	18,173	16,506
91 – 180 days	39,876	11,208
More than 180 days	–	–
	\$ 1,294,140	\$ 817,205

87% of the trade payables are current compared to 85% at year end 2015.

NTG had 36,224,891 Common Shares issued and outstanding as at March 31, 2016 compared to 36,144,891 at Q1 2015. During Q1 2016, 70,000 stock options were exercised contributing \$7,250 in cash to the Corporation.

Cash Flow Provided by Operations

The total cash in-flow from operating activities for the three months ended March 31, 2016 was \$147,936 compared to cash in-flow of \$848,058 for the same period in 2015. The difference from last year was due to:

- a \$1.4 million decrease in accounts receivable along with a \$401,198 increase in accounts payable.
- a 68% increase in amortization and depreciation expenses due to the fixed asset purchases and the increase in intangibles.
- the net loss of (1,986,457) (2015: net income of \$722,489).

Management is striving to generate cash from operations by controlling operating costs and driving revenue growth.

Cash Flow from Financing Activities

The total cash in-flow for financing activities for the three months ended March 31, 2016, was \$716,194 compared to a cash out-flow of (\$955,001) for the same period in 2015. This is primarily a result of the increase in bank indebtedness and the associated increased interest amounts.

Cash Flow from Investing Activities

The total cash out-flow from investing activities for the three months ended March 31, 2016, was (\$696,755) compared to an out-flow of (\$25,362) for the same period in 2015. The increase in cash in-flow was due to the investment in our new software product, StageEM. We capitalized \$610,575 for this project.

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.

Commitments and Contractual Obligations

The Corporation is committed under agreements for the rental of office space in Canada (January 1, 2011 to May 31, 2016) and additional space in Canada (July 1, 2015 to July 31, 2016). Additionally we have short term agreements for the rental of office space in KSA, Oman and Kuwait. Subsequent to quarter end, in May 2016, NTG signed a lease renewal for office space in Canada (June 1, 2016 to May 31, 2021).

Debt and Credit Facilities

In January and February 2016, the Corporation had a \$6 Million demand credit facility and \$3 Million bonding facility with RBC Royal Bank of Canada, Knowledge Based Industries Banking Group – Ontario. It had an annual interest rate of bank prime plus 2.05%. \$3 Million of the available credit is an operating line based on marginable receivables and \$3 million is a revolving facility to support pre-shipping costs associated with exports. The facilities are secured by a General Security Agreement over the assets of the Corporation and are supported by Export Development Canada (EDC).

In March 2016, the credit limits were increased to \$7.7 Million; \$3.2 million based on marginable receivables with an annual interest rate of bank prime plus 2.05%, and \$4.5 million for the revolving facility with an annual interest rate of bank prime plus 1.05%. The facilities are secured by a General Security Agreement over the assets of the Corporation and are supported by Export Development Canada (EDC). All other details are unchanged.

Additionally a \$3 million bonding facility provided by RBC and fully supported and insured by Export Development Canada (EDC), allows us to provide our customers with bid and performance bonds as required, without tying up additional cash.

For the three months ended March 31, 2016 the Corporation's interest expense was \$62,865, compared to \$39,659 for the same period in 2015. Premiums for this bonding facility for the three months ended March 31, 2016 were \$ 4,164 (Q1 2015: \$6,805). The facility was approximately 9% utilized at period end.

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 25. Additionally, in Q2 2015, the Board of Directors of the Corporation approved a loan to Ashraf Zaghloul in the amount of \$300,000 to be repaid in two years time at an interest rate of 2%.

Proposed Transactions

There are no Proposed Transactions.

Business Risk and Management

NTG's primary risk management objective is to protect our balance sheet and cash flow. Principal financial liabilities are made up of a short term debt/operating line and trade and other payables.

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

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

In addition to risks described elsewhere, the Corporation is subject to a number of risk factors. The Corporation has significant reliance on certain key personnel, some of whom are also key shareholders; Ashraf Zaghloul, CEO; Kristine Lewis, President and Adel Zaghloul, CEO, NTG Egypt; Ashraf Fayed, SR. VP KSA; and Yaser Yousef, CTO. Though we have worked hard to diversify our customer base, we are

dependent on a few large customers. In Q1 2016, 15% (Q1 2015: 61%) of the Corporation's revenue was from one customer and approximately 15% of the Corporation's trade accounts receivable balance was from one customer (Q1 2015: 51%). This is a significant improvement from Q1 2015.

Management continues to work to diversify the customer base and country concentration. Additionally, the Corporation mitigates this risk by insuring these receivables with Export Development Canada (EDC).

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

Market risk

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

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

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

A portion of our revenue comes from work done in the Kingdom of Saudi Arabia (KSA). EDC's latest Country Risk Quarterly (Spring 2016) indicates "The commercial environment is strengthened by a positive growth outlook and government capital investments that are generating private sector opportunities."⁷. NTG considers the risks to operating in KSA to be low, however we continue to insure receivables with EDC and are working to retain new customers in other countries. All our KSA customers' invoices are insured to 90% and up to 180 days.

Historically approximately 7-11% of our revenue comes from work done through our subsidiary NTG Egypt, based in Cairo, Egypt. In 2015 that contribution increased to 19%, and this year, strong revenue growth resulted in Egypt contributing 51% of the Corporation's revenue. The political and economic difficulties in the region, have impacted the currency exchange, but have not negatively affected our Egypt operations. The telecom industry's challenges in the region continues to have a positive effect on NTG Egypt's revenue.

Consolidated, NTG Egypt was 51% of NTG's revenue in Q1 2016 (Q1 2015: 10%). On an unconsolidated basis, NTG Egypt's revenue has increased approximately 25% over the same period last year with a significant increase in professional services provided to tier 1 telecom and utility customers in the country sales of operating system licenses, support, hardware and networks.

⁷ Source Spring 2016, <http://www.edc.ca/EN/Knowledge-Centre/Economic-Analysis-and-Research/Documents/country-risk-quarterly-mea.pdf>

Credit risk

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

We also mitigate credit risk through credit insurance coverage with EDC as explained in Note 27. NTG Egypt deals with primarily with tier 1 telecom customers in the region. In September 2015, EDC expanded our receivables insurance policy to now include receivables from NTG Egypt's biggest customers.

The aging of trade accounts receivable are as follows:

Neither past due nor impaired	March 31, 2016	December 31, 2015
Current	\$ 1,206,344	\$ 1,676,136
30 – 60 days	246,086	1,483,845
61 – 90 days	921,161	1,232,820
91 – 180 days	2,663,932	793,125
Past due but not impaired		
Greater than 180 days	480,925	1,918,042
	\$ 5,518,448	\$ 7,103,968

The credit quality of all the accounts receivable of the Corporation that are neither past due nor impaired and the age of accounts receivable that are past due but not impaired have been assessed on an individual basis and determined to have a mitigated risk profile as they are insured receivables. As at March 31, 2016, the Corporation has insured receivables in the amount of \$5,389,837 (December 31, 2015: \$6,356,217).

The majority of our revenue is derived from the telecom industry and was earned through service contracts from one client, though this percentage has decreased significantly this year. In Q1 2016, 15% (December 31, 2015: 29%) of our revenue was from one customer. As at March 31, 2016, approximately 15% (December 31, 2015: 28%) of the trade accounts receivable balance was from one customer. Management continues to work to diversify the customer base and manage the risk.

The unbilled revenues as of March 31, 2016 were \$3,852,831. This amount is similar to year end 2015 (\$3,780,270) as the new customers require invoicing on a quarterly basis. This amount consisted of professional services resources and managed services, charged on an hourly or monthly basis and recognized once work was performed and signed off by the respective customers. Additionally, some implementation work was completed but not billed.

The legal billing contractual terms with our clients may not match the Corporation's revenue policies. Accordingly we may record earned revenues on the financial statements before the legal terms of collections: this timing difference results in unbilled revenue on the assets of the balance sheet. In 2015, this has resulted in unbilled revenues of \$3,852,831 (December 31, 2015: \$3,780,270).

There was no impairment of the unbilled revenues of \$3,852,831. Our future contracts also provided for collection terms that do not match to the revenue policy. We expect the unbilled revenue to be consistent than this quarter. The risk of exposure to collection is low due to our past history with these Tier 1 customers and EDC insurance on the accounts.

