



# NTG Clarity Networks Inc.

*Simplifying Business Solutions*



[www.stageem.com](http://www.stageem.com)

## ANNUAL REPORT 2019



### Customers

Acquire, Retain, Grow

### Innovation

Products, Model

### Markets

Regions, Segments

New Product Suite

Partnerships

Cloud-Based OSS/BSS

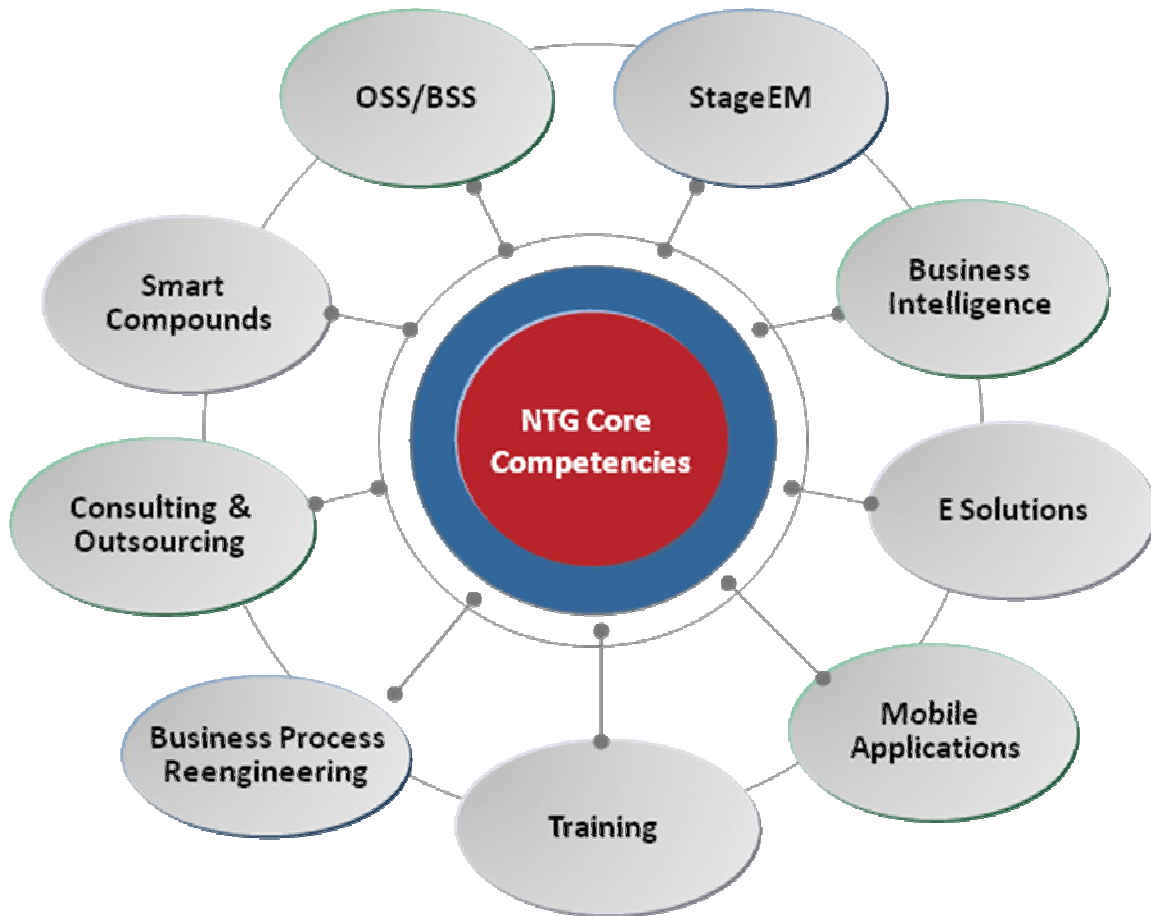
Cloud-Based StageEM

Mobile Apps & M-Commerce

Support New Telecom Services

## Our Vision

To be the leading provider of high quality systems and solutions while creating an environment of success for our customers, employees and shareholders.



## Our Value Proposition

NTG Clarity partners with groups who design, build, manage, and support networks and network software applications.

We are the experts in applying technology, methodology, process, and people to provide quality and on time network services; on your premises or ours. We help you, our customer, to increase revenue, improve customer satisfaction, and focus on your bottom line.

**"We are your software and network services partner!"**

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## Letter to our Shareholders

At this time, we are mindful of the devastating effects of COVID-19 and the impact the pandemic has had on global economies throughout the world. Our thoughts are with those most impacted by the disease, as well as with the frontline workers who risk their own wellbeing to protect citizens across the globe.

During 2019, in what was undoubtedly the most challenging year we have faced, management's efforts were focused on working with NTG's Bank and the cash flow shortfall. Despite management's efforts to raise funds and obtain short-term loans, reduced cash flow continued to significantly affect NTG's ability to finance its ongoing work, which caused a slowdown. Consequently, these issues resulted in lost revenue over the year.

In September 2019, the Corporation announced that it had received a formal demand for payment of its Bank facilities. NTG's shares were subsequently halted for trading and the Bank obtained a court order placing the Corporation under interim receivership. Management continued discussions with the Bank with a view to avoiding full receivership of the Corporation. In December 2019, a numbered Company controlled by Ashraf Zaghoul, NTG CEO and Kristine Lewis, NTG President, was formed and assumed the Bank's Indebtedness and Security position through an Assignment and Debt Agreement. This absolved NTG of any repayment obligations to the Bank, and the Corporation subsequently returned to good standing with the Exchange and its shares trading resumed. We recognize that this was a challenging time for NTG's shareholders and we appreciate the continued support and patience that was received.

With its focus on the Bank and with the cash flow shortfall throughout the year, NTG experienced a significant drop in revenue, particularly in the third quarter. However in the fourth quarter, several projects picked up, resulting in a 55% increase in Q4 revenue over the previous year.

NTG is now facing the unprecedented challenges associated with COVID-19 and the global shut-down. With businesses starting to return to operations, we are beginning to experience renewed activity in our sales and marketing efforts and hope that we will continue to see a return to some normalcy in the coming months.

We would again like to thank our valued shareholders for their continued support during these challenging times. As management's interests are closely aligned with our shareholder base, we remain committed to working diligently to return NTG to a profitable and growing company in the years ahead.

*"Ashraf Zaghoul"*

Ashraf Zaghoul, Chair and Chief Executive Officer  
NTG Clarity Networks Inc.





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

This management discussion and analysis focuses on key statistics from the consolidated financial statements and pertains to known risks and uncertainties relating to the telecommunications and consulting industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion and analysis of the financial condition and results of operations has been prepared as of June 12, 2020, for the year ended December 31, 2019 and should be read in conjunction with the audited consolidated financial statements and related notes and material contained in other parts of this annual report.

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

### **Forward-Looking Statements**

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

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

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

### **Business Overview**

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NTG Clarity is a Canadian publicly traded Corporation (TSXV:NCI) that provides telecommunications engineering, Information Technology, networking and related software solutions. We have been developing niche software products directed at telecom service providers and utilities markets since our inception in 1993. We also provide professional services network, and managed services to this same vertical.

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

This year, management’s efforts were focused on working with the Bank and the cash flow shortfall. Despite management efforts to raise funds and obtain short-term loans, reduced cash flow continued to

significantly affect the NTG's ability to finance the ongoing work, which caused a slowdown of many projects. These issues resulted in significant lost revenue over the year.

### **Summary of Events in 2019**

The following outlines the events that occurred in 2019:

- In January 2019, NTG signed an agreement with the Bank to restructure the credit facilities.
- In February 2019, the Bank extended the Facility 4 repayment deadline to September 30, 2019 and required NTG to pay down \$70,000 per month from the principal.
- On September 17, 2019, the Corporation announced that it had received a formal demand for payment of its Bank facilities, requesting payment in full within 10 days.
- On October 7, 2019, the Corporation announced the resignation of its two independent Board members.
- On October 8, 2019, the Investment Industry Regulatory Organization of Canada (IIROC) halted trading for the Corporation citing the reason as "Pending Company Contact".
- On October 9, 2019, the Bank obtained a court order placing the Corporation under interim receivership. Management continued discussions with the Bank with a view to avoiding full receivership of the Corporation.
- On December 4, 2019, the Corporation announced the two independent Board members had agreed to return to the Board.
- On December 8, 2019, the court-ordered interim receivership order expired, and all matters relating to the receivership application were discontinued.
- Effective December 16, 2019, a numbered Company assumed the Bank's Indebtedness and Security position through an Assignment and Debt Agreement. This includes any and all rights, title and interest, together the full benefit of all powers and all covenants and provisions contained in the Security. This Company is controlled by Ashraf Zaghloul, NTG CEO and Kristine Lewis, NTG President.

### **Egypt**

Historically, Egypt has always been a challenging place to do business with ongoing restrictions on using foreign currency for business operations and on moving funds out of the country. We mitigate much of the risk of doing business in the country as our expenses and the majority of our contracts in Egypt are both in the local currency. In September 2019, we discontinued the EDC Foreign Funds (Risk) Insurance due to cash flow.

NTG Egypt's revenue contribution continues to be strong. In 2019, the subsidiary contributed 33% of the Corporation's revenue (2018: 24%).

### **Kingdom of Saudi Arabia (KSA)**

NTG has been doing business in KSA for over 14 years, and ongoing initiatives continue to show returns with 62% of our professional service work and 49% of our revenue being from KSA (2018: 44% and 36% respectively). NTG has developed good brand recognition and a solid track record over the years, which is an asset to our work in the region.

The Saudi government policies first implemented in 2018 has increased the cost of doing business in the country and has restricted Canadian companies from doing work with the Saudi government. Despite this, our KSA revenue has remained similar to last year (\$4.2 million). Additionally, we have new customers in

the banking sector and customers in public sectors, and we look forward to winning new projects accordingly.

### **Kuwait**

Kuwait contributed 8% to NTG's revenue in 2019 (2018: 28%), substantially most of which was in the first half of 2019. As of December 31, 2019, there was no significant revenue generated in Kuwait and no potential replacement of the lost revenue. As a result, management is reviewing legal options to close the business unit.

### **Oman**

In 2019, we continued work for our customer in Oman, who is using our NTS Network Inventory and Project Management modules. The product sales have assisted with recurring revenues from maintenance and support, and extra licenses and provided new opportunities through change requests and new module implementation. Oman contributed 9% to NTG's revenue in 2019 (2018: 11%).

### **Outlook**

In 2019, management's efforts were focused on resolving issues with the Bank and with the cash flow shortfall. Though the Bank is no longer an issue going forward, legacy debt and repayment of short-term loans remain a challenge. All agreements, terms and conditions that applied to the Bank now apply to the numbered Company, who assumed the Bank's indebtedness and security. This Company has agreed not to ask for principal installment repayments until the end of August 2020. This has provided some cash flow relief, however interest continues to accrue.

In December 2019, the presence of coronavirus was reported in Wuhan, China. After year end, the World Health Organization ("WHO") declared a Public Health Emergency and on March 11, 2020, declared COVID-19 to be a global pandemic. As a result, countries restricted travel, closed schools and non-essential businesses, and asked that people stay home. Countries such as KSA and Egypt, where NTG does most of its work, enforced strict curfews.

As NTG is not designated an essential service, all our offices were closed and staff were asked to work from home. Sales activities and collections have slowed. Existing projects are continuing at a slower pace and acceptance of deliverables by customers is therefore slower. Revenue and cash flow have already been impacted.

Though the Canadian government has made a wage subsidy available to qualifying businesses, the majority of NTG's staff is located in Egypt, KSA and Oman and the wage subsidies are not available to NTG. We have taken advantage of the reporting deadline extension for TSX venture-listed public companies for both this annual report and for our Q1 2020 report, which we anticipate will be published by July 8, 2020.

At the time of publishing of this report, it is uncertain how long these COVID-19 conditions will last and what economic impact they will have on our business, ongoing cash flows and our ability to continue as a going concern. If the situation continues more than three months, it will affect our business.

### **Summary of Quarterly Results**

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

Quarter over quarter revenues have dropped this year, primarily due to management's focus on negotiations with the Bank. Despite efforts to raise funds and obtain short-term loans, reduced cash flow impacted our ability to finance the ongoing work. This caused a slowdown of projects and resulted in lost



revenue in Q3 2019. In Q4 2019, several projects picked up, resulting in a 55% increase in Q4 2019 revenue over the same period last year.

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

<b>2019</b>	<b>Revenue</b>	<b>Net Income (Loss)</b>	<b>Profit (Loss) per Share</b>	<b>Diluted Profit per Share</b>	<b>Total Assets</b>
Quarter One	\$ 3,616,344	\$ 304,719	\$ 0.01	\$ 0.01	\$ 8,843,130
Quarter Two	2,035,298	\$ (289,170)	\$ (0.01)	\$ (0.01)	\$ 6,218,754
Quarter Three	\$ 575,594	(5,210,467)	\$ (0.09)	\$ (0.09)	\$ 4,899,211
Quarter Four	2,399,193	(3,989,191)	( 0.07)	( 0.06)	\$2,768,138
<b>TOTAL</b>	<b>\$ 8,626,429</b>	<b>\$ (9,184,109)</b>	<b>\$ (0.16)</b>	<b>\$ (0.15)</b>	<b>\$2,768,138</b>

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

## Quarterly and Annual Results of Operations

Financial Highlights for the three months and year ended December 31, 2019:

### Revenue

Consolidated revenues for the three months ended December 31, 2019 was \$2,399,193 compared to \$1,547,662 for the same period in 2018. Revenue for the year decreased 26% to \$8,626,429 compared to \$11,706,467 reported in the prior year, primarily due to the reduction in revenue from Kuwait.

Professional service revenue continues to be an important strategic source of revenue for us, given its generally recurring nature (76% as compared to 80% in 2018). We continue to work to make product sales a more balanced part of NTG's revenue stream. Hardware sales in Egypt made up 3% of overall revenue. As we view this revenue stream as low margin, we are focusing more on the higher margin product sales.

Year to date revenue is 26% lower primarily because of the loss of Kuwait revenue starting in Q2 2019. Our main contract expired and was not renewed and other projects were completed. We have been unable to replace the revenue stream in Kuwait, where we previously generated \$4.5M in 2017 and \$3.2M in 2018. Based on 2018 amounts, revenue was lower by approximately \$2.5 Million because of the removal of this revenue stream.

Oman revenue was down compared to 2018; however we anticipate more opportunities with this customer in 2020. Both KSA and Egypt's revenue remain consistent with 2018 amounts.

Consolidated revenues for Q4 2019 for the Egypt operating segment were \$881,789 compared to \$593,881 in 2018. This was due to the timing of project completion. For the year ended December 31, 2019 revenues remained steady at \$2,829,382 (2018: \$2,759,429).

For the Canadian operating segment, revenues for the three months ended and year ended December 31, 2019 were \$1,517,403 and \$5,797,047 (2018: \$953,781 and \$8,947,038). This year to date decrease was due to the end of contracts in Kuwait.

Though we retained two small Canadian customers, the Middle East continues to be where the majority of NTG's revenue comes from and as of December 31, 2019, represents 99% of total revenue. We are hopeful 2020 will see results from our past efforts with both existing and new customers.

Despite the challenges in Egypt, business development efforts have resulted in a consistently strong contribution to NTG's consolidated revenue. Egypt contributed 33% of the Corporation's revenue in 2019 (2018: 24%).

### **Unbilled Revenue**

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

Revenue can be recognized for projects based on time and materials for professional services, or on a percentage of completion basis for product implementation and support. Both can result in unbilled revenue until the customer is invoiced. Based on NTG's contracts, the customer is invoiced upon the completion of defined milestones and/or the required customer acceptance. For many contracts, revenue is recognized each month, but billed on a quarterly basis and we anticipate this to continue.

At December 31, 2019, unbilled revenue was \$447,682 compared to \$3,288,400 at December 31, 2018. Of the \$3 million drop in unbilled revenue, approximately half was due to the write off of projects in Kuwait, which include a pending court case. The balance was due to the significant slowdown in ongoing projects in Q3 2019 that were the result of Bank issues and cash flow pressures. A substantial amount of the accrued revenue was billed by the end of 2019.

### **Cost of Sales and Gross Margin**

Cost of sales consists of the expense of personnel providing professional services, and services to implement and provide technical support for our solutions. In addition, it includes an allocation of certain direct and indirect costs attributable to these activities.

Cost of sales for the three months and year ended December 31, 2019 were \$1,887,334 and \$6,373,463 respectively.

<b>Cost of sales</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Salaries and wages	\$ 5,492,507	\$ 5,634,201
Travel	323,345	74,939
Hardware	168,752	268,274
Other expenses	388,859	594,486
<b>Total</b>	<b>\$ 6,373,463</b>	<b>\$ 6,571,900</b>

Cost of sales for the Egypt operating segment for the three months and year ended December 31, 2019 were \$949,747 and \$2,417,245 compared to \$424,391 and \$1,762,456 in 2018. Increases were due to increased revenue, and also due to Egypt employees working on projects in Oman and KSA.

For the Canadian operating segment, cost of sales for the three months and year ended December 31, 2019 were \$937,587 and \$3,956,218 (2018: \$503,856 and \$4,809,444). Canada's YTD cost of sales decrease (18%) was mainly due to the end of Kuwait projects in Q2 2019.

The gross margin for the year ending December 31, 2019 was 26% compared to 44% in 2018. Realistic margins are anticipated to be between 30-40%, based on the product mix.

### **Operating Expenses**

The Corporation's operating expenses were up to \$6,896,496 in 2019 compared to \$4,211,666 in the prior fiscal year. This is primarily because of a one-time End of Service provision for Executives and a substantial foreign exchange loss.

### **Selling and Marketing**

Selling and marketing expenses consist primarily of sales staff remuneration, commissions, travel, advertising, consulting, and trade show costs.

Sales and marketing expenses for the three months and year ended December 31, 2019 were \$833,328 and \$2,316,833 respectively (2018: \$456,858 and \$1,836,770). Year to date selling expenses increased primarily due to salary increases.

<b>Selling</b>	<b>For the twelve months ended</b>	
	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Salary and wages	\$ 1,621,273	\$ 1,249,778
Marketing and advertising	316,816	342,992
Mailing and courier	5,787	7,721
Professional services	45,104	4,839
Meals and entertainment	318,947	203,123
Miscellaneous	8,906	28,317
<b>Total</b>	<b>\$ 2,316,833</b>	<b>\$ 1,836,770</b>

### **General and Administrative**

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

G&A expenses for the three months and year ended December 31, 2019 were \$2,042,682 and \$4,063,432 respectively compared to \$755,570 and \$2,635,000 in 2018. The significant increase in Salary and wages is due to an End of Service provision added at year end for Executives.

<b>General and Administrative</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Salary and wages	\$ 3,046,491	\$ 1,546,201
Occupancy	282,678	312,040
Consulting	104,708	34,705
Professional fees	119,689	111,020
Bid/performance bond fees	3,161	8,827
Insurance	426,653	427,247
Dues and subscriptions	23,228	23,339
Penalties and fees	31,264	16,165
Office and general	25,560	49,318
<b>Total</b>	<b>\$ 4,063,432</b>	<b>\$ 2,635,000</b>

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

Each entity in the Corporation determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency and the presentation currency of the parent entity is the Canadian dollar. Transactions in foreign currencies are initially recorded in respective functional currency rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate at the reporting date. Differences are taken to the statement of profit or loss and comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. The functional currency of the subsidiary NTG Egypt Advanced is the Egyptian pound, and the functional currency of the subsidiary NTG Clarity Networks US Inc. is the US Dollar.

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

For practical reasons, an average rate for the period is often used to translate income and expense items. 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.

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

For the quarter ended December 31, 2019, the Corporation recognized a foreign currency exchange loss of \$303,344, compared to a gain of \$308,040 for the same period in 2018. For the year ended December 31, 2019, the Corporation recognized a foreign currency exchange loss of \$516,231, compared to a gain of \$260,104 in the year ended 2018. For more information on foreign exchange, see Note 4(b): Foreign currency translation.

## **Other Expenses**

### **Research and Development**

Research and development is paid for by customer requests and is therefore, included in cost of sales.

### **Provision for Bad Debt and Impairment of Unbilled Revenue**

NTG has made a provision for bad debt of \$1,322,485 and an unbilled revenue impairment of \$807,196. These include:

- A customer requested a rate reduction on a project in order to pay their outstanding invoices. The provision amount was approximately \$487,000 USD.
- A customer breached a contract by terminating it without notice. A court case is pending and the provision amount is \$994,600 USD.
- A provision for bad debt for uncollected customers' invoices for approximately \$500,000 USD.

### **Amortization of Intangible Assets**

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

The amortization cost for 2019 was \$364,417 (2018: \$364,417). Indicators of impairment were present for the year ended December 31, 2019. An impairment test was performed and the net book value of the development costs (\$644,985) was fully impaired.

### **Interest Expense**

As at December 31, 2019, the interest expense was \$946,881 in 2019 as compared to \$416,828 in 2018. The significant increase was due to higher balances being carried on credit card balances, the high interest rate charged on many short-term loans, and the higher than estimated interest costs for the Bank credit facilities, which were closed effective December 16, 2019.

### **Foreign Fees**

Foreign fees are primarily taxes paid by NTG as a foreign entity working in Saudi Arabia, and some taxes paid by NTG Egypt. Foreign fees expense for the three months and year ended December 31, 2019 were \$(245) and \$(245) compared to \$(618) and \$71,009 during the same periods in 2018. This amount varies due to the exchange rates and the timing of project execution.

### **Share-based Compensation**

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

No options were granted to non-employees during 2019. Stock options granted during the three and twelve months ended December 31, 2019 totalled 800,000 and 1,670,000 (2018: Nil and 2,082,000). The weighted average expected contractual lives of outstanding and exercisable options are shown in Note 18(b). 3,408,500 options have vested and there are 3,637,000 issued. The difference of 228,500 will vest in the foreseeable future (within the next 12 months) and the expense will be charged in the future quarters.

The large number of options issued in 2019 was due to the expiry of employee and director options during the year.

During the year, 240,000 share options were exercised for a cash in-flow of \$24,000 and we reallocated \$12,000 from Contributed Surplus to Share Capital.

### **Income Taxes**

NTG has taxes payable of \$Nil (2018: \$ Nil) for the taxation year ending December 31, 2019. \$16,117,458 in income tax losses is available for Canadian federal and provincial tax purposes which may be carried forward to reduce future years' taxable income.

### **Net Loss**

For Q4 2019, the Corporation recorded a net loss of \$(3,989,191) compared to \$(549,449) for the same period in 2018. For the year ending December 31, 2019, the Corporation recorded a net loss of \$(9,184,109) compared to \$(366,044) in 2018.

The Egypt operating segment, for the three months ended December 31, 2019 recorded a net loss of \$(1,030,892) (Q4 2018: net income of \$264,328). Half of this loss was attributable to foreign exchange. For the year ended December 31, 2019 the net loss was \$(1,119,463) (2018: net income of \$294,718).

For the Canadian operating segment, the net loss for the three months and year ended December 31, 2019 of \$(2,958,299) and \$(8,064,646) compared to a net loss of \$(813,778) and \$(660,762) for the same periods last year.

The significant loss was due to:

- a \$2.1 million provision for bad debt
- a \$3 million reduction in revenue, partially to the slowdown in projects
- a \$1.1 million one-time End of Service provision for Executives
- a \$500K foreign exchange loss

Despite management's efforts to raise funds and obtain short-term loans, cash flow continues to significantly affect operations. Reduced cash flow impacted our ability to finance ongoing work, which caused a slowdown of many projects and resulted in significantly lower revenue in Q3 2019. In Q4 2019, many projects picked up, resulting in a 55% increase in Q4 2019 revenue over the same period last year.