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 March 31, 2016 to determine how a change in interest rates would impact equity and net loss. During the period, the Corporation paid \$62,865 (Q1 2015: \$39,659) on its bank loans. An increase or decrease of 100 basis points in the average interest rate paid during the period would have adjusted net earnings by approximately \$6,287 (Q1 2015: \$3,966). 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 Corporation'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 the USA to Canadian dollar exchange rate on the March 31, 2016 balances would have an approximate \$4,177 (Q1 2015: \$23,067) impact on net income. A 10% change in the Egyptian pound to Canadian dollar exchange rate would have an approximate \$32,010 (Q1 2015: \$7,140) impact on net income. A 10% change in the Saudi Riyal to Canadian dollar exchange rate would have an approximate \$507,491 impact on net income. A 10% change in the Omani Riyal to Canadian dollar exchange rate would have an approximate \$111,168 impact on net income. A 10% change in the Kuwaiti Dinar to Canadian dollar exchange rate would have an approximate \$79,093 impact on net income.

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 March 31, 2016. The contractual maturity of a large part of the accounts payable is within 30-60 days.

Contractual obligations	2017	2018	2019	2020	Total
Operating line of credit	\$ 6,736,009	\$ –	\$ –	\$ –	\$ 6,736,009
Accounts payable and accrued liabilities	1,520,682	–	–	–	1,520,682
Operating lease	123,587	112,246	110,786	110,786	457,406
Long term debt	–	–	–	–	–

In March 2016, the credit limits were increased to \$7.7 Million; \$3.2 million based on marginable receivables with an annual interest rate of bank prime plus 2.05%, and \$4.5 million for the revolving facility with an annual interest rate of bank prime plus 1.05%. The facilities are secured by a General Security Agreement over the assets of the Corporation and are supported by Export Development Canada

(EDC). All other details are unchanged. The \$3 Million bonding facility, allows us to provide our customers with bid and performance bonds as required, without tying up our cash.

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 March 31, 2016, 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 March 31, 2016. Also, no changes were made in the objectives, policies, or processes during the period ending March 31, 2016. 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.

At March 31, 2016, of the \$76,773 in performance bonds (December 31, 2015: \$63,780), \$53,717 was for two bid bonds in Saudi Arabia (KSA) and \$23,056 (December 31, 2015: \$33,037) was for various bid bonds in Egypt. The bonds are non-interest bearing.

Additionally, at March 31, 2016, the Corporation also had a performance bond issued in its name under its \$3 Million EDC-supported bonding facility in the amount of approximately \$267,105 (December 31, 2015: \$267,105). The bond has been financed by a Canadian financial institution and is supported and 100% insured by EDC and is scheduled to be released in December 2016. Premiums for this bonding facility for the period ended March 31, 2016 were \$4,164 (December 31, 2015: \$33,273). 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 facility was approximately 9% utilized at period end.

Prepaid expenses and deposits of \$244,888 at March 31, 2016 was related to office rent, insurance, etc. as outlined below. The small decrease was mainly due to the timing of deposits for new office spaces and accommodations and insurance premiums in Canada and KSA. The premiums are calculated based on the number of staff in KSA at year end and therefore will vary from year to year. Other deposits was due to leasehold improvements for our new office spaces.

	March 31, 2016	December 31, 2015
Prepaid rent	\$ 131,097	\$ 105,873
Prepaid insurance	76,777	104,068
Other deposits	37,014	88,096
	\$ 244,888	\$ 298,037

Legal claim contingency

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

Guarantees

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

Collateral

The Corporation has pledged its assets under a General Security Agreement ("GSA") as disclosed in Notes 18. The Corporation did not hold collateral at March 31, 2016, and March 31, 2015.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Corporation's disclosure controls and procedures as of March 31, 2016 and have concluded that such disclosure controls and procedures were effective to provide reasonable assurance that material information relating to the Corporation or its subsidiaries is made known to them.

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

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

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the NI 52-109 certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Application of Critical Accounting Policies and Estimates

The 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, and the Interpretations of the International Financial Reporting Interpretations

Committee (IFRIC) and in effect at the closing date of May 26, 2016. All amounts are in Canadian dollars, unless otherwise indicated.

The preparation of the Corporation's consolidated financial statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets, and liabilities, and the disclosure of contingent liabilities, at the end of the reporting years. These judgments, estimates and assumptions are based on management's experience, knowledge of current events and actions the Corporation may undertake in the future. Management works closely with the Audit Committee to produce the final results.

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. Significant accounting policies are presented in detail in Note 3 of our interim consolidated financial statements for the period ended March 31, 2016.

NTG Egypt Advanced Software and NTG Clarity Networks US Inc. are subsidiaries of NTG Clarity and the financial statements are included in the consolidated statements.

Revenue

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

If, for any of our product or service offerings, we determine at the outset of an arrangement that the amount of revenue cannot be measured reliably, we conclude that the in-flow of economic benefits associated with the transaction is not probable and defer revenue until the arrangement fee becomes due and payable by the customer. If, at the outset of an arrangement, we determine that collectability is not probable, we conclude that the in-flow 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.

For arrangements with multiple elements, we determine 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. The revenue policy is described in detail in Note 3.

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

Unbilled revenue

Unbilled revenue is revenue which had been earned and therefore recognized in compliance with IFRS, but which has not been billed to the client(s) due to contract terms and/or billing cycle. Revenue can be recognized for projects based on time and materials, for professional services or on a percentage of completion basis for product implementation and support. Both can result in unbilled revenue until the customer is invoiced.

Foreign Currency

The Corporation's consolidated financial statements are presented in Canadian dollars. Each entity in the Corporation determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency and the presentation currency of the parent entity and the subsidiaries is the Canadian dollar.

Transactions entered into by Group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the re-translation of unsettled monetary assets and liabilities are recognized immediately in profit or loss, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation, in which case exchange differences are recognized in other comprehensive income and accumulated in the foreign exchange reserve along with the exchange differences arising on the retranslation of the foreign operation.

Exchange gains and losses arising on the retranslation of monetary available for sale financial assets are treated as a separate component of the change in fair value and recognized in profit or loss. Exchange gains and losses on non-monetary available for sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

On consolidation, the results of overseas operations are translated into CU at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognized in other comprehensive income and accumulated in the foreign exchange reserve.

Exchange differences recognized profit or loss in Group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the overseas operation concerned are reclassified to other comprehensive income and accumulated in the foreign exchange reserve on consolidation.

On disposal of a foreign operation, the cumulative exchange differences recognized in the foreign exchange reserve relating to that operation up to the date of disposal are transferred to the consolidated statement of comprehensive income as part of the profit or loss on disposal.

Taxes

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.

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.

Share-based compensation

The Corporation has a share-based compensation plan. The Corporation accounts for share-based compensation options granted to employees and consultants using the fair value method. Under this method, compensation expense for share-based compensation granted is measured at the fair value at the grant date, using the Black-Scholes option valuation model. In accordance with the fair value method, the Corporation recognizes estimated compensation expense related to share-based compensation over the vesting period of the options granted, with the related credit being charged to capital reserves.

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

Standards issued but not yet effective

As at May 26, 2016, 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 early by the Corporation. In certain cases, the Corporation has early adopted the new standards, amendments, and interpretations as noted below.

Management anticipates that all of the pronouncements will be adopted in the Corporation's accounting policy for the first period beginning after the effective date of the pronouncement, unless already early adopted. Information on new standards, amendments, and interpretations are provided below.

The International Accounting Standards Board issued on January 13, 2016 a new accounting standard called IFRS 16, Leases. IFRS 16 Leases replaces IAS 17 Leases. IFRS 16 requires all leases to be reported on an entity's statement of financial position as assets and liabilities. IFRS 16 is effective January 1, 2019. Early application is permitted for entities also applying IFRS 15 Revenues from contracts with customers. The Corporation has assessed and determined that there will be no impact upon adoption of the new standard, which the Corporation expects to early adopt on January 1, 2017. The Corporation leases real estate, wfor which the lease can be terminated by either party. There are no significant economic incentives for renewal and the Corporation will continue to disclose the commitment.

The IASB published an amendment to IAS 12 in January 2016 referred to as IAS12: Income Taxes: Recognition on Deferred Tax Assets for unrealized losses. The amendment is effective for reporting periods starting on or after January 1, 2017. The objective of the amendment is to clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendment is not relevant to the Corporation.

The IASB has issued the following updates to the Standards, which were all early adopted on January 1, 2016 and for which there was no impact on the statement of financial position, results of operations, or disclosures:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Changes in methods of disposal.
- IFRS 7 Financial Instruments: Disclosures: Servicing contracts, Applicability of the amendments to IFRS 7 to condensed interim financial statements.
- IAS 19 Employee Benefits: Discount rate: regional market issue.
- IAS 34 Interim Financial Reporting: Disclosure of information elsewhere in the interim financial report.