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

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As of December 31, 2019, the Corporation closed the year with \$31,068 cash on hand (2018: \$98,694), performance bonds of \$85,675 (2018: \$111,536) and prepaid amounts of \$125,409 (2018: \$207,710).

#### **Intangible assets**

Intangible assets related to the upgrade of our internally developed NTS software product and to the software product (StageEM) in 2016. Expenditures on development of the software are recognized as an asset from the time NTG 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 December 31, 2019 is \$Nil (2018: \$3,644,168) in development costs. During the year, an amortization expense of \$364,418 (2018: \$364,416) was recognized. During the year, the Company determined that the asset was impaired and an impairment loss of \$644,985 was recognized (2018: \$Nil).

We consider 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 2019, product-related revenue was responsible for approximately 18% of NTG's revenue (2018: 19%).

#### **Property and equipment**

Property and equipment of \$179,162 as of December 31, 2019 (2018: \$221,980) consists mainly of computer equipment and office furniture with a useful life of 4-10 years. We are not dependant on tangible assets and we expect the purchase and disposal of property and equipment to be consistently modest in the foreseeable future. NTG had additions of \$11,438 during 2019 (2018: \$26,138) and depreciation of \$54,255 (2018: \$64,100).

#### **Non-current liabilities**

As of December 31, 2019, NTG had the following non-current liabilities:

- In 2018, NTG had a Bank indebtedness of \$7,228,567. Towards the end of 2019, a numbered Company assumed the outstanding indebtedness. At December 31, 2019, the outstanding amount of \$7,100,712 is disclosed as a long-term debt on the Statements of Financial Position. See Note 17(a) and Note 23 for more information.
- An amount due to related parties includes balances owing to key management and key management compensation. See Note 23 for more information.

## **Liquidity and Capital Resources**

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NTG's principal requirement for capital is to provide working capital to fund its operations and support its organic growth. Historically, we have funded operations by using profits generated by operations and through the issuance of equity. In 2019, we funded operations, changes in non-cash working capital and capital expenditures using internally generated cash flows, cash on hand, short-term loans, and Shares for Debt private placement in February 2019.

At December 31, 2019, we had a working capital deficit of \$4,490,883 compared to a deficit of \$3,933,654 at December 31, 2018. The increase in negative working capital was due to continuing losses, including the significant bad debt and impairment of the intangible asset. Efforts to address our working capital needs in 2019 included:

- closing a Shares for Debt transaction in February 2019 to reduce payables by \$360,000.
- continuing our increased collection activities.
- accepting short-term loans from investors.

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

The cash in-flow from operating activities for the year ended December 31, 2019 was \$6,131 compared to \$696,327 for the same period in 2018. The substantial change compared to 2018 was due to:

- a much higher net loss of \$(9,184,109) compared to \$(366,044) in 2018.
- an impairment of our intangible asset of \$644,985.
- a \$3.6 million decrease in accounts receivable and a \$3.4 million increase in accounts payable.

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

The cash out-flow from financing activities for the year ended December 31, 2019 was \$(62,320) compared to \$(675,939) for the same period in 2018. This was primarily due to :

- the significant increase in interest paid (\$946,881 compared to \$416,828 in 2018).
- the Shares for Debt transaction for \$360,000 in February 2019.

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

Cash out-flow from investing activities for the year ended December 31, 2019, was \$(11,437) compared to \$(26,138) for the same period in 2018.

## **Commitments and Contractual Obligations**

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The Corporation is committed under agreements for the rental of office space in Canada at a monthly rate of \$9,232 for the period from June 1, 2016 to May 31, 2021. Additionally, we have short term agreements for the rental of office space in Saudi Arabia, Oman, and Egypt, as well as lease obligations for office equipment. At December 31, 2019, NTG's operating lease obligations were \$298,704.

### **Debt and Credit Facilities**

The Corporation's credit facilities were with RBC Royal Bank until December 16, 2019, when the indebtedness was transferred to a numbered Company, controlled by Ashraf Zaghoul, NTG CEO and Kristine Lewis, NTG President. The Bank assigned the Indebtedness and the Security, and all the rights, title and interest together with the full benefit of all powers and all covenants and provisions contained in the Security. The effective date of the Assignment Agreement was December 16, 2019. All terms, including annual interest rates, remain the same as with the Bank (bank prime plus 2.05%). The Company

has agreed not to ask for principal installment repayments until the end of August 2020. The Indebtedness held by the Company is secured by a General Security Agreement (“GSA”) over the assets of the Corporation.

On December 31, 2019, the advance payment guarantee and performance bond supported by EDC expired, however the customer had until January 31, 2020 to renew the bonds. Subsequent to year end, the customer’s request to renew the performance bond was refused by the Bank. As no renewal was forthcoming, the bond was called. On February 27, 2020, the Corporation was notified that EDC had paid the Bank’s claim of \$55,848 USD. As the bond was 100% insured by EDC, so the cost was not born by the Corporation.

Premiums for these bonds for the three months and year ended December 31, 2019 were \$Nil and \$2,609 respectively (2018: \$ Nil and \$8,827).

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

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

### **Transactions with Related Parties**

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

The standard key management compensation is listed in Note 23.

The Corporation’s credit facilities were with RBC Royal Bank until December 16, 2019, when the indebtedness was transferred to a numbered Company, controlled by Ashraf Zaghoul, NTG CEO and Kristine Lewis, NTG President. The Bank assigned the Indebtedness and the Security, and all the rights, title and interest together with the full benefit of all powers and all covenants and provisions contained in the Security.

In Q4 2019, the outstanding amount owed by related parties in the amount of \$300,000 plus interest was offset against amounts due (2018: \$300,000).

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

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

Significant accounting policies are presented in detail in Note 3 of our audited consolidated financial statements for the year ended December 31, 2019. These are available on SEDAR ([www.sedar.com](http://www.sedar.com)). The policies applied in these statements are based on IFRS issued and outstanding as of June 12, 2020, the date the Board of Directors approved the consolidated financial statements.

### **Proposed Transactions**

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The Corporation intends to initiate a Shares for Debt transaction in the first half of 2020. With Board approval, an application will be made to the TSX Exchange to issue up to 45,000,000 (forty-five million) common shares of the Corporation in the amount of approximately \$675,000 owed to employees, senior



officers, directors and consultants of the Corporation. The transaction will help reduce debt and improve the balance sheet.

Subsequent to year end, on May 6, 2020, the Corporation closed the Shares for Debt transaction and issued 44,000,000 shares for the amount of \$660,000 owed to employees and consultants.

## **Business Risk and Management**

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NTG's primary risk management objective is to protect our balance sheet and cash flow. Principal financial liabilities are made up of a Company Indebtedness (assumed from RBC Royal Bank in December 2019), and trade and other payables. NTG has also taken on short term debt from overseas to assist with cash flow.

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

In addition to risks described elsewhere, NTG is subject to a number of risk factors. We have significant reliance on certain key personnel, some of whom are also key shareholders; Ashraf Zaghoul, CEO; Kristine Lewis, President; Adel Zaghoul, CEO, NTG Egypt; and Yaser Yousef, CTO.

Though we have worked hard to diversify our customer base, we are dependent on a few large customers. In 2019, 14% (2018: 20%) of the Corporation's revenue was from one customer. As at December 31, 2019, approximately 13% (2018: 39%) of the Corporation's trade accounts receivable balance was from one customer. Management continues to work to diversify the customer base and country concentration.

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.

In 2019, approximately 49% of our revenue came from work done in KSA (2018: 36%). The majority of NTG's KSA customers are consistently within our 180 days payment terms.

Historically 7-11% of our revenue comes from work done through our subsidiary NTG Egypt, based in Cairo, Egypt. Since 2014, the contribution percentage has grown from 13.7% to 33% in 2019. The contribution in Q4 2019 was 37%. The economic challenges in the region continue to have a positive impact on our Egypt operations.

Kuwait contributed 8% of the 2019 revenue, substantially all in Q1 2019 (2018: 28%). Oman's one customer contributed 9% of the revenue in 2019 (2018: 11%).

### **Interest rate risk**

The Corporation's exposure to interest rate fluctuations is primarily interest paid on its indebtedness and long-term loans. The Corporation has performed sensitivity analysis on interest rates at December 31, 2019 to determine how a change in interest rates would impact equity and net loss.

During the year, the Corporation paid \$946,881 (2018: \$416,828) on its loans and liabilities. An increase or decrease of 100 basis points in the average interest rate paid during the period would have adjusted net earnings by approximately \$94,688 (2018: \$41,683). This analysis assumes that all other variables remain constant.

### **Credit risk**

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

The credit quality of all the accounts receivable of the Corporation that are neither past due nor impaired and the age of accounts receivable that are past due but not impaired have been assessed on an individual basis and determined to have a mitigated risk profile due to their payment history. NTG previously had receivables and pre-shipment insurance; however we did not renew this insurance due to cash flow. This introduces a new level of risk of non-payment by customers which was not previously there.

As at December 31, 2019, the Corporation has unbilled revenue in the amount of \$447,682 (2018: \$3,288,400).

### **Foreign currency risk**

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

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

A 10% change in exchange rates on December 31, 2019 would have the following approximate impacts:

	U.S. Dollar USD	Omani Riyal OMR	Kuwait Dinar KWD	Saudi Riyal SAR	Qatari Riyal QAR	Egyptian Pound LE
<b>10% impact to:</b>						
P&L in CAD	50,385	701	25,734	11,925	316	54,175
Equity in CAD	37,033	515	18,915	8,765	233	39,819

### Liquidity risk

Liquidity risk is the risk that NTG will not be able to meet its financial obligations as they fall due. Our approach to managing liquidity is to ensure, as far as possible, that we will always have sufficient liquidity to meet our liabilities when due, under normal and stressed conditions. We manage liquidity risk by reviewing capital requirements on an ongoing basis. We continuously review both actual and forecasted cash flows to ensure that we have appropriate capital capacity.

The following table summarizes the amount of contractual undiscounted future cash flow requirements for financial instruments as at December 31, 2019:

Contractual obligations	2019	2020	2021	2022 and after	Total
Accounts payable and accrued liabilities	6,507,919	–	–	–	6,507,919
Operating lease	–	184,455	105,878	8,371	298,704
Long-term debt	\$ 7,100,712	\$ –	\$ –	\$ –	\$ 7,100,712

The aging of trade accounts payable are as follows:

December 31,	2019	2018
Current	\$ 419,918	\$ 1,169,027
31 – 60 days	103,642	143,003
61 – 90 days	131,302	93,386
91 – 180 days	583,163	236,399
More than 180 days	2,220,676	830,606
	<b>\$ 3,458,701</b>	<b>\$ 2,472,421</b>

Expenses are accrued when incurred. Accounts are deemed payable once an event occurs that requires payment by a specific date. The contractual maturity of the majority of accounts payable is within one month.

### Capital Management

NTG manages its capital, which consists of cash provided from operations and long term debt, with the primary objective being safeguarding sufficient working capital to sustain operations. The Board of Directors has not established capital benchmarks or other targets. As at December 31, 2019, the Corporation was pursuing additional capital through the issuance of additional equity or debt financing. There can be no guarantee that they will be successful in raising additional capital.

There have been no changes in the NTG's approach to capital management during the year ending December 31, 2019. Also, no changes were made in the objectives, policies, or processes during the year ending December 31, 2019. We will continually assess the adequacy of our capital structure and capacity and make adjustments within the context of NTG's strategy, economic conditions, and the risk characteristics of the business.

NTG's objectives when managing capital are to:

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

NTG considers the items included in the consolidated statements of changes in shareholders' equity as capital. We manage the capital structure and make 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, we may issue new shares. We are not subject to externally imposed capital requirements.

### **Legal claim contingency**

NTG 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 NTG, individually or in aggregate, will not have a material adverse impact on our 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**

NTG 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. Subsequent to year end, in March 2020, the Corporation was unable to renew its Directors and Officers insurance.