None of the above updates, which have all been assessed by the Corporation, had an impact on the statement of financial position or results of operations when adopted on January 1, 2016. The IASB issued Disclosure Initiative, amendments to IAS 1 in December 2014 with an effective date of January 1, 2016. The Corporation has early adopted the amendments on January 1, 2016. The adoption resulted in reduced disclosures in non-material areas.

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 March 31, 2016.

May 26, 2016

MARKHAM, ONTARIO

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

(In Canadian Dollars)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets		
Cash and cash equivalents (Note 9)	523,593	356,218
Trade and other receivables (Note 10)	9,554,888	10,981,806
Inventory (Note 11)	135,881	188,059
Performance bond (Note 12)	76,773	63,780
Prepaid expenses and deposits (Note 13)	244,888	298,037
Total current assets	\$ 10,536,023	\$ 11,887,900
Non-current assets		
Property, plant and equipment (Note 14)	275,258	284,448
Intangible assets (Note 15)	4,801,743	4,339,980
Due from related parties (Note 24)	300,000	300,000
Total non-current assets	5,377,001	4,924,428
Total Assets	\$ 15,913,025	\$ 16,812,328
LIABILITIES		
Current liabilities		
Bank indebtedness (Note 17)	\$ 6,736,009	\$ 5,964,200
Accounts payable and accrued liabilities (Note 16)	1,520,682	1,254,571
Current portion of leasehold liability	568	1,420
Total current liabilities	\$ 8,257,259	\$ 7,220,191
Total liabilities	\$ 8,257,259	\$ 7,220,191
SHAREHOLDERS' EQUITY		
Capital stock (Note 18)	8,894,064	8,881,959
Contributed surplus (Note 19)	1,610,496	1,572,517
Foreign exchange account	(170,515)	149,583
Accumulated deficit	(2,678,279)	(1,011,922)
Total shareholders' equity	7,655,766	9,592,137
Total liabilities and shareholders' equity	\$ 15,913,025	\$ 16,812,328

Approved on behalf of the Board:

"Ashraf Zaghloul"

Director

"Kristine Lewis"

Director

See accompanying notes to consolidated financial statements.

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

For the three month period ended March 31, 2016 and December 31, 2015

(In Canadian Dollars)

	Share Capital	Contributed Surplus	Deficit	Foreign Exchange Reserve	Total Shareholders' Equity
Balance, January 1, 2014	\$ 8,818,847	\$ 917,691	\$ (2,472,701)	\$ –	\$ 7,263,837
Income from continuing operations	–	–	1,241,923	–	1,241,923
Other comprehensive income	–	–	–	–	–
Share-based compensation	–	391,832	–	–	391,832
Issuance of share capital (Note 18)	44,600	–	–	–	44,600
Reallocation of contributed surplus	29,920	(29,920)	–	–	–
Balance, December 31, 2014	\$ 8,893,367	\$ 1,279,603	\$ (1,230,782)	\$ –	\$ 8,942,188
Income from continuing operations	–	–	218,860	–	218,860
Other comprehensive income	–	–	–	149,583	149,583
Share-based compensation (Note 18)	–	342,845	–	–	342,845
Issuance of share capital (Note 18)	66,350	–	–	–	66,350
Share cancellation (Note 18)	(127,689)	–	–	–	(127,689)
Reallocation of contributed surplus (Note 18)	49,931	(49,931)	–	–	–
Balance, December 31, 2015	\$ 8,881,959	\$ 1,572,517	\$ (1,011,922)	\$ 149,583	\$ 9,592,137
Income from continuing operations	–	–	(1,666,359)	–	(1,666,359)
Other comprehensive income	–	–	–	(320,098)	(320,098)
Share-based compensation (Note 18)	–	42,834	–	–	42,834
Issuance of share capital (Note 18)	7,250	–	–	–	7,250
Reallocation of contributed surplus (Note 18)	4,855	(4,855)	–	–	–
Balance, March 31, 2016	\$ 8,894,064	\$ 1,610,496	\$ (2,678,279)	\$ (170,515)	\$ 7,655,764

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

(In Canadian Dollars)

For the three months ended March 31,	2016	2015
REVENUE (Note 6)	\$ 2,433,333	\$ 5,002,161
COST OF SALES (Note 20)	1,737,332	3,247,342
GROSS MARGIN	696,001	1,754,820
OPERATING EXPENSES		
General and administration (Note 21)	1,465,251	573,856
Selling (Note 21)	505,472	359,312
(Gain) on foreign exchange	14,512	(302,070)
Total expenses	1,985,235	631,098
INCOME (LOSS) FROM OPERATIONS	(1,289,234)	1,123,722
OTHER EXPENSES		
Amortization (Note 14)	148,812	91,104
Depreciation (Note 13)	95,371	54,123
Interest (Note 16)	62,865	39,659
Provision for bad debt	27,243	-
Share based compensation (Note 17)	42,834	28,853
Total other expenses	377,125	213,739
NET INCOME BEFORE TAXES	(1,666,359)	909,982
INCOME TAXES (Note 7)		
Current income tax expense	-	187,493
Deferred income tax expense	-	-
Other comprehensive income:		
Exchange (loss) arising on translation of foreign operations	(320,098)	-
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(1,986,457)	722,489
Earnings per share (Note 9)		
Basic	\$ (0.05)	\$ 0.02
Diluted	\$ (0.04)	\$ 0.02
Weighted average number of shares outstanding		
Basic	36,224,891	36,144,891
Diluted	40,460,488	39,256,001

See accompanying notes to consolidated financial statements.

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

(In Canadian Dollars)

For the three months ended March 31,	2016	2015
Cash provided by (used in)		
OPERATION ACTIVITIES		
Net income for the period	\$ (1,986,457)	\$ 722,489
Add-Items not affecting cash:		
Amortization (Note 15)	148,812	91,104
Depreciation (Note 14)	95,371	54,123
Interest expense	62,865	39,659
Share based payment (Note 18)	42,834	28,853
	(1,636,575)	936,228
Net change in non-cash working capital items,		
(Increase) decrease in accounts receivable	1,426,918	(21,828)
Decrease (increase) in performance bond	(12,993)	48,462
(Decrease) in inventory	52,178	–
Decrease in prepaid expenses and other assets	53,149	21,135
(Decrease) in leasehold liability	(852)	(852)
Increase (decrease) in accounts payable and accrued liabilities	266,111	(135,087)
TOTAL CASH IN-FLOW (OUT-FLOW) FROM OPERATING ACTIVITIES	147,936	848,058
FINANCING ACTIVITIES		
Issuance of common shares (Note 19)	7,250	2,000
Repurchase of shares (Note 19)	–	(49,885)
Interest paid	(62,865)	(39,659)
Increase (decrease) in bank indebtedness (Note 17)	771,809	(867,457)
TOTAL CASH IN-FLOW (OUT-FLOW) FROM FINANCING ACTIVITIES	716,194	(955,001)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment (Note 14)	(86,180)	(25,362)
(Additions) to intangible assets (Note 15)	(610,575)	–
TOTAL CASH IN-FLOW (OUT-FLOW) FROM INVESTING ACTIVITIES	(696,755)	(25,362)
NET INCREASE IN CASH	167,374	(132,305)
Cash and cash equivalents balance, beginning of period	356,218	1,889,497
Cash and cash equivalents balance, end of period	\$ 523,593	\$ 1,757,192

See accompanying notes to consolidated financial statements.

NTG CLARITY NETWORKS INC.

Notes to the Unaudited Interim Consolidated Financial Statements

March 31, 2016 and 2015

1. CORPORATE INFORMATION

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

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

In 2010, NTG began the development phase to move its Operations Support System/Business Support System (OSS/BSS) product called NTS to a new technology platform and to add new and upgrade existing functionality.

In 2015, we started work on an NTG-related product that fits into the Project Portfolio Management (PPM) marketplace. Development was initially driven by our telecom customers' demand, but we quickly found it attractive across multiple verticals with a beta version currently deployed at a few international enterprise clients. Feedback is positive as is the enthusiasm to implement the full version. Release of version 1.0 is currently planned for Q2 2016.

NTG continues to offer professional telecom services in the North American and Middle Eastern markets.

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

2. BASIS OF PRESENTATION

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 May 26, 2016.

Management of the Corporation prepared the consolidated financial statements of the Corporation during January and February 2016, and the Board of Directors approved them. The Audit Committee of the Corporation discussed the audited consolidated financial statements at its meeting on May 26, 2016, and the Board of Directors approved them at its meeting on May 26, 2016.