### **Collateral**

NTG has pledged its assets under a General Security Agreement ("GSA") as disclosed in Note 17. The Corporation did not hold collateral at December 31, 2019, and December 31, 2018.

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

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The Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the Corporation's disclosure controls and procedures as of December 31, 2019 and have concluded that such disclosure controls and procedures were effective to provide reasonable assurance that material information relating to the Corporation or its subsidiaries is made known to them.

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

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP (IFRS).

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

### **Standards issued but not yet effective**

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As at June 12, 2020, the date of authorization of these financial statements, certain new standards, amendments, and interpretations to existing IFRS standards have been published but are not yet effective and have not been adopted by the Corporation.

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

## Management's Statement of Responsibility

The management of **NTG Clarity Networks Inc.** is responsible for the preparation of the accompanying consolidated financial statements and the preparation and presentation of information in the Annual Report. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, and are considered by management to present fairly the financial position and operating results of the Corporation.

The Corporation maintains various systems of internal control to provide reasonable assurance that transactions are properly authorized and recorded, that assets are safeguarded, and that financial reports are properly maintained to provide reliable financial statements.

The Corporation's audit committee is comprised of independent directors and a management representative and is appointed by the Board of Directors annually. The committee meets periodically with the Corporation's management and independent auditors to review the consolidated financial statements and the independent auditors report. The audit committee has approved the consolidated financial statements and reported its findings to the Board of Directors.

The Corporation's independent auditors, NVS Chartered Accountants Professional Corporation, have examined the consolidated financial statements and their report follows.

*"Ashraf Zaghoul"*

**Ashraf Zaghoul**  
Chief Executive Officer  
June 12, 2020

*"Kristine Lewis"*

**Kristine Lewis**  
President  
June 12, 2020

## Independent Auditor's Report

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To the Shareholders of  
**NTG Clarity Networks Inc.:**

Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the accompanying consolidated financial statements of **NTG Clarity Networks Inc.** and its subsidiaries (the "Corporation"), which comprise the consolidated statements of financial position as at **December 31, 2019** and **December 31, 2018**, and the consolidated statements of profit and loss and comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Corporation as at **December 31, 2019** and **December 31, 2018**, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Corporation has attained an operating income of \$(9,184,109) during the year ended December 31, 2019 and, as of that date, the Corporation has an accumulated deficit of \$(23,164,121). As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Corporation's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Sadik Najarali.

*NVS Professional Corporation*

NVS Professional Corporation  
Authorized to practice public accounting by  
the Chartered Professional Accountants of Ontario

Markham, Ontario  
June 12, 2020

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

(In Canadian Dollars)

<b>As at December 31,</b>	<b>2019</b>		<b>2018</b>	
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents (Note 10)	\$	31,068	\$	98,694
Trade and other receivables (Note 11)		2,346,824		5,951,145
Bid/performance bonds (Note 13)		85,675		111,536
Prepaid expenses and deposits (Note 12)		125,409		207,710
Total current assets	\$	2,588,976	\$	6,369,085
Non-current assets				
Property, plant and equipment (Note 14)	\$	179,162	\$	221,980
Intangible assets (Note 15)		–		1,009,402
Due from related parties (Note 23)		–		300,000
Total non-current assets		179,162		1,531,382
Total Assets	\$	2,768,138	\$	7,900,467
<b>LIABILITIES</b>				
Current liabilities				
Bank indebtedness (Note 17)	\$	–	\$	7,228,567
Accounts payable and accrued liabilities (Note 16)		6,507,919		3,048,716
Current portion of leasehold liability		5,241		8,931
Due to related parties (Note 23)		566,699		–
Deferred revenue		–		16,525
Total current liabilities	\$	7,079,859	\$	10,302,739
Non-current liabilities				
Long-term debt (Note 17) (Note 23)		7,100,712		–
Due to related parties (Note 23)		689,718		928,001
Total non-current liabilities	\$	7,790,430	\$	928,001
Total liabilities	\$	14,870,289	\$	11,230,740
<b>SHAREHOLDER'S EQUITY</b>				
Capital stock (Note 18)		10,148,186		9,752,186
Contributed surplus (Note 19)		1,804,824		1,788,593
Foreign exchange account		(891,040)		(518,666)
Deficit		(23,164,121)		(14,352,386)
Total shareholders' equity		(12,102,151)		(3,330,273)
Total liabilities and shareholders' equity	\$	2,768,138	\$	7,900,467

Approved on behalf of the Board:

*"Ashraf Zaghoul"*

Director

*"Kristine Lewis"*

Director

See accompanying notes to consolidated financial statements.

**NTG CLARITY NETWORKS INC.**  
**Consolidated Statements of Changes in Equity**  
For the years ended December 31, 2019 and December 31, 2018  
(In Canadian Dollars)

	Share Capital	Contributed Surplus	Deficit	Foreign Exchange Reserve	Total Shareholders' Equity
<b>Balance, January 1, 2018</b>	\$ 9,740,186	\$ 1,698,960	\$ (13,998,913)	\$ (506,095)	\$ (3,065,862)
Income from continuing operations	–	–	(353,473)	–	(353,473)
Other comprehensive income	–	–	–	(12,571)	(12,571)
Share-based compensation	–	91,633	–	–	91,633
Issuance of share capital (Note 18)	10,000	–	–	–	10,000
Reallocation of contributed surplus (Note 18)	2,000	(2,000)	–	–	–
<b>Balance, December 31, 2018</b>	\$ 9,752,186	\$ 1,788,593	\$ (14,352,386)	\$ (518,666)	\$ (3,330,273)
Income from continuing operations	–	–	(8,811,735)	–	(8,811,735)
Other comprehensive income	–	–	–	(372,374)	(372,374)
Share-based compensation (Note 18)	–	28,231	–	–	28,231
Issuance of share capital (Note 18)	24,000	–	–	–	24,000
Debt for share exchange (Note 18)	360,000	–	–	–	360,000
Reallocation of contributed surplus (Note 18)	12,000	(12,000)	–	–	–
<b>Balance, December 31, 2019</b>	\$ 10,148,186	\$ 1,804,824	\$ (23,164,121)	\$ (891,040)	\$ (12,102,151)

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

(In Canadian Dollars)

<b>For the years ended December 31,</b>	<b>2019</b>		<b>2018</b>	
<b>REVENUE</b> (Note 7)	\$	8,626,429	\$	11,706,467
<b>COST OF SALES</b> (Note 21)		6,373,463		6,571,900
<b>GROSS MARGIN</b>		2,252,966		5,134,567
<b>OPERATING EXPENSES</b>				
Selling (Note 22)		2,316,833		1,836,770
General and administration (Note 22)		4,063,432		2,635,000
(Gain) loss on foreign exchange		516,231		(260,104)
Total operating expenses		6,896,496		4,211,666
<b>INCOME (LOSS) FROM OPERATIONS</b>	\$	(4,643,530)	\$	922,901
<b>OTHER EXPENSES</b>				
Amortization (Note 15)		364,417		364,417
Depreciation (Note 14)		54,255		64,100
Loss on impairment of intangible asset (Note 15)		644,985		–
Provision for bad debts (Note 11)		1,322,485		160,615
Interest		946,881		416,828
Foreign fees		(245)		71,009
Share-based payments (Note 19)		28,231		91,633
Impairment (recovery) of unbilled revenue (Note 11)		807,196		107,772
Total other expenses		4,168,205		1,276,374
<b>NET (LOSS) BEFORE TAXES</b>	\$	(8,811,735)	\$	(353,473)
<b>INCOME TAXES</b> (Note 8)				
Current income tax expense		–		–
<b>(LOSS) FROM CONTINUING OPERATIONS</b>	\$	(8,811,735)	\$	(353,473)
Other comprehensive income:				
Exchange gain (loss) arising on translation of foreign operations		(372,374)		(12,571)
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>	\$	(9,184,109)	\$	(366,044)
<b>Earnings (loss) per share</b> (Note 9)				
Basic	\$	(0.16)	\$	(0.01)
Diluted	\$	(0.15)	\$	(0.01)
<b>Weighted average number of shares outstanding</b>				
Basic		56,102,355		48,662,355
Diluted		59,588,956		52,157,941

See accompanying notes to consolidated financial statements.

**NTG CLARITY NETWORKS INC.**  
**Consolidated Statements of Cash Flows**  
(In Canadian Dollars)

<b>For the years ended December 31,</b>	<b>2019</b>	<b>2018</b>
<b>Cash provided by (used in)</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (9,184,109)	\$ (366,044)
Add-Items not affecting cash:		
Amortization (Note 15)	364,417	364,417
Depreciation (Note 14)	54,255	64,100
Interest expense	946,881	416,828
Share-based payment (Note 18)	28,231	91,633
Loss on impairment of intangible asset (Note 17)	644,985	–
	\$ (7,145,340)	\$ 570,934
Net change in non-cash working capital items,		
Decrease in trades and accounts receivable	\$ 3,604,321	\$ 214,887
(Decrease) in deferred revenue	(16,525)	(125,941)
Increase in bid/performance bond	25,861	8,590
Decrease (increase) in prepaid expenses and deposits	82,301	(68,875)
Increase in accounts payable and accrued liabilities	3,459,203	91,494
Increase (decrease) increase in leasehold liability	(3,690)	5,238
<b>TOTAL CASH IN-FLOW FROM OPERATING ACTIVITIES</b>	<b>\$ 6,131</b>	<b>\$ 696,327</b>
<b>FINANCING ACTIVITIES</b>		
Advances (to) related parties	\$ 300,000	\$ –
Advances from related parties	328,416	–
Increase in long-term debt (Note 17)	7,100,712	–
Interest paid	(946,881)	(416,828)
Issuance of common shares (Note 18)	24,000	12,000
Shares for debt issued (Note 18)	360,000	–
Other reserve (Note 19)	–	(2,000)
Repayment of bank indebtedness (Note 17)	(7,228,567)	(260,184)
(Decrease) in leasehold liability	–	(8,927)
<b>TOTAL CASH (OUT-FLOW) FROM FINANCING ACTIVITIES</b>	<b>\$ (62,320)</b>	<b>\$ (675,939)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment (Note 14)	(11,437)	(26,138)
<b>TOTAL CASH (OUT-FLOW) FROM INVESTING ACTIVITIES</b>	<b>\$ (11,437)</b>	<b>\$ (26,138)</b>
<b>NET (DECREASE) IN CASH</b>	<b>(67,626)</b>	<b>(5,750)</b>
Cash balance, beginning of period	98,694	104,444
Cash balance, end of period	\$ 31,068	\$ 98,694

See accompanying notes to consolidated financial statements.

## **NTG CLARITY NETWORKS INC.**

### **Notes to the Audited Consolidated Financial Statements**

December 31, 2019 and 2018

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

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

The Corporation provides network, telecom, IT and infrastructure solutions to medium and large network service providers. The Corporation specializes in providing telecommunications engineering, networking and related software solutions and has developed niche software products directed at the telecom service providers. NTG continues to offer professional telecom and IT services in the North American and Middle Eastern markets.

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

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

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

As at December 31, 2019, the Corporation had a working capital deficit of \$4,490,883 (2018: deficit of \$3,933,654), loss from operations of \$4,643,530 (2018: income of \$922,901), and accumulated losses since inception of \$23,164,121 (2018: \$14,352,386).

On September 16, 2019, the Corporation received a formal demand for payment of its Bank facilities, requesting payment in full within ten (10) days. After significant negotiations, the Bank assigned the Bank Indebtedness and the Security to a Company, controlled by Ashraf Zaghoul, NTG CEO and Kristine Lewis, NTG President. Effective December 16, 2019, all the rights, title and interest of the Bank in the Indebtedness and the Security together the full benefit of all powers and all covenants and provisions contained in the Security were assigned to the numbered Company.

The financial statements have been prepared under the assumption that the Corporation is a going concern and will continue to be in operation for the foreseeable future.