NTG CLARITY NETWORKS INC.**Notes to the Unaudited Interim Consolidated Financial Statements**March 31, 2016 and 2015

2. BASIS OF PRESENTATION (cont'd)

The 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 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The interim consolidated financial statements comprise the financial statements of the Corporation and its subsidiaries as at March 31, 2016.

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 company 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 March 31, 2016 is its 95% owned subsidiary, NTG Egypt Advanced Software, and its wholly owned U.S. subsidiary, NTG Clarity Networks US Inc.

(b) Foreign currency translation

Each entity in the Corporation determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency and the presentation currency of the parent entity is the Canadian dollar. Transactions in foreign currencies are initially recorded in respective functional currency rates at the date of the transaction.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 at the date of the initial transactions.

Translation to the presentation currency

The functional currency of the subsidiary NTG Egypt Advanced Software is the Egyptian pound, and the functional currency of the subsidiary NTG Clarity Networks US Inc. is the US Dollar.

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. The cumulative amount of the exchange differences is presented in a separate component of equity until disposal of the foreign operation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 IAS 29 before applying the translation method set out in IAS 21.42, 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 21.45–47, in addition to IAS 21.38–43, apply when the results and financial position of a foreign operation are translated into a presentation currency so that the foreign operation can be included in the financial statements of the reporting entity by consolidation or the equity method.

The incorporation of the results and financial position of a foreign operation with those of the reporting entity follows normal consolidation procedures, such as the elimination of intragroup balances and intragroup transactions of a subsidiary (see IFRS 10 Consolidated Financial Statements). However, an intragroup monetary asset (or liability), whether short-term or long-term, cannot be eliminated against the corresponding intragroup liability (or asset) without showing the results of currency fluctuations in the consolidated financial statements. This is because the monetary item represents a commitment to convert one currency into another and exposes the reporting entity to a gain or loss through currency fluctuations.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 21.32, 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, IFRS 10 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 IAS 28.

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 21.39 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 IAS 1 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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 48A that are accounted for as disposals.

An entity may dispose or partially dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity.

A write-down of the carrying amount of a foreign operation, either because of its own losses or because of an impairment recognized by the investor, does not constitute a partial disposal. Accordingly, no part of the foreign exchange gain or loss recognized in other comprehensive income is reclassified to profit or loss at the time of a write-down.

(c) Revenue Recognition

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

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

Software revenue represents fees earned from the sale or license of software to customers for use on the customer's premises, in other words, where the customer has the right to take possession of the software for installation on the customer's premises (on premise software).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

When it becomes that total contract costs exceed total contract revenue in an arrangement, the expected losses are recognized immediately as an expense based on the costs attributable to the contract.

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

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

(d) Current income tax

Current income tax assets and 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Government grants and assistance and investment tax credit

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

When government assistance is received which relates to expenses of future periods, the amount is deferred and amortized to income as the related expenditures are incurred. The Corporation has been engaged in the Industrial Research Assistance Program (IRAP). The IRAP recorded in the accounts is based on management's interpretation of the respective provisions which govern their eligibility. The claims are subject to review by the respective agencies before the refunds can be released. To the extent that collection is reasonably assured, IRAP is recorded as a reduction to the underlying expense or asset to which it is attributable.

(f) Financial instruments - initial recognition and subsequent measurement

(i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through profit or loss, loans and receivables, held- to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

The Corporation's financial assets include trade and other accounts receivable.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Corporation that are not designated as hedging instruments in hedge relationships as defined by IAS 39.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value recognized in finance income or finance cost in the statement of profit and loss and comprehensive income.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the statement of profit and loss and comprehensive income. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

The EIR amortization is included in finance income in the statement of profit and loss and comprehensive income. The losses arising from impairment are recognized in the statement of profit and loss and comprehensive income in finance costs. Trade and other accounts receivable are carried within this category.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments are classified as held-to-maturity when the Corporation has the positive intention and ability to hold it to maturity. After initial measurement held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

The EIR amortization is included in finance income in the statement of profit and loss and comprehensive income. The losses arising from impairment are recognized in the statement of profit and loss and comprehensive income in finance costs. The Corporation did not have any held-to-maturity investments during the periods ended March 31, 2016 and March 31, 2015.

Available-for-sale financial investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is recognized in the statement of profit and loss and comprehensive income in finance costs and removed from the available-for-sale reserve.

The Corporation did not have any available-for-sale financial investments during the periods ended March 31, 2016 and March 31, 2015.

Derecognition

A financial asset or, where applicable a part of a financial asset or part of a group of similar financial assets is derecognized when:

- The rights to receive cash flows from the asset have expired; or
- The Corporation has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Corporation has transferred substantially all the risks and rewards of the asset, or (b) the Corporation has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Corporation has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Corporation's continuing involvement in the asset.

In that case, the Corporation also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Corporation has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Corporation could be required to repay. The Corporation has no such "pass-through" arrangements for the years ending March 31, 2016 and March 31, 2015.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(ii) Impairment of financial assets

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default, or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Corporation first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If the Corporation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future expected credit that have not yet been incurred. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of profit and loss and comprehensive income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of profit and loss and comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Corporation. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If an impairment is later recovered, the recovery is credited to finance costs in the statement of profit and loss and comprehensive income.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Available-for-sale financial investments

For available-for-sale financial investments, the Corporation assesses at each reporting year whether there is objective evidence that an investment or a group of investments is impaired. The Corporation did not hold available-for-sale financial investments for the periods ending March 31, 2016 and March 31, 2015.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost.

Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit and loss and comprehensive income – is removed from other comprehensive income and recognized in the statement of profit and loss and comprehensive income.

Impairment losses on equity investments are not reversed through the statement of profit and loss and comprehensive income; increases in their fair value after impairment are recognized directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of profit and loss and comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of profit and loss and comprehensive income, the impairment loss is reversed through the statement of profit and loss and comprehensive income.

(iii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, plus directly attributable transaction costs.

The Corporation's financial liabilities include bank indebtedness, accounts payable and accrued liabilities, and long term debt and other liabilities. All financial liabilities are measured as loans and borrowings using the amortized cost method.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Corporation that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of profit and loss and comprehensive income.

The Corporation has not designated any financial liabilities upon initial recognition as fair value through profit or loss.

Loans and borrowings

After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of profit and loss and comprehensive income when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance cost on the statement of profit and loss and comprehensive income.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of profit and loss and comprehensive income.

(iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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.

(v) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations without any deduction for transaction costs. The Corporation does not hold any such instruments as of March 31, 2016 and March 31, 2015.

For financial instruments not traded in an active market, such as the long term debt, the fair value, for disclosure purposes, is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis; or other valuation models. An analysis of fair values of financial instruments and further details as to how they are measured are provided within these note.

(vi) Transaction costs

Transaction costs for financial instruments classified as FVTPL are recognized as an expense, included in interest expense, in the year they were incurred. For all amortized cost financial instruments, they are capitalized and amortized using the effective interest rate method over a period that corresponds with the term of the financial instruments.

NTG CLARITY NETWORKS INC.**Notes to the Unaudited Interim Consolidated Financial Statements**March 31, 2016 and 2015

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(vii) Embedded derivatives**

IAS 39 requires that under certain conditions, an embedded derivative be separated from its host contract and accounted for as a derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable, provided in the case of a non- financial variable that the variable is not specific to a party to the contract. The Corporation did not hold any embedded derivatives as at March 31, 2016 and March 31, 2015.

(g) 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 March 31, 2016 and March 31, 2015.

(h) 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.

(i) Property and equipment

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

(j) 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 periods ending March 31, 2016 and March 31, 2015, 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.

(k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction, or production of an asset that necessarily takes a substantial year of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the year they occur. Borrowing costs consist of interest and other costs that the Corporation incurs in connection with the borrowing of funds. For the periods ending March 31, 2016 and March 31, 2015, the Corporation did not capitalize any borrowing cost.

(l) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) 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.

(n) 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.

(o) Impairment of non-financial assets

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

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit (CGU). In determining fair value less costs of disposal, an appropriate valuation model is used. The Corporation has cash-generating units which impairment could be tested against. The Corporation had no goodwill or indefinite life intangible assets for the periods ending March 31, 2016 and March 31, 2015.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

(p) 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.