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

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

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

The audited 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 June 12, 2020.

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

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

Management of the Corporation prepared the consolidated financial statements of the Corporation during January and February 2020, and the Board of Directors approved them. The Audit Committee of the Corporation discussed the audited consolidated financial statements at its meeting on June 12, 2020, and the Board of Directors approved them at its meeting on June 12, 2020.

The audited 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 audited consolidated statement of profit and loss and comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, and consolidated statement of changes in equity, certain items are combined for the sake of clarity. These are explained within the notes. The consolidated statement of profit and loss and comprehensive income is prepared using the cost of sales method. Assets and liabilities are classified by maturity. They are regarded as current if they mature within one year or within the normal business cycle of the Corporation. The normal business cycle is defined for this purpose as beginning with the procurement of the resources necessary for the production process and ending with the receipt of cash or cash equivalents as consideration for the sale of the goods or services produced in that process. Trade accounts receivable and payable, claims for tax refunds, and tax liabilities are always presented as current items; deferred tax assets and liabilities, if any, are presented as non-current items. Provisions (if any), debt and other liabilities are shown between current and non-current.

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

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

The audited consolidated financial statements comprise the financial statements of the Corporation and its subsidiaries as at December 31, 2019.

The subsidiaries are fully consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continues to be consolidated until the date that such control ceases. The financial statements of the subsidiary is prepared for the same reporting period as the parent corporation using consistent accounting policies. All intra group balances, income and expenses, unrealized gains and losses, and dividends resulting from intra group transactions, if any, are eliminated in full.

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

The subsidiary of the Corporation as of December 31, 2019 is its 95% owned subsidiary, NTG Egypt Advanced Software, and its wholly owned U.S. subsidiary, NTG Clarity Networks US Inc.

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

**(b) Foreign currency transaction**

**Translation to the presentation currency**

Each entity in the Corporation determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency and the presentation currency of the parent entity is the Canadian dollar. Transactions in foreign currencies are initially recorded in respective functional currency rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate at the reporting date. Differences are taken to the statement of profit or loss and comprehensive income. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

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

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

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

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

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

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



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

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

###### **Translation to the presentation currency (cont'd)**

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

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

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

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

###### **Translation of a foreign operation**

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

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

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

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

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

Accordingly, in the consolidated financial statements of the reporting entity, such an exchange difference is recognized in profit or loss or, if it arises from the circumstances described in IAS 21, it is recognized in other comprehensive income and accumulated in a separate component of equity until the disposal of the foreign operation.

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

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

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

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

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

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

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

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

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

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

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

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

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

##### **(c) Revenue Recognition**

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

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

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

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

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

##### **(c) Revenue Recognition (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) Taxes**

###### **Current income tax**

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

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

###### **Deferred tax**

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

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

- Where the deferred tax liability arises from an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

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

**Deferred tax (cont'd)**

- 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.

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.

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

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

###### **Sales tax (cont'd)**

- Receivables and payables that are stated with the amount of sales tax included.

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

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

Government grants and assistance are recognized where there is reasonable assurance that the grant or assistance will be received and all attached conditions will be complied with. When the grant or assistance relates to an expense item, it is recognized as income over the period necessary to match the grant or assistance on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it reduces the carrying amount of the asset. The grant is then recognized as income over the useful life of a depreciable asset by way of a reduced depreciation charge. When government assistance is received which relates to expenses of future periods, the amount is deferred and amortized to income as the related expenditures are incurred. In 2018, the Corporation was engaged by the Ontario Centre of Excellence (OCE). The OCE recorded in the accounts was based on management's interpretation of the respective provisions which govern their eligibility. The claims are subject to review by the respective agencies before the refunds can be released. To the extent that collection is reasonably assured, OCE is recorded as a reduction to the underlying expense or asset to which it is attributable.

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

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

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

###### **(i) Financial assets**

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

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

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

**(i) Financial assets (cont'd)**

**Financial assets at amortized cost**

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

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

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

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

**(ii) Financial liabilities**

Financial liabilities are classified as FVTPL when the financial liability is either held for trading or is designated at FVTPL. Financial liabilities at FVTPL are remeasured in subsequent reporting periods at fair value. Any gains or losses arising on remeasurement of held for trading financial liabilities are recognized in profit or loss within the consolidated statements of comprehensive income. Such gains or losses recognized in profit or loss includes any interest paid on the financial liabilities. Financial liabilities that are not held for trading and are not designated as FVTPL are measured at amortized cost. The carrying amounts of financial liabilities that are measured at amortized cost are determined based on the effective interest rate method. The effective interest method is a method of calculating the amortized cost of a financial liability (or financial asset) and of allocating interest expense (or income) over the expected life of the financial liability (or financial asset). All financial assets and financial liabilities held by the Corporation are measured at amortized cost.



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

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

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

###### **Impairment**

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

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

The accounting policies were changed to comply with the full requirements of IFRS 9 as issued by the IASB. IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 Financial Instruments: Disclosures. The total impact on retained earnings due to classification and measurement of financial instruments as at January 1, 2016 and the date of these financial statements was Nil.

###### **(iii) Offsetting of financial instruments**

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

##### **(g) Compound instruments**

The component parts of compound instruments (e.g., debt issued with warrants) issued by the Corporation are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar debt without warrants. This amount is recorded as a liability on the amortized cost basis using the effective interest method until extinguished or at the instrument's maturity date.

The warrants classified as equity are determined by deducting the amount of the liability component from the fair value of the instrument as a whole. This is recognized and included in equity and is not subsequently remeasured.

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

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

Warrants classified as equity will remain in equity until the conversion option is exercised, in which case the balance recognized in equity will be transferred to common shares within equity. When the warrants remain unexercised at their maturity date, the balance recognized in equity will be transferred to retained earnings or deficit. No gain or loss is recognized in profit or loss upon conversion or expiration of the warrants. Transaction costs that relate to the issue of the instruments are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortized over the life of the debt using the effective interest method.

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

The Corporation has not entered into any derivative financial instruments and has not applied hedge accounting for the years ending December 31, 2019 and December 31, 2018.

**(i) Treasury shares**

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

**(j) Property and equipment**

Property and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses (if any). Such cost includes the cost of replacing part of the property and equipment and borrowing costs for long term construction projects if the recognition criteria 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.

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

**(j) Property and equipment (cont'd)**

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

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

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

**(k) Leases**

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

Leased assets are depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Corporation will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term. For the years December 31, 2019 and December 31, 2018, the Corporation did not hold any finance leases.

Operating lease payments are recognized as an expense in the statement of profit and loss and comprehensive income on a straight line basis over the lease term.

**(l) Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction, or production of an asset that necessarily takes a substantial year of time to get ready for its intended use or sale are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the year they occur. Borrowing costs consist of interest and other costs that the Corporation incurs in connection with the borrowing of funds. For the years ending December 31, 2019 and December 31, 2018, the Corporation did not capitalize any borrowing cost.

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

**(m) Intangible assets**

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

**(n) Inventories**

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

**(o) Product development costs**

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

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

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

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

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

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

##### **(p) Impairment of non-financial assets (cont'd)**

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit (CGU). In determining fair value less costs of disposal, an appropriate valuation model is used. The Corporation has cash-generating units which impairment could be tested against. The Corporation had no goodwill or indefinite life intangible assets for the years ending December 31, 2019 and December 31, 2018.

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

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

A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the non-financial asset's recoverable amount since the last impairment loss was recognized.

The reversal is limited so that the carrying amount of the non-financial asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the non-financial asset in prior periods. Such reversal is recognized in the statement of profit and loss and comprehensive income.

##### **(q) Cash and cash equivalents**

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

##### **(r) Provisions**

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

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

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

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

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

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

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

Before a provision is established, the Corporation recognizes any impairment loss on the asset associated with the contract.

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

Basic earnings per share is calculated by dividing the income for the year by the weighted average number of common shares outstanding during the year. The Corporation uses the treasury stock method for calculating the dilutive effect of the outstanding stock options and other dilutive securities.

Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted income per share assumes that the proceeds to be received on the exercise of dilutive share options are used to repurchase common shares at the average market price during the year.

**(t) Share-based compensation**

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

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

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

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

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

### **Revenues**

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

### **Unbilled revenues**

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

### **Impairment of non-financial assets**

Impairment exists when the carrying value of a non-financial asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The value in use calculation is based on a discounted cash flow model. 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.

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

**Taxes**

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

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

**Share-based compensation**

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

**Fair value of financial instruments**

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

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

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As at June 12, 2020, the date of authorization of these financial statements, certain new standards, amendments, and interpretations to existing IFRS standards have been published but are not yet effective and have not been adopted by the Corporation.

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



**NTG CLARITY NETWORKS INC.**  
**Notes to the Audited Consolidated Financial Statements**  
December 31, 2019 and 2018

**7. 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.

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

**Statement of profit and loss for the year ending December 31, 2019**

	NTG Canada		NTG Egypt		Consolidated Total
Revenue	\$	5,797,047	\$	2,829,382	\$ 8,626,429
Cost of sales		3,956,218		2,417,245	6,373,463
Gross margin	\$	1,840,829	\$	412,137	\$ 2,252,966
Expenses		(8,863,183)		(1,138,106)	(10,001,289)
Depreciation / Amortization		(1,042,292)		(21,365)	(1,063,657)
Foreign taxes		-		245	245
Exchange gain (loss) arising on translation		-		(372,374)	(372,374)
<b>Total comprehensive income (loss) for the year</b>	<b>\$</b>	<b>(8,064,646)</b>	<b>\$</b>	<b>(1,119,463)</b>	<b>\$ (9,184,109)</b>

**Statement of profit and loss for the year ending December 31, 2018**

	NTG Canada		NTG Egypt		Consolidated Total
Revenue	\$	8,947,038	\$	2,759,429	\$ 11,706,467
Cost of sales		4,809,444		1,762,456	6,571,900
Gross margin	\$	4,137,594	\$	996,973	\$ 5,134,567
Expenses		(4,322,372)		(666,142)	(4,988,514)
Depreciation / Amortization		(404,975)		(23,542)	(428,517)
Foreign taxes		(71,009)		-	(71,009)
Exchange gain (loss) arising on translation		-		(12,571)	(12,571)
<b>Total comprehensive income (loss) for the year</b>	<b>\$</b>	<b>(660,762)</b>	<b>\$</b>	<b>294,718</b>	<b>\$ (366,044)</b>

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

**Long term asset additions for the year ended December 31, 2019**

	NTG Canada		NTG Egypt		Consolidated Total
<b>Asset additions for the year ending December 31, 2019</b>					
Property and equipment	\$	961	\$	10,477	\$ 11,438
Intangible assets		-		-	-
	<b>\$</b>	<b>961</b>	<b>\$</b>	<b>10,477</b>	<b>\$ 11,438</b>

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

December 31, 2019 and 2018

**7. OPERATING SEGMENT INFORMATION (cont'd)****Long term asset additions for the year ended December 31, 2018**

	NTG Canada		NTG Egypt		Consolidated Total
<b>Asset additions for the year ending December 31, 2018</b>					
Property and equipment	\$	5,330	\$	20,808	\$ 26,138
Intangible assets		–		–	–
	\$	<b>5,330</b>	\$	<b>20,808</b>	\$ <b>26,138</b>

**Long term assets for the year ended December 31, 2019**

	NTG Canada		NTG Egypt		Consolidated Total
<b>Assets as at December 31, 2019</b>					
Property and equipment	\$	75,278	\$	103,884	\$ 179,162
Intangible assets		–		–	–
	\$	<b>75,278</b>	\$	<b>103,884</b>	\$ <b>179,162</b>

**Long term assets for the year ended December 31, 2018**

	NTG Canada		NTG Egypt		Consolidated Total
<b>Assets as at December 31, 2018</b>					
Property and equipment	\$	107,326	\$	114,654	\$ 221,980
Intangible assets		1,009,402		–	1,009,402
	\$	<b>1,116,728</b>	\$	<b>114,654</b>	\$ <b>1,231,382</b>

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

<b>Sales by geographic location for the year ending December 31,</b>	<b>2019</b>		<b>2018</b>	
North America	\$	99,833	\$	188,598
Saudi Arabia		4,162,964		4,247,196
Egypt		2,829,382		2,759,429
Oman		812,618		1,252,674
Kuwait		721,632		3,258,570
	\$	<b>8,626,429</b>	\$	<b>11,706,467</b>

The majority of the Corporation's revenue is derived from the telecommunication industry and was earned through service contracts from one client. In 2019, approximately 13% (2018: 18%) of the Corporation's revenue was derived from one customer.