(q) Provisions

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

(r) Basic and diluted earnings per share

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

(s) Share-based compensation

The Corporation has a share-based compensation plan. The Corporation accounts for share-based compensation options granted to employees and consultants using the fair value method. Under this method, compensation expense for share-based compensation granted is measured at the fair value at the grant date, using the Black-Scholes option valuation model. In accordance with the fair value method, the Corporation recognizes estimated compensation expense related to share-based compensation over the vesting period of the options granted, with the related credit being charged to capital reserves. Consideration paid by employees on the exercise of share-based compensation is recorded as capital stock and the related share-based compensation is transferred from capital reserves to capital stock.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES, AND ASSUMPTIONS

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

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES, AND ASSUMPTIONS (cont'd)

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

Revenues

The Corporation derives revenue from fees charged to customers for licenses for software products and for professional services (support, consulting, development, training, etc.). Some of the software arrangements may contain multiple elements (product sales and professional services). The Corporation accounts for software, consulting and other service deliverables as separate units of accounting and allocate revenue based on their individual fair values. The revenue amounts allocated to the individual elements are recognized when the revenue recognition criteria have been met for the respective element. When services are essential to the functionality of the software, the software does not have standalone value and is combined with the essential services as a single element.

Unbilled revenue

Unbilled revenue is revenue which had been earned and therefore recognized in compliance with IFRS, but which has not been billed to the client(s) due to contract terms and/or billing cycle. Revenue can be recognized for projects based on time and materials, for professional services or on a percentage of completion basis for product implementation and support. Both can result in unbilled revenue until the customer is invoiced.

Impairment of non-financial assets

Impairment exists when the carrying value of a non-financial asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the Corporation's budget and do not include restructuring activities, if any, that the Corporation is not yet committed to or significant future investments that will enhance the non-financial asset's performance of the cash-generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash-generating units may include a sensitivity analysis.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the range of business relationships and the long-term nature of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES, AND ASSUMPTIONS (cont'd)

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 Company 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. 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.

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE

As at May 26, 2016, 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 early by the Corporation. In certain cases, the Corporation has early adopted the new standards, amendments, and interpretations as noted below.

Management anticipates that all of the pronouncements will be adopted in the Corporation's accounting policy for the first period beginning after the effective date of the pronouncement, unless already early adopted. Information on new standards, amendments, and interpretations are provided below.

NTG CLARITY NETWORKS INC.**Notes to the Unaudited Interim Consolidated Financial Statements**March 31, 2016 and 2015

5. STANDARDS ISSUED BUT NOT YET EFFECTIVE (cont'd)

The International Accounting Standards Board issued on January 13, 2016 a new accounting standard called IFRS 16, Leases. IFRS 16 Leases replaces IAS 17 Leases. IFRS 16 requires all leases to be reported on an entity's statement of financial position as assets and liabilities. IFRS 16 is effective January 1, 2019. Early application is permitted for entities also applying IFRS 15 Revenues from contracts with customers. The Corporation has assessed and determined that there will be no impact upon adoption of the new standard, which the Corporation expects to early adopt on January 1, 2017. The Corporation leases real estate, wfor which the lease can be terminated by either party. There are no significant economic incentives for renewal and the Corporation will continue to disclose the commitment.

The IASB published an amendment to IAS 12 in January 2016 referred to as IAS12: Income Taxes: Recognition on Deferred Tax Assets for unrealized losses. The amendment is effective for reporting periods starting on or after January 1, 2017. The objective of the amendment is to clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value. The amendment is not relevant to the Corporation.

The IASB has issued the following updates to the Standards, which were all early adopted on January 1, 2016 and for which there was no impact on the statement of financial position, results of operations, or disclosures:

- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Changes in methods of disposal.
- IFRS 7 Financial Instruments: Disclosures: Servicing contracts, Applicability of the amendments to IFRS 7 to condensed interim financial statements.
- IAS 19 Employee Benefits: Discount rate: regional market issue.
- IAS 34 Interim Financial Reporting: Disclosure of information elsewhere in the interim financial report.

None of the above updates, which have all been assessed by the Corporation, had an impact on the statement of financial position or results of operations when adopted on January 1, 2016. The IASB issued Disclosure Initiative, amendments to IAS 1 in December 2014 with an effective date of January 1, 2016. The Corporation has early adopted the amendments on January 1, 2016. The adoption resulted in reduced disclosures in non-material areas.

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

6. OPERATING SEGMENT INFORMATION

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;

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March 31, 2016 and 2015

6. OPERATING SEGMENT INFORMATION (cont'd)

These country segments represent the Corporation's reportable operating segments, which are used to manage the business. The Corporation analyzes the performance of its operating segments based on expenditures and revenue growth.

Statement of profit and loss for the period ending March 31, 2016

For the three months ending March 31, 2016	NTG Canada	NTG Egypt	Consolidated Total
Revenue	\$ 1,196,792	\$ 1,236,541	\$ 2,433,333
Total revenue	\$ 1,196,792	\$ 1,236,541	\$ 2,433,333
Gross margin	\$ 80,974	\$ 615,028	\$ 696,001
Expenses	(1,803,347)	(737,645)	(2,375,410)
Depreciation / Amortization	(159,031)	(85,243)	(244,183)
Interest	(62,865)	—	(62,865)
Net income before taxes	\$ (1,944,269)	\$ (42,188)	\$ (1,986,457)
Taxes	—	—	—
Net income after taxes	\$ (1,944,269)	\$ (42,188)	\$ (1,986,457)

Statement of profit and loss for the period ending March 31, 2015

For the three months ending March 31, 2015	NTG Canada	NTG Egypt	Consolidated Total
Revenue	\$ 4,517,296	\$ 484,865	\$ 5,002,161
Total revenue	\$ 4,517,296	\$ 484,865	\$ 5,002,161
Gross margin	\$ 1,323,362	\$ 431,457	\$ 1,754,819
Expenses	(499,032)	(160,919)	(659,951)
Depreciation / Amortization	(98,961)	(46,266)	(145,227)
Interest	(39,659)	—	(39,659)
Net income before taxes	\$ 685,710	\$ 224,272	\$ 909,982
Taxes	(187,493)	—	(187,493)
Net income after taxes	\$ 498,217	\$ 224,272	\$ 722,489

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

Long term asset additions for the three months ended March 31, 2016

	NTG Canada	NTG Egypt	Consolidated Total
Asset additions for the three months ending March 31, 2016			
Property and equipment	\$ 15,957	\$ 18,867	\$ 34,824
Intangible assets	610,575	—	610,575
	\$ 626,532	\$ 18,867	\$ 645,399

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

March 31, 2016 and 2015

6. OPERATING SEGMENT INFORMATION (cont'd)**Long term asset additions for the three months ended March 31, 2015**

	NTG Canada	NTG Egypt	Consolidated Total
Asset additions for the three months ending March 31, 2015			
Property and equipment	\$ 22,345	\$ 3,017	\$ 25,362
Intangible assets	—	—	—
	\$ 22,345	\$ 3,017	\$ 25,362

Long term assets for the three months ended March 31, 2016

	NTG Canada	NTG Egypt	Consolidated Total
Assets as at March 31, 2016			
Property and equipment	\$ 169,572	\$ 105,686	\$ 275,258
Intangible assets	4,801,743	—	4,801,743
	\$ 4,971,315	\$ 105,686	\$ 5,077,001

Long term assets for the three months ended March 31, 2015

	NTG Canada	NTG Egypt	Consolidated Total
Assets as at March 31, 2016			
Property and equipment	\$ 155,566	\$ 39,402	\$ 194,968
Intangible assets	2,375,965	—	2,375,965
	\$ 2,531,531	\$ 39,402	\$ 2,570,933

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

Sales by geographic location for the three months ending March 31,	2016	2015
Canada	\$ 27,376	\$ —
Saudi Arabia	874,698	3,725,281
Egypt	1,236,541	484,865
Qatar	11,255	64,528
Kuwait	283,463	222,340
Oman	—	505,147
	\$ 2,433,333	\$ 5,002,161

The majority of the Corporation's revenue is derived from the telecommunication industry and was earned through service contracts from one client. In Q1 2016, 15% (Q1 2015: 63%) of the Corporation's revenue was derived from one customer.

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

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6. OPERATING SEGMENT INFORMATION (cont'd)

Receivables by segment for the three months ending	March 31, 2016	December 31, 2015
Canada	\$ 8,427,463	\$ 9,785,888
Egypt	1,127,425	1,195,918
	\$ 9,554,888	\$ 10,981,806

As at March 31, 2016, approximately 24% (Q1 2015: 66%) of the Corporation's trade accounts receivable balance was from two customers.

7. INCOME TAXES

Due to the loss in Q1 2016, there is no provision for Canadian taxes in this period.

The deferred tax asset has not been recognized in these consolidated financial statements, as management does not consider it probable that those assets will be realized in the carry forward period.

8. EARNINGS PER SHARE

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

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

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

As at March 31, 2016

Options – Share-based payments (Note a) 4,283,000

Note a: Of which 3,469,500 had vested as of March 31, 2016.