**NTG CLARITY NETWORKS INC.**  
**Notes to the Audited Consolidated Financial Statements**  
December 31, 2019 and 2018

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

Receivables by segment for the year ending December 31,	2019	2018
Canada	\$ 1,417,464	\$ 4,848,348
Egypt	929,360	1,102,797
	<b>\$ 2,346,824</b>	<b>\$ 5,951,145</b>

As at December 31, 2019, approximately 12% (2018: 15%) of the Corporation's trade accounts receivable balance was from one customer.

Payables by segment for the year ending December 31,	2019	2018
Canada	\$ 6,252,065	\$ 3,525,239
Egypt	189,966	451,478
	<b>\$ 6,442,031</b>	<b>\$ 3,976,717</b>

Bank indebtedness by segment for the year ending December 31,	2019	2018
Canada	–	\$ 7,228,567
	<b>\$ –</b>	<b>\$ 7,228,567</b>

**8. INCOME TAXES**

The following is a reconciliation of the taxable losses for the years ended as indicated.

**NTG Clarity Networks Inc.**

As at December 31,	2019	2018
Loss before income taxes	\$ (8,064,646)	\$ (589,109)
Income tax (recovery) at the combined Canadian federal and provincial tax rate of 26.5%	(2,137,131)	(156,114)
Non-deductible share-based payments	28,231	24,813
Depreciation/amortization of PPE and intangibles	1,042,292	107,319
Non-deductible meals & entertainment expenses	159,473	–
Income tax (recovery) not probable to be utilized	907,135	23,983
Income tax (recovery) recognized on the statement of comprehensive income	\$ –	\$ –

**NTG Egypt Advanced Software**

As at December 31,	2019	2018
Income (loss) before income taxes	\$ (1,119,463)	\$ 141,666
Income tax (recovery) at the combined Egyptian federal and provincial tax rate of 22.5%	(251,879)	31,875
Difference of unbilled revenue and accruals	–	(31,875)
Income tax (recovery) not probable to be utilized	168,095	–
Income tax (recovery) recognized on the statement of comprehensive income	\$ (83,784)	\$ –

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

December 31, 2019 and 2018

**8. INCOME TAXES (cont'd)**

The Corporation also has the following unrecognized deferred income tax assets for the years ended as indicated. However, they were not recognized on the statements of financial position because it was not probable that they would be utilized:

<b>As at December 31,</b>	<b>2019</b>	<b>2018</b>
Deferred tax asset in relation to:		
Property and equipment	\$ (19,949)	\$ 27,855
Non-capital loss carry-forwards	4,271,126	2,462,175
<b>Deferred tax assets not recognized</b>	<b>4,251,777</b>	<b>2,490,030</b>
Less: Valuation allowance	4,251,777	2,490,030
Deferred tax asset recognized	\$ –	\$ –

The Corporation has available income tax losses in the amounts of \$16,117,458 for the Canadian federal and provincial tax purposes which may be carried forward to reduce future years' taxable income which expire as follows:

2036	\$ 8,616,359
2037	674,867
2038	(8,418)
2039	6,834,650
	<b>\$ 16,117,458</b>

**9. EARNINGS PER SHARE**

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

Diluted earnings per share amounts are calculated by dividing the net income attributable to ordinary equity holders of the parent by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares, if any, that would be issued on conversion of all the dilutive potential effects.

The outstanding number and type of securities that could potentially dilute basic net income per share in the future but that were not included in the computation of diluted net income per shares because to do so would have reduced the earnings per share (anti dilutive) for the year presented are as noted below. The following outstanding instruments could have a dilutive effect in the future:

**As at December 31, 2019**

Options – Share-based payments (Note 18(b)) 3,637,000

Note a: Of which 3,408,500 had vested as of December 31, 2019.

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

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

<b>December 31,</b>	<b>2019</b>	<b>2018</b>
Net earnings (loss) attributable to ordinary equity holders of the parent for basic earnings	\$(9,184,109)	\$(366,044)
<b>Net earnings (loss) attributable to ordinary equity holders of the parent adjusted for the effect of dilution</b>	<b>\$(9,184,109)</b>	<b>\$(366,044)</b>
<b>December 31,</b>	<b>2019</b>	<b>2018</b>
Weighted average number of common shares outstanding for basic earnings per share (Note 18)	56,102,355	48,662,355
Weighted average number with the effect of dilution on common shares	59,588,956	52,157,941
<b>Income per share (basic)</b>	<b>\$(0.16)</b>	<b>\$(0.01)</b>
<b>Income per share (diluted)</b>	<b>\$(0.15)</b>	<b>\$(0.01)</b>

**10. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise of cash at banks and on hand in the amount of \$31,068 as at December 31, 2019 (2018 \$98,694).

**11. TRADE AND OTHER RECEIVABLES**

<b>December 31,</b>	<b>2019</b>		<b>2018</b>	
Trade receivables	\$	1,816,814	\$	2,875,866
Less: Impaired		(15,141)		(174,838)
Trade receivables after impairment		1,801,673		2,701,028
Unbilled revenue		447,682		3,288,400
Less: Impaired		-		(107,772)
Unbilled revenue after impairment		447,682		3,180,628
Total trade receivables and unbilled revenue after impairment		2,249,355		5,881,656
Receivables from tax authorities		171,354		84,591
HST and foreign sales tax receivable (payable)		(82,335)		(64,613)
Other receivables		8,450		49,511
<b>Total trade and other receivables</b>	<b>\$</b>	<b>2,346,824</b>	<b>\$</b>	<b>5,951,145</b>

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

December 31, 2019 and 2018

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

Trade receivables are non-interest bearing and are generally on 30-180 day terms. The Corporation had a provision for bad debt in the amount of \$2,129,681 (2018: \$282,610). The amount relating to impairment of trade receivables is \$1,322,485 (2018: \$174,838) and the amount relating to the impairment of unbilled revenues is \$807,196 (2018: \$107,772).

<b>Neither past due nor impaired</b>	<b>2019</b>		<b>2018</b>	
Current	\$	437,741	\$	338,002
31 – 60 days		803,890		413,072
61 – 90 days		103,966		552,639
91 – 180 days		379,379		1,572,153
<b>Past due but not impaired</b>				
Greater than 180 days		91,838		–
	\$	<b>1,816,814</b>	\$	<b>2,875,866</b>

Unbilled revenue consists of service revenue that has already been rendered as at December 31, 2019 and recognized in accordance with the Corporation's revenue recognition policy from Note 3.

**12. PREPAID EXPENSES AND DEPOSITS**

<b>December 31,</b>	<b>2019</b>		<b>2018</b>	
Prepaid rent	\$	58,398	\$	111,229
Prepaid insurance		58,704		86,209
Other prepaids		8,307		10,272
	\$	<b>125,409</b>	\$	<b>207,710</b>

**13. BID/PERFORMANCE BONDS**

At December 31, 2019, of the \$85,675 in bid/performance bonds (2018: \$111,536), \$36,134 (2018: \$42,991) was for one bid bond and three performance bonds in Saudi Arabia (KSA), to guarantee delivery against work on various projects; and \$49,541 (2018: \$68,545) was for various bonds in Egypt.

Performance bonds typically remain in place for a period of one year from the start of the project and are released back to the Corporation when the project is completed, subsequent to customer acceptance. Bid bonds are typically in place for a 90-120 day period but can be extended. The bonds are non-interest bearing.

On December 31, 2019, the advance payment guarantee and performance bond supported by EDC expired, however the customer had until January 31, 2020 to renew or call the bonds. Subsequent to year end, the customer's request to renew the performance bond was refused by the Bank. As no renewal was forthcoming, the bond was called. The bond was 100% insured by EDC, so the cost was not born by the Corporation.

Premiums for these bonds for the year ended December 31, 2019 were \$3,161 (2018: \$12,042). Going forward, the Corporation no longer has an EDC bonding facility.

**NTG CLARITY NETWORKS INC.**  
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**13. BID/PERFORMANCE BONDS (cont'd)**

<b>Performance Bond - Opening Balance January 1,</b>	<b>2019</b>		<b>2018</b>	
Saudi Arabia	\$	42,991	\$	47,588
Egypt		68,545		72,538
Opening Balance - January 1,		111,536		120,126
Additions during the year:				
Saudi Arabia		36,134		42,991
Egypt		49,541		68,545
Total additions during the year		85,675		111,536
Refunded during the year:				
Saudi Arabia		(42,991)		(47,588)
Egypt		(68,545)		(72,538)
Total refunded during the year		(111,536)		(120,126)
Performance Bond - Ending Balance December 31,				
Saudi Arabia		36,134		42,991
Egypt		49,541		68,545
Ending Balance – December 31,	\$	<b>85,675</b>	\$	<b>111,536</b>

**14. PROPERTY AND EQUIPMENT**

The amount of borrowing costs capitalized during the year ending Dec. 31, 2019 was \$Nil (2018: \$Nil).

	<b>Furniture and Equipment</b>	<b>Computer Equipment</b>	<b>Computer Software</b>	<b>Total</b>
<b>Cost:</b>				
At January 3, 2018	\$570,091	\$785,746	\$400,996	\$1,756,833
Additions	5,330	20,808	–	26,138
<b>At December 31, 2018</b>	<b>\$575,421</b>	<b>\$806,554</b>	<b>\$400,996</b>	<b>\$1,782,971</b>
Additions	961	10,477	–	11,438
Disposals	–	–	–	–
<b>At December 31, 2019</b>	<b>\$576,382</b>	<b>\$817,031</b>	<b>\$400,996</b>	<b>\$1,794,409</b>
<b>Accumulated depreciation and impairment:</b>				
At January 1, 2018	\$412,819	\$727,763	\$356,309	\$1,496,891
Depreciation for the year	21,812	42,288	–	64,100
<b>At December 31, 2018</b>	<b>\$434,631</b>	<b>\$770,051</b>	<b>\$356,309</b>	<b>\$1,560,991</b>
Depreciation for the year	19,357	34,899	–	54,256
Impairment	–	–	–	–
Disposals	–	–	–	–
<b>At December 31, 2019</b>	<b>\$453,998</b>	<b>\$804,950</b>	<b>\$356,309</b>	<b>\$1,615,247</b>
<b>Net book value:</b>				
At December 31, 2019	122,394	\$12,081	\$44,687	\$179,162
At December 31, 2018	\$140,790	\$36,503	\$44,687	\$221,980

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

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**15. INTANGIBLE ASSETS**

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

NTS is a retail management software for telecommunication companies. The development costs are determined to have a useful life of 10 years are amortized on a straight line basis. The amount capitalized as at December 31, 2019 is \$Nil (2018: \$3,644,168) in development costs. During the year, an amortization expense of \$364,418 (2018: \$364,416) was recognized. During the year, the Company determined that the asset was impaired and an impairment loss of \$644,985 was recognized (2018: \$Nil).

StageEM is a goal focused integrated software solution that improves organizational efficiency by integrating strategic planning, business planning, demand and capacity management, operation optimizations, 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. During 2019, \$Nil was capitalized (2018: \$Nil), \$Nil was amortized (2018: \$Nil), and \$Nil was written off (2018: \$Nil).