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

March 31,	2015	2015
Net earnings (loss) attributable to ordinary equity holders of the parent for basic earnings	\$(1,986,457)	\$722,489
Net earnings (loss) attributable to ordinary equity holders of the parent adjusted for the effect of dilution	\$(1,986,457)	\$722,489

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March 31, 2016 and 2015

8. EARNINGS PER SHARE (cont'd)

March 31,	2016	2015
Weighted average number of common shares outstanding for basic earnings per share	36,224,891	36,144,891
Weighted average number with the effect of dilution on common shares	40,460,488	39,256,001
Income per share (basic)	(\$0.05)	\$0.02
Income per share (diluted)	(\$0.04)	\$0.02

9. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise of cash at banks and on hand in the amount of \$523,593 as at March 31, 2016 (December 31, 2015: \$356,218; March 31, 2015: \$1,757,192).

10. TRADE AND OTHER RECEIVABLES

	March 31, 2016	December 31, 2015
Trade receivables	\$ 5,518,448	\$ 7,103,968
Less: Impaired	(27,243)	(46,314)
Trade receivables after impairment	5,491,205	7,057,654
Receivables from tax authorities	78,599	61,459
Unbilled revenue	3,852,831	3,780,270
HST receivable	19,860	21,169
Other receivables	112,393	61,254
	\$ 9,554,888	\$ 10,981,806

Trade receivables are non interest bearing and are generally on 30-180 day terms. The Corporation has a provision for bad debt in the amount of \$27,243 (December 31, 2015: \$61,031).

Neither past due nor impaired	March 31, 2016	December 31, 2015
Current	\$ 1,206,344	\$ 1,676,136
30 – 60 days	246,086	1,483,845
61 – 90 days	921,161	1,232,820
91 – 180 days	2,663,932	793,125
Past due but not impaired		
Greater than 180 days	480,925	1,918,042
	\$ 5,518,448	\$ 7,103,968

Unbilled revenue consists of service revenue that has already been rendered as at March 31, 2016 and recognized in accordance with the Corporation's revenue recognition policy from Note 2.

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March 31, 2016 and 2015

11. INVENTORY

	March 31, 2016	December 31, 2015
Finished goods - medical inventory	\$ 135,881	\$ 188,059
	\$ 135,881	\$ 188,059

12. PERFORMANCE AND BID BONDS

At March 31, 2016, of the \$76,773 in performance bonds (December 31, 2015: \$63,780), \$53,717 was for two bid bonds in Saudi Arabia (KSA) and \$23,056 (December 31, 2015: \$33,037) was for various bid bonds in Egypt. The bonds are non-interest bearing.

Additionally, at March 31, 2016, the Corporation also had a performance bond issued in its name under its \$3 Million EDC-supported bonding facility in the amount of approximately \$267,105 (December 31, 2015: \$267,105). The bond has been financed by a Canadian financial institution and is supported and 100% insured by EDC and is scheduled to be released in December 2016. Premiums for this bonding facility for the period ended March 31, 2016 were \$4,164 (December 31, 2015: \$33,273). 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 facility was approximately 9% utilized at period end.

13. PREPAID EXPENSES

	March 31, 2016	December 31, 2015
Prepaid rent	\$ 131,097	\$ 105,873
Prepaid insurance	76,777	104,068
Other deposits	37,014	88,096
	\$ 244,888	\$ 298,037

14. PROPERTY AND EQUIPMENT

The amount of borrowing costs capitalized during the three months ending March 31, 2016 was \$NIL (March 31, 2015: \$NIL).

	Furniture and Equipment	Computer Equipment	Computer Software	Total
Cost:				
At December 31, 2014	\$492,075	\$677,545	\$266,101	\$1,435,721
Additions	35,931	34,659	122,947	193,537
Disposals	—	—	—	—
At December 31, 2015	\$528,006	\$712,204	\$389,048	\$1,629,258
Additions	17,834	16,144	846	34,824
Disposals	—	—	—	—
At March 31, 2016	\$545,840	\$728,348	\$389,894	\$1,664,082

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

March 31, 2016 and 2015

	Furniture and Equipment	Computer Equipment	Computer Software	Total
Depreciation and impairment:				
At December 31, 2014	\$335,134	\$649,394	\$227,464	\$1,211,992
Depreciation for the year	30,859	16,207	85,752	132,818
Impairment	—	—	—	—
Disposals	—	—	—	—
At December 31, 2015	\$365,993	\$665,601	\$313,216	\$1,344,810
Depreciation for the year	6,346	23,907	13,761	29,304
Impairment	—	—	—	—
Disposals	—	—	—	—
At March 31, 2016	\$372,339	\$689,508	\$326,977	\$1,374,114
Net book value:				
At March 31, 2016	\$173,501	\$38,840	\$62,917	\$275,258
At December 31, 2015	\$162,013	\$46,603	\$75,832	\$284,448
At December 31, 2014	\$156,941	\$28,151	\$38,637	\$223,729

15. INTANGIBLE ASSETS

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

NTS is a retail management software for telecommunication companies. The development costs are determined to have a useful life of 10 years are amortized on a straight line basis. The amount capitalized as at March 31, 2016 is \$NIL (December 31, 2015: \$NIL) in development costs. During the year, and amortization expense of \$91,104 (December 31, 2015: \$364,417) was recognized. The NTS software will be fully amortized by 2023.

StageEM is a goal-focused integrated software solution that improves organizational efficiency by integrating strategic planning, business planning, demand and capacity management, operation optimization, portfolio project management and analytics. The development costs are determined to have a useful life of 10 years are amortized on a straight line basis.

The amount capitalized as at March 31, 2016 is \$610,575 (December 31, 2015: \$2,308,200) in development costs relating to StageEM. During the period, an amortization expense of \$128,580 (December 31, 2015: \$70,872) was recognized. The StageEM will be fully amortized by within 10 years from the project's completion date.

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March 31, 2016 and 2015

15. INTANGIBLE ASSETS (cont'd)

	NTS Development Costs	StageEM Development Costs	Total
Cost:			
At January 1, 2015	\$ 3,644,168	\$ 2,308,200	\$ 5,952,368
Additions	—	2,308,200	2,308,200
Disposals	—	—	—
At December 31, 2015	\$ 3,644,168	\$ 2,308,200	\$ 5,952,368
Additions	—	610,575	610,575
Disposals	—	—	—
At March 31, 2016	\$ 3,644,168	\$ 2,918,775	\$ 6,562,943
Amortization and impairment:			
At January 1, 2015	\$ 1,177,099	\$ —	\$ 1,177,099
Amortization for the period	364,417	70,872	435,289
Impairment	—	—	—
Disposals	—	—	—
At December 31, 2015	\$ 1,541,516	\$ 70,872	\$ 1,612,388
Amortization charge for the period	91,104	128,580	219,684
Impairment	—	—	—
Disposals	—	—	—
At March 31, 2016	\$ 1,632,620	\$ 199,452	\$ 1,832,072
Net book value:			
At March 31, 2016	\$ 2,011,548	\$ 2,108,748	\$ 4,120,296
At December 31, 2015	\$ 2,102,652	\$ 2,237,328	\$ 4,339,980
At December 31, 2014	\$ 2,467,069	\$ —	\$ 2,467,069

The Corporation has no indicators of impairment for the period ending March 31, 2016. An impairment test is performed on non-current assets at year end, or when indicators warrant it.

16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2016	December 31, 2015
Trade payables	\$ 1,294,140	\$ 817,205
Accrued liabilities	—	242,356
Related parties payable	—	—
Taxes payable	—	19,189
Other accounts payable	226,542	175,821
	\$ 1,520,682	\$ 1,254,571

Terms and conditions of the above financial liabilities:

- Some trade payables are interest bearing
- Accrued liabilities are non interest bearing
- Related parties payables are non interest bearing and have no specified terms of repayment
- Other accounts payable are non interest bearing

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

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17. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Other financial liabilities**Bank indebtedness**

	March 31, 2016	December 31, 2015
In January and February 2016, the Corporation had a \$6 Million demand credit facility and \$3 Million bonding facility with RBC Royal Bank of Canada, Knowledge Based Industries Banking Group – Ontario. It had an annual interest rate of bank prime plus 2.05%. \$3 Million of the available credit is an operating line based on marginable receivables and \$3 million is a revolving facility to support pre-shipping costs associated with exports. The facilities are secured by a General Security Agreement over the assets of the Corporation and are supported by Export Development Canada (EDC).		
In March 2016, the credit limits were increased to \$7.7 Million; \$3.2 million based on marginable receivables with an annual interest rate of bank prime plus 2.05%, and \$4.5 million for the revolving facility with an annual interest rate of bank prime plus 1.05%. The facilities are secured by a General Security Agreement over the assets of the Corporation and are supported by Export Development Canada (EDC). All other details are unchanged.	6,736,009	5,964,200
	<u>\$6,736,009</u>	<u>\$5,964,200</u>

At March 31, 2016, the Corporation also had a performance bond issued in its name under its \$3 Million EDC-supported bonding facility in the amount of approximately \$267,105. The bond has been financed by a Canadian financial institution and is supported and 100% insured by EDC. The performance bond is scheduled to be released in December 2016. Premiums for this bonding facility for the period ended March 31, 2016 were \$4,164 (December 31, 2015: \$33,273). The facility was approximately 9% utilized at period end.

(b) Fair values

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

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

March 31, 2016 and 2015

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

	Carrying Amount		Fair Value	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Financial assets				
Cash and cash equivalents	\$523,593	\$356,218	\$523,593	\$356,218
Trade and accounts receivable	9,554,888	10,981,806	9,554,888	10,981,806
Performance bonds	76,773	63,780	76,773	63,780
Total Financial Assets	\$10,155,254	\$11,401,804	\$10,155,254	\$11,401,804

	Carrying Amount		Fair Value	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Financial liabilities				
Accounts payable and accrued liabilities	\$1,520,682	\$1,254,571	\$1,520,682	\$1,254,571
Operating line	6,736,009	5,964,200	6,736,009	5,964,200
Current long term debt	—	—	—	—
Long term debt	—	—	—	—
Total Financial Liabilities	\$8,256,691	\$7,218,771	\$8,256,691	\$7,218,771

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

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

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

Fair value hierarchy

As at March 31, 2016, the Corporation held cash measured at fair value.

The Corporation uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

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

March 31, 2016 and 2015

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

Assets measured at fair value	March 31, 2016	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 523,593	\$ 523,593	\$ –	\$ –
No liabilities were measured at fair value	\$ –	\$ –	\$ –	\$ –

During the reporting period ending March 31, 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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

As at March 31, 2016, the authorized share capital consists of an unlimited number of first preferred shares, second preferred shares and common shares. To date, no first or second preferred shares have been issued. Before any shares of a particular preferred share series are issued the directors of the Corporation, by resolution shall fix the dividend rates, whether the dividends are cumulative and the redemption price of the redeemable shares.

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

	Common Shares	Amount
Balance, January 1, 2015	36,124,891	\$ 8,818,847
Shares issued (i)	424,000	66,350
Shares cancelled (i)	(394,000)	(127,689)
Allocation of contributed surplus (i)	–	49,931
Balance, December 31, 2015	36,154,891	\$ 8,881,959
Shares issued (ii)	70,000	7,250
Allocation of contributed surplus (ii)	–	4,855
Balance, March 31, 2016	36,224,891	\$ 8,894,064

(i) Over the course of the 2015 fiscal year, various employees and consultants exercised a total of 424,000 options, with a total value of \$66,350. Additionally, 394,000 shares were cancelled with a total value of \$127,689. These transactions resulted in a re-allocation of contributed surplus to capital stock in the amount of \$49,931.

(ii) During Q1 2016, various employees and consultants exercised a total of 70,000 options, with a total value of \$7,250. These transactions resulted in a re-allocation of contributed surplus to capital stock in the amount of \$4,855.

(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.

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

March 31, 2016 and 2015

18. EQUITY INSTRUMENTS (cont'd)

All options granted by the Corporation are non-assignable. The options generally expire three years subsequent to the date of grant and vest over 6 months to one year.

No options were granted to non-employees during Q1 2016. Details of stock options are as follows:

	Options	Weighted average exercise price
Balance, 1 January 2015	3,136,000	\$ 0.28
Granted	1,846,000	\$ 0.26
Exercised	(424,000)	0.16
Expired	(315,000)	0.25
Balance, December 31, 2015	4,243,000	\$ 0.31
Granted	135,000	\$ 0.17
Exercised	(70,000)	0.10
Expired	(25,000)	0.34
Balance, March 31, 2016	4,283,000	\$ 0.31

The stock options expire at various dates between May 2016 and March 2019. The weighted average expected contractual lives of outstanding and exercisable options are as follows:

Options Outstanding			Options Exercisable	
Exercise Price	Number of outstanding Mar 31/16	Expected life of option (years)	Number of outstanding Mar 31/16	Expected life of option (years)
\$ 0.10	250,000	0.14	250,000	0.14
0.15	132,000	1.05	52,000	0.25
0.16	50,000	2.98	—	—
0.17	281,000	2.77	—	—
0.19	20,000	1.37	20,000	1.37
0.20	398,000	0.28	398,000	0.28
0.23	240,000	1.71	230,000	1.53
0.24	30,000	0.99	30,000	0.99
0.25	80,000	1.36	80,000	1.36
0.26	498,000	1.52	155,500	0.61
0.27	150,000	2.28	150,000	2.28
0.28	211,000	0.77	211,000	0.77
0.30	800,000	2.07	800,000	2.07
0.31	50,000	2.23	—	—
0.32	145,000	0.91	145,000	0.91
0.40	78,000	0.51	78,000	0.51
0.42	220,000	0.43	220,000	0.43
0.60	650,000	0.54	650,000	0.54
Total	4,283,000	1.33	3,469,500	0.94

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

March 31, 2016 and 2015

18. EQUITY INSTRUMENTS (cont'd)

For the period ending March 31, 2016 the Corporation recorded \$42,834 (Q1 2015: \$28,853) 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 year. The weighted average fair value of options granted during Q1 2016 is \$0.17 (Q1 2015: \$0.228). 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:

March 31	2016	2015
Stock price	\$0.21	\$0.28
Risk-free interest rate	0.46%	0.57%
Expected life (years)	3 years	3 years
Expected dividend yield	0%	0%
Expected volatility	92.96 – 141.67%	107.45 – 107.74%
Fair value of options issued in the period	0.133	0.228

(c) Treasury shares

In 2015, the Corporation purchased 394,000 of its shares with a fair value of \$128,549. To date in 2016, no shares have been purchased and cancelled.

Balance, December 31, 2014	–	\$	–
Shares purchased	140,500	\$	49,885
Balance, March 31, 2015	140,500	\$	49,885
Shares purchased	89,500	\$	28,802
Shares cancelled	(230,000)	\$	(78,687)
Balance, June 30, 2015	–	\$	–
Shares purchased	164,000	\$	49,862
Shares cancelled	(164,000)	\$	(49,862)
Balance, December 31, 2015	–	\$	–

19. CONTRIBUTED SURPLUS

Contributed surplus for the period ending March 31, 2016 consisted of \$42,834 (December 31, 2015: \$342,845) for share-based payments and re-allocation of contributed surplus on exercise of share options \$49,931 (2014: \$29,920).

Opening balance January 1, 2016	\$	1,572,517
Share-based payments		42,834
Reallocation on exercise of share options		(4,855)
Balance as at March 31, 2016	\$	1,610,496

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

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

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

March 31, 2016 and 2015

21. GOVERNMENT GRANTS

The Corporation recorded government assistance related to IRAP against research and development expenses. The IRAP funding program is non-repayable and was received through various programs. The IRAP funding amount was recognized as income against the expense accounts it relates to.

	March 31, 2016	December 31, 2015
IRAP received or receivable during the period	\$ 116,656	\$ 216,381
Total	\$ 116,656	\$ 216,381

22. COST OF SALES

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

	March 31, 2016	March 31, 2015
Salaries	\$ 1,460,540	\$ 2,986,683
Travel	217,438	212,154
Other	59,354	48,505
Total	\$ 1,737,331	\$ 3,247,342

23. EXPENSES: DISCLOSURE OF FUNCTION EXPENSES

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

Selling	March 31, 2016	March 31, 2015
Salary and wages	\$ 261,325	\$ 101,414
Marketing and advertising	224,716	221,038
Mailing and courier	—	2,193
Professional services	8,167	28,396
Meals and entertainment	11,265	6,271
Total	\$ 505,472	\$ 359,312

General and Administrative	March 31, 2016	March 31, 2015
Salary and wages	\$ 1,273,606	\$ 416,558
Occupancy	114,439	53,090
Consulting	2,537	18,286
Professional fees	15,517	28,924
Insurance	10,706	8,386
Dues and subscriptions	12,567	11,473
Penalties and fees	23,593	23,948
Telecommunication	11,086	11,991
Office equipment	1,200	1,200
Total	\$ 1,465,251	\$ 573,856

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

March 31, 2016 and 2015

24. RELATED PARTY DISCLOSURES

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

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

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

	Interest Received	Amounts Owed by Related Parties	Amounts Owed to Related Parties
Key management personnel of the Corporation:			
March 31, 2016	–	300,000	
March 31, 2015	–	–	
Key management compensation		March 31, 2016	March 31, 2015
Short term employee benefits		\$ 138,063	\$ 122,688
Total		\$ 504,250	\$ 122,688

The Ultimate Parent

The Corporation is the ultimate parent entity.