	NTS Development Costs		StageEM Development Costs		Total
<b>Cost:</b>					
At January 1, 2018	\$ 3,644,168		\$ 4,433,136		\$ 8,077,304
Additions	-		-		-
Disposals	-		-		-
<b>At December 31, 2018</b>	<b>\$ 3,644,168</b>		<b>\$ 4,433,136</b>		<b>\$ 8,077,304</b>
Additions	-		-		-
Disposals	-		-		-
<b>At December 31, 2019</b>	<b>\$ 3,644,168</b>		<b>\$ 4,433,136</b>		<b>\$ 8,077,304</b>
<b>Accumulated amortization and impairment:</b>					
At January 1, 2018	\$ 2,270,350		\$ 4,433,136		\$ 6,703,486
Amortization charge for the year	364,417		-		364,417
Impairment	-		-		-
Disposals	-		-		-
<b>At December 31, 2018</b>	<b>\$ 2,634,767</b>		<b>\$ 4,433,136</b>		<b>\$ 7,067,903</b>
Amortization charge for the year	364,417		-		364,417
Impairment	644,985		-		644,985
Disposals	-		-		-
<b>At December 31, 2019</b>	<b>\$ 3,644,168</b>		<b>\$ 4,433,136</b>		<b>\$ 8,077,304</b>
<b>Net book value:</b>					
At December 31, 2019	\$ -		\$ -		\$ -
At December 31, 2018	\$ 1,009,402		\$ -		\$ 1,009,402



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

The Corporation had indicators of impairment of the NTS development costs for the period ended December 31, 2019. An impairment test was performed on the non-current assets at year end and the net book value of the development costs was fully impaired.

The Corporation had no indicators of impairment of the Stage EM development costs for the period ended December 31, 2018. An impairment test was performed on the non-current assets at year end and the net book value of the development costs was fully impaired.

**16. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

December 31,	2019	2018
Trade payables	\$ 3,458,701	\$ 2,472,421
Accrued liabilities	85,949	33,497
Related parties payable	446,003	73,040
Taxes payable	50,457	45,316
Other accounts payable	2,466,809	424,442
	<b>\$ 6,507,919</b>	<b>\$ 3,048,716</b>

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing
- Accrued liabilities are non-interest bearing
- Related parties payables are non-interest bearing and have no specified terms of repayment.

**17. OTHER FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

**(a) Other financial liabilities**

**Indebtedness**

December 31,	2019	2018
Indebtedness	\$ 7,100,712	-
Bank indebtedness	-	\$ 7,228,567
	<b>\$ 7,100,712</b>	<b>\$ 7,228,567</b>

As of December 31, 2018, the Corporation had the following credit facilities with RBC Royal Bank:

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

Facility 1 had an annual interest rate of bank prime plus 2.05%. Facility 2 and Facility 4 had an annual interest rate of bank prime plus 1.05%. Facilities 1-3 are secured by a General Security Agreement over the assets of the Corporation and were supported by EDC and Euler Hermes.

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

On September 16, 2019, the Corporation received a formal demand for payment of its Bank facilities, requesting payment in full within ten (10) days. After significant negotiations, the Bank assigned the Bank Indebtedness and the Security to a Company, controlled by Ashraf Zaghloul, NTG CEO and Kristine Lewis, NTG President.

Effective December 16, 2019, all the rights, title and interest of the Bank in the Indebtedness and the Security together the full benefit of all powers and all covenants and provisions contained in the Security was assigned to the numbered Company. The Indebtedness remains secured by a General Security Agreement over the assets of the Corporation. All terms, including annual interest rates, remain the same as with the Bank (bank prime plus 2.05%).

As of December 31, 2019, the Corporation had one advance payment guarantee, and one performance bond issued in its name and supported by EDC, in the amount of approximately \$151,672 (2018: \$151,672). The bonds were financed by a Canadian financial institution and supported and insured by EDC, with a renew or expire date of January 31, 2020. Subsequent to year end, in January 2020, the customer's request to renew the one performance bond was refused by the Bank. As no renewal was forthcoming, the performance bond was called. The bond is insured by EDC, so no significant costs were born by the Corporation.

Premiums for these bonds for the year ended December 31, 2019 were \$3,161 (2018: \$12,042).

The Corporation does not currently have a bonding facility.

**(b) Fair values**

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

	Carrying Amount		Fair Value	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
<b>Financial assets</b>				
Cash and cash equivalents	\$31,068	\$98,694	\$31,068	\$98,694
Trade and accounts receivable	2,346,824	5,951,145	2,346,824	5,951,145
Bid/performance bonds	85,675	111,536	85,675	111,536
<b>Total Financial Assets</b>	<b>\$2,463,567</b>	<b>\$6,161,375</b>	<b>\$2,463,567</b>	<b>\$6,161,375</b>

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

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

	Carrying Amount		Fair Value	
	December 31, 2019	December 31, 2018	December 31, 2019	December 31, 2018
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	\$6,507,919	\$3,048,716	\$6,507,919	\$3,048,716
Bank indebtedness	–	7,228,567	–	7,228,567
Due to related parties	566,699	–	566,699	–
Long-term debt	7,100,712	–	7,100,712	–
<b>Total Financial Liabilities</b>	<b>\$14,175,330</b>	<b>\$10,277,283</b>	<b>\$14,175,330</b>	<b>\$10,277,283</b>

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

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

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

**Fair value hierarchy**

As at December 31, 2019, the Corporation held cash measured at fair value.

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

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

Assets measured at fair value	December 31, 2019	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 31,068	\$ 31,068	\$ –	\$ –
<b>No liabilities were measured at fair value</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ –</b>

During the reporting year ending December 31, 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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

As at December 31, 2019, the authorized share capital consists of an unlimited number of first preferred shares, second preferred shares and common shares. To date, no first or second preferred shares have been issued. Before any shares of a particular preferred share series are issued the directors of the Corporation, by resolution shall fix the dividend rates, whether the dividends are cumulative and the redemption price of the redeemable shares.

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

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

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

**(b) Share-based payments**

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

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

No options were granted to non employees during 2019 and 2018.

**18. EQUITY INSTRUMENTS (cont'd)**

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

Details of stock options are as follows:

	Options	Weighted average exercise price
Balance, 1 January 2018	3,359,000	\$ 0.16
Granted	2,082,000	0.10
Exercised	(100,000)	0.10
Expired	(1,771,000)	0.24
<b>Balance, December 31, 2018</b>	<b>3,570,000</b>	<b>\$ 0.10</b>
Granted	1,670,000	\$ 0.10
Exercised	(240,000)	0.10
Expired	(1,363,000)	0.10
<b>Balance, December 31, 2019</b>	<b>3,637,000</b>	<b>\$ 0.10</b>

The stock options expire at various dates between August 2020 and December 2022. The weighted average expected contractual lives of outstanding and exercisable options are as follows:

Exercise Price	Options Outstanding		Options Exercisable	
	Number of outstanding Dec 31/19	Expected life of option (years)	Number of outstanding Dec 31/19	Expected life of option (years)
\$ 0.10	3,637,000	1.93	3,408,500	1.93
<b>Total</b>	<b>3,637,000</b>	<b>1.93</b>	<b>3,408,500</b>	<b>1.93</b>

Activity related to share-based compensation is as follows:

For the year ending December 31, 2019 the Corporation recorded \$28,231 (2018: \$91,633) 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 the year 2019 is \$0.01 (2018: \$0.04).

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:

	2019	2018
Stock price	\$0.01	\$0.03
Risk-free interest rate	1.45 – 1.66%	1.14 – 1.48%
Expected life (years)	3 years	3 years
Expected dividend yield	0%	0%
Expected volatility	0.0 – 135.35%	108.88 – 130.01%
Fair value of options issued in fiscal year	0.01	0.04

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

On October 8, 2019, the Investment Industry Regulatory Organization of Canada (IIROC) halted trading for the Corporation citing the reason as "Pending Company Contact". Subsequent to year end, on February 3, 2020 trading resumed after the required TSX review.

**19. CONTRIBUTED SURPLUS**

Contributed surplus for the year ending consisted of \$28,231 (2018: \$91,633) for share-based payments and re-allocation of contributed surplus on exercise of share options \$12,000 (2018: \$2,000).

Opening balance January 1, 2019	\$ 1,788,593
Share-based payments	28,231
Reallocation on exercise of share options	(12,000)
<b>Balance as at December 31, 2019</b>	<b>\$ 1,804,824</b>

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

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

**21. COST OF SALES**

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

<b>Cost of sales</b>	<b>2019</b>	<b>2018</b>
Salaries	\$ 5,492,507	\$ 5,634,201
Travel	323,345	74,939
Hardware	168,752	268,274
Other	388,859	594,486
<b>Total</b>	<b>\$ 6,373,463</b>	<b>\$ 6,571,900</b>

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

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

<b>Selling</b>	<b>2019</b>	<b>2018</b>
Salary and wages	\$ 1,621,273	\$ 1,249,778
Marketing	316,816	342,992
Mailing and courier	5,787	7,721
Professional services	45,104	4,839
Meals and entertainment	318,947	203,123
Miscellaneous	8,906	28,317
<b>Total</b>	<b>\$ 2,316,833</b>	<b>\$ 1,836,770</b>

**22. EXPENSES: DISCLOSURE OF FUNCTION EXPENSES (cont'd)**

General and Administrative	2019	2018
Salary and wages	\$ 3,046,491	\$ 1,546,201
Occupancy	282,678	312,040
Consulting	104,708	34,705
Professional fees	119,689	111,020
Bid/performance bond fees	3,161	8,827
Insurance	426,653	427,247
Dues and subscriptions	23,228	23,339
Penalties and fees	31,264	16,165
Office and General	25,560	155,456
<b>Total</b>	<b>\$ 4,063,432</b>	<b>\$ 2,635,000</b>

**23. RELATED PARTY DISCLOSURES**

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

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

- a) 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
Loans from/to shareholders			
December 31, 2019 (Refer to Note (e) below)	–	\$ –	\$ 831,717
Key management personnel of the Corporation:			
December 31, 2019	–	\$ –	\$ 1,256,417
December 31, 2018	–	\$ 300,000	\$ 928,001
<b>Key management compensation</b>			
		<b>2019</b>	<b>2018</b>
Short term employee benefits		\$ 748,100	\$ 534,791
Share-based payments		2,000	35,000
<b>Total</b>		<b>\$ 750,100</b>	<b>\$ 569,791</b>

**b) The Ultimate Parent**

The Corporation is the ultimate parent entity.

## NTG CLARITY NETWORKS INC.

### Notes to the Audited Consolidated Financial Statements

December 31, 2019 and 2018

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

##### Related Party Transactions

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

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

- c) During the year ended December 31, 2019 the directors and key management were awarded share options under the Corporation's incentive stock option plan with a fair value of \$1,650 (2018: \$35,000).

On November 29, 2019, the Corporation entered into an Assignment of Debt and Security agreement with Royal Bank of Canada and 2729252 Ontario Inc. The debt amount of \$7,100,712 was assigned to 2729252 Ontario Inc., which is a private company owned by two directors of the Corporation. See Note 17 (a) for more information.

All terms, including annual interest rates, remain the same as with the Bank (bank prime plus 2.05%). The Indebtedness held by the Company is secured by a General Security Agreement over the assets of the Corporation.

##### d) Entity with significant influence over the Corporation

No single entity or party has significant influence over the Corporation. As at December 31, 2019 the Corporation has 56,102,355 common shares outstanding. Related parties (direct and indirect) holdings are as follows:

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

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

Outstanding amounts owed by related parties in the amount of \$300,000 were offset against amounts due (2018: \$300,000).

The Corporation's credit facilities were with RBC Royal Bank until December 23, 2019, when it was transferred to a Company, controlled by two directors of the Corporation. The Bank assigned to the company, the Indebtedness and the Security, and all the rights, title and interest together with the full benefit of all powers and all covenants and provisions contained in the Security. The Indebtedness is secured by a General Security Agreement over the assets of the Corporation. See Note 17(a) for more information.