Related Party Transactions

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

Related parties include key management, the Board of Directors, close family members and entities which are controlled by these individuals as well as certain persons performing similar functions.

During the period ended March 31, 2016, the directors and key management were not awarded share options under the Corporation's incentive stock option plan (Q1 2015: \$NIL).

Entity with significant influence over the Corporation

No single entity or party has significant influence over the Corporation. As at March 31, 2016 the Corporation has 36,224,891 common shares outstanding. Related parties (direct and indirect) holdings are as follows:

Ashraf Zaghloul, CEO	5,275,776
Kristine Lewis, CFO	2,859,131
Mohamed Adel Zaghloul	870,000
Mohammad Zafar Farooqui	658,333
Sinclair Stevens	38,500

24. RELATED PARTY DISCLOSURES (cont'd)

Terms and conditions of transactions with related parties

Outstanding balances with related parties at the year-end are unsecured and interest free. There have been no guarantees provided or received for any related party receivables or payables. All amounts due to and from related parties are non-interest bearing, and are due in the ordinary course of business, and will not be repayable within the next year. All transactions with the related parties are carried out in the normal course of operations, and are recorded at fair value.

25. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Corporation's primary risk management objective is to protect the Corporation's balance sheet and cash flow.

The Corporation's principal financial liabilities comprise of bank overdraft, long term debt and trade and other payables. The main purpose of these financial liabilities is to raise finances for the Corporation's operations.

The Corporation is exposed to market risk, interest rate risk, foreign exchange risk, credit risk, and liquidity risk.

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

The Committee provides assurance to the Corporation's senior management that the Corporation's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured, and managed in accordance with the Corporation's policies and group risk appetite. All derivative activities, if any, for risk management purposes are carried out by a team that has the appropriate skills, experience, and supervision. It is the Corporation's policy that no trading in derivatives for speculative purposes shall be undertaken.

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

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise several types of risk: interest rate risk, currency risk, commodity price risk, and other price risk, such as equity risk.

Interest rate risk

The Corporation's exposure to interest rate fluctuations is primarily interest paid on its bank indebtedness and long-term loans. The Corporation has performed sensitivity analysis on interest rates at March 31, 2016 to determine how a change in interest rates would impact equity and net loss. During the period, the Corporation paid \$62,865 (Q1 2015: \$39,659) on its bank loans.

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

An increase or decrease of 100 basis points in the average interest rate paid during the period would have adjusted net earnings by approximately \$6,287 (Q1 2015: \$3,966). 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 Corporation'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 the USA to Canadian dollar exchange rate on the March 31, 2016 balances would have an approximate \$4,177 (Q1 2015: \$23,067) impact on net income. A 10% change in the Egyptian pound to Canadian dollar exchange rate would have an approximate \$32,010 (Q1 2015: \$7,140) impact on net income. A 10% change in the Saudi Riyal to Canadian dollar exchange rate would have an approximate \$507,491 impact on net income. A 10% change in the Omani Riyal to Canadian dollar exchange rate would have an approximate \$111,168 impact on net income. A 10% change in the Kuwaiti Dinar to Canadian dollar exchange rate would have an approximate \$79,093 impact on net income.

Commodity price risk

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

Equity price risk

The Corporation has no exposure to equity price risk.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligation. The Corporation's financial instruments that are exposed to credit risk consist primarily of trade receivable. The Corporation's exposure to credit risk is impacted by the economic conditions for the industry which could affect the customers' ability to satisfy their obligations. In order to reduce risks, the Corporation performs periodic credit evaluations of the financial conditions of its customers and typically does not require collateral from them. Management assesses the need for allowance for potential credit losses by considering the credit risk of specific customers, historical trends and other information. The Corporation also mitigates credit risk through credit insurance coverage with Export Development Canada as explained in Note 27.

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

March 31, 2016 and 2015

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

The aging of trade accounts receivable are as follows:

Neither past due nor impaired	March 31, 2016	December 31, 2015
Current	\$ 1,206,344	\$ 1,676,136
30 – 60 days	246,086	1,483,845
61 – 90 days	921,161	1,232,820
91 – 180 days	2,663,932	793,125
Past due but not impaired		
Greater than 180 days	480,925	1,918,042
	\$ 5,518,448	\$ 7,103,968

The credit quality of all the accounts receivable of the Corporation that are neither past due nor impaired and the age of accounts receivable that are past due but not impaired have been assessed on an individual basis and determined to have a mitigated risk profile as they are insured receivables. As at March 31, 2016, the Corporation has insured receivables in the amount of \$5,389,837 (December 31, 2015: \$5,645,370).

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 March 31, 2016:

Contractual obligations	2017	2018	2019	2020	Total
Operating line of credit	\$ 6,736,009	\$ –	\$ –	\$ –	\$ 6,736,009
Accounts payable and accrued liabilities	1,520,682	–	–	–	1,520,682
Operating lease	123,587	112,246	110,786	110,786	457,406
Long term debt	–	–	–	–	–

The Corporation accrues expenses when incurred. Accounts are deemed payable once an event occurs that requires payment by a specific date.

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 risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet liabilities when due. The contractual maturity of the majority of accounts payable is within one month.

NTG CLARITY NETWORKS INC.**Notes to the Unaudited Interim Consolidated Financial Statements**March 31, 2016 and 2015

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

The aging of trade accounts payable are as follows:

	March 31, 2016	December 31, 2015
Current	\$ 1,121,294	\$ 758,103
31 – 60 days	114,797	31,388
61 – 90 days	18,173	16,506
91 – 180 days	39,876	11,208
More than 180 days	–	–
	\$ 1,294,140	\$ 817,205

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 March 31, 2016, 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 March 31, 2016. Also, no changes were made in the objectives, policies, or processes during the period ending March 31, 2016. 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.

26. COMMITMENTS, CONTINGENCIES, AND GUARANTEES

Export Development Canada

In 2009, the Corporation entered into an agreement with Export Development Canada ("EDC") whereby EDC agreed to provide ninety percent (90%) insurance coverage for the Corporation's invoiced sales. The premium paid ranges based on the customer and the customer's country of residence.

NTG CLARITY NETWORKS INC.**Notes to the Unaudited Interim Consolidated Financial Statements**March 31, 2016 and 2015

26. COMMITMENTS, CONTINGENCIES, AND GUARANTEES (cont'd)

For the three months ending March 31, 2016, the premiums paid ranged from \$0.00462 - \$0.00819 per \$100 of monthly invoiced amount (Q1 2015: \$0.00420). The policy period is from April 1, 2015 to March 31, 2016 with an annual renewal unless the policy is terminated by the Corporation (the policy was renewed for another year until March 31, 2017). During the three months ended March 31, 2016, the Corporation recorded total premiums of \$21,241 included in general and administration expenses (Q1 2015: \$15,460).

In December 2014, the Corporation submitted a claim to EDC in the amount of \$2.1 million USD. The Corporation's exposure as a result of this claim was \$210,000 USD (2013: \$150,000 USD) and the Corporation made a provision for bad debt in the amount of \$240,000. EDC paid out the claim in 2015.

The Corporation is committed under agreements for the rental of office space at a monthly rate of \$9,232.25 for the period from January 1, 2011 to May 31, 2016, and has additional space at a rate of \$1,500.00 for the period from July 1, 2015 to July 31, 2016.

Operating lease commitments – Corporation as lessee

The Corporation has lease commitments for the office premises in Canada, Saudi Arabia, Oman, and Kuwait as follows:

	March 31, 2016	December 31, 2016
2016	–	\$ 136,404
2017	123,587	2,920
2018	112,246	1,460
2019	110,786	–
2020	110,786	–
	\$ 457,406	\$ 140,784

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.

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

March 31, 2016 and 2015

27. COLLATERAL

The Corporation has pledged its assets under a General Security Agreement (“GSA”) as disclosed in Note 18. The Corporation did not hold collateral at March 31, 2016, and March 31, 2015.

28. COMPARATIVE FIGURES

Certain of the 2015 figures have been reclassified to conform with the current year’s financial statement presentation.