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



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

### **Terms and conditions of transactions with related parties (cont'd)**

- e) In November 2019, NTG Egypt Advanced Software, a subsidiary of the Corporation, received a non-interest bearing and unsecured loan from a Director of the Corporation. The loan amount was 7,000,000 Egyptian Pounds, translated to \$566,699, and is repayable on demand. The Director intends to collect the loan in the next fiscal year.

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

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

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

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

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

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

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

### **Market risk**

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

### **Interest rate risk**

The Corporation's exposure to interest rate fluctuations is primarily interest paid on its bank indebtedness and long-term loans. The Corporation has performed sensitivity analysis on interest rates at December 31, 2019 to determine how a change in interest rates would impact equity and net loss. During the year the Corporation paid \$946,881 (2018: \$416,828) on its loans and liabilities. An increase or decrease of 100 basis points in the average interest rate paid during the period would have adjusted net earnings by approximately \$94,688 (2018: \$41,683). This analysis assumes that all other variables remain constant.

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

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

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

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 expenses are denominated in a different currency from the Corporation's functional currency. The parent entity's functional currency is the Canadian dollar.

A 10% change in exchange rates on December 31, 2019 would have the following approximate impacts:

	U.S. Dollar	Omani Riyal	Kuwait Dinar	Saudi Riyal	Qatari Riyal	Egyptian Pound
10% impact to:	USD	OMR	KWD	SAR	QAR	LE
P&L in CAD	50,385	701	25,734	11,925	316	54,175
Equity in CAD	37,033	515	18,915	8,765	233	39,819

A 10% change in exchange rates on December 31, 2018 would have the following approximate impacts:

	U.S. Dollar	Omani Riyal	Kuwait Dinar	Saudi Riyal	Qatari Riyal	Egyptian Pound
10% impact to:	USD	OMR	KWD	SAR	QAR	LE
P&L in CAD	35,819	35,855	73,243	78,569	416	56,846
Equity in CAD	26,327	26,353	53,834	57,748	306	41,782

**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.

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

**Credit risk (cont'd)**

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. In 2019, the Corporation also mitigated credit risk through credit insurance coverage with Export Development Canada and Euler Hermes Canada as explained in Note 25.

The aging of trade accounts receivable are as follows:

Neither past due nor impaired	2019		2018	
Current	\$	437,741	\$	338,002
31 – 60 days		803,890		413,072
61 – 90 days		103,966		552,639
91 – 180 days		379,379		1,572,153
<b>Past due but not impaired</b>				
Greater than 180 days		91,838		–
	<b>\$</b>	<b>1,816,814</b>	<b>\$</b>	<b>2,875,866</b>

The credit quality of all the accounts receivable of the Corporation that are neither past due nor impaired and the age of accounts receivable that are past due but not impaired have been assessed on an individual basis and determined to have a mitigated risk profile.

As at December 31, 2019, the Corporation had no insured receivables or insured unbilled revenue (2018: \$2,208,355 and \$3,288,400).

**Liquidity risk**

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they fall due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions.

The Corporation manages liquidity risk by reviewing its capital requirements on an ongoing basis. The Corporation continuously reviews both actual and forecasted cash flows to ensure that the Corporation has appropriate capital capacity.

The following table summarizes the amount of contractual undiscounted future cash flow requirements for financial instruments as at December 31, 2019:

Contractual obligations	2019		2020		2021		2022 and after		Total	
Accounts payable and accrued liabilities	6,507,919		–		–		–		6,507,919	
Operating lease		–	184,455		105,878		8,371		298,704	
Long-term debt	\$ 7,100,712		\$ –		\$ –		\$ –		\$ 7,100,712	

The Corporation accrues expenses when incurred. Accounts are deemed payable once an event occurs that requires payment by a specific date. The contractual maturity of accounts payable is within one month.

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

December 31, 2019 and 2018

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

The aging of trade accounts payable are as follows:

<b>December 31,</b>	<b>2019</b>		<b>2018</b>	
Current	\$	419,918	\$	1,169,027
31 – 60 days		103,642		143,003
61 – 90 days		131,302		93,386
91 – 180 days		583,163		236,399
More than 180 days		2,220,676		830,606
	\$	<b>3,458,701</b>	\$	<b>2,472,421</b>

**Capital management**

The Corporation manages its capital, which consists of cash provided from operations and long term debt, with the primary objective being safeguarding sufficient working capital to sustain operations. The Board of Directors has not established capital benchmarks or other targets. As at December 31, 2019, the Corporation was pursuing additional capital through the issuance of additional equity or debt financing. There can be no guarantee that they will be successful in raising additional capital.

There have been no changes in the Corporation's approach to capital management during the year ending December 31, 2019. Also, no changes were made in the objectives, policies, or processes during the year ending December 31, 2019. The Corporation will continually assess the adequacy of its capital structure and capacity and make adjustments within the context of the Corporation's strategy, economic conditions, and the risk characteristics of the business.

The Corporation's objectives when managing capital are to:

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

The Corporation considers the items included in the consolidated statements of changes in shareholders' equity as capital. The Corporation manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets.

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

**25. COMMITMENTS, CONTINGENCIES, AND GUARANTEES**

**Export Development Canada**

The Corporation had an agreement with EDC whereby EDC agreed to provide ninety percent (90%) insurance coverage (Accounts Receivable Insurance “ARI”) for the Corporation's invoiced sales and 75% of pre-shipment costs.

The EDC ARI policy was cancelled as of November 1, 2018, however the pre-shipping insurance continued at the Bank’s request, until the Indebtedness and Security was assigned to a 2729252 Ontario Inc. (effective December 16, 2019).

During the three months and year ended December 31, 2019, the Corporation recorded premiums of \$Nil and \$49,360 included for this in general and administration expenses (2018: \$25,183 and \$86,763).

At December 31, 2019, the insurance claim submitted to EDC in the amount of US\$184,556 for an overdue accounts receivable with one of the Corporation’s customers was ongoing. Subsequent to year end, in January 2020, EDC approved payment of the claim, less a C\$150,000 deductible. In February 2020, a payment of US\$60,911.53 was made to RBC Royal Bank

**Euler Hermes Canada**

The Corporation had a Credit Insurance agreement with Euler Hermes whereby they agreed to provide ninety percent (90%) insurance coverage for the Corporation's invoiced sales and work in progress. Coverage was based on customers approved by Euler Hermes. The policy period was from November 1, 2018 to October 31, 2019. The Corporation did not renew this insurance due to cash flow.

During the three months and year ended December 31, 2019, the Corporation recorded total premiums of \$704 and \$141,646 (2018: \$44,830 and \$133,511) in prepaid and general and administration expenses.

**Operating lease commitments – Corporation as lessee**

The Corporation is committed under agreements for the rental of office space in Canada at a monthly rate of \$9,232 for the period from June 1, 2016 to May 31, 2021.

The Corporation is committed under agreements for the rental of office spaces in Egypt and Oman at a monthly rate ranging from \$1,960 to \$3,117 for the periods from October 20, 2018 to January 14, 2023.

The lease commitments for the office premises are as follows:

<b>December 31, 2019</b>	
2020	\$ 184,455
2021	105,878
2022	5,371
2023 and thereafter	3,000
	<b>\$ 298,704</b>

**NTG CLARITY NETWORKS INC.**

**Notes to the Audited Consolidated Financial Statements**

December 31, 2019 and 2018

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

**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. Subsequent to year end, in March 2020, the Corporation was unable to renew its Directors and Officers insurance.

**26. COLLATERAL**

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The Corporation has pledged its assets under a General Security Agreement ("GSA") as disclosed in Note 17. The Corporation did not hold collateral at December 31, 2019, and December 31, 2018.

**27. GOVERNMENT GRANT**

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In April 2018, NTG received a grant in the amount of \$963,400 from the Ontario Centres of Excellence (OCE), with funding provided by the Government of Ontario. This funding was to be used towards the development of an autonomous vehicle user interface, and required an equal in kind contribution from the Corporation.

In April 2018, an advance amount of \$240,850 was received and was offset against the expenses it relates to. In July 2018, the project partner withdrew their support for the project, which triggered a cancellation of the project.

As at December 31, 2019, the Government of Ontario has not recalled the funding.

**28. COMPARATIVE FIGURES**

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

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

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- a) On October 8, 2019, Investment Industry Regulatory Organization of Canada (IIROC) halted trading for the Corporation citing the reason as “Pending Company Contact”. Subsequent to year end, after the required TSX review, the Corporation’s shares resumed trading on February 3, 2020.
- b) At December 31, 2019, the insurance claim submitted to EDC in the amount of US\$184,556 for an overdue accounts receivable with one of the Corporation’s customers was ongoing. Subsequent to year end, in January 2020, EDC approved payment of the claim, less a C\$150,000 deductible. In February 2020, a payment of US\$60,911.53 was made to RBC Royal Bank.
- c) On December 31, 2019, the advance payment guarantee and performance bond supported by EDC expired, however the customer had until January 31, 2020 to renew the bonds. Subsequent to year end, the customer’s request to renew the performance bond was refused by the Bank. As no renewal was forthcoming, the bond was called. On February 27, 2020, the Corporation was notified that EDC had paid the Bank’s claim of US\$55,848. As the bond was 100% insured by EDC, so the cost was not born by the Corporation.
- d) In March 2020, the Canadian government announced extended tax filing and payment deadlines and made a wage subsidy available to qualifying businesses. As the majority of NTG’s staff is located in Egypt, KSA and Oman, the wage subsidies are not available to NTG.
- e) On March 20, 2020, due to the economic situation and the inability of NTG to renew its Directors and Officers insurance, the Corporation announced that the two independent Board members and one other Board member resigned from NTG’s Board. Mr. Ashraf Zaghoul, Chairman and CEO, and Kristine Lewis, Director and President are the two remaining directors of NTG Clarity Networks Inc.
- f) On March 23, 2020, the Canadian Securities Administrators (CSA) announced a 45 day extension to the reporting deadline for TSX venture-listed public companies such as NTG. On April 28, 2020, NTG announced that it would rely on the blanket exemptions to extend the filing deadline of its 2019 annual report to on or about June 10, 2020 and Q1 2020 report to on or about July 8, 2020.
- g) At the end of April 2020, NTG applied for and received the Canada Emergency Business Account (“CEBA”) loan of \$40,000 CAD.
- h) On January 30, 2020, the World Health Organization (“WHO”) declared a Public Health Emergency of International Concern resulting from an outbreak of pneumonia cases from an unknown cause which originated in Wuhan, China. Over a week later, on February 11, 2020, the WHO then announced a name for this new disease called the coronavirus (“COVID-19”). On March 11, 2020, the WHO declared COVID-19 to be a global pandemic and a world-wide health concern to all of humanity. As a result, governing countries and their leaders around the world acted to mitigate the spread of this virus by restricting travel, testing and quarantining symptomatic individuals, enforcing social distancing, closing schools and non-essential businesses and requesting residents to stay inside their homes. These measures have had a direct impact on the global and Canadian economy.

**29. EVENTS AFTER THE REPORTING YEAR (cont'd)**

The Canadian government acted by testing and treating symptomatic individuals, enforcing social distancing, closing schools and non essential businesses and requesting the community to stay inside their homes. Due to these measures taken, many businesses were forced to lay off staff, postpone contracts and work, request financial relief and defer payments to their financial lenders, landlords and stakeholders and to close their businesses altogether. The Federal government also responded by extending tax filing and payment deadlines and made available a wage subsidy to qualifying businesses to help provide some relief during this challenging time.

It is uncertain how long these COVID-19 conditions will last and what economic impact they will have on the company's business, ongoing cash flows and its ability to continue as a going concern.

As NTG is not designated an essential service, our offices are closed and staff are working from home, Sales activities and collections have slowed significantly. Existing projects are continuing at a slower pace and acceptance of deliverables by customers is therefore slower. Revenue and cash flow have already been impacted. If the situation continues more than three months, it will have a devastating effect on the Corporation's business. It is uncertain how long these COVID 19 conditions will last and what economic impact they will have on the company's business, ongoing cash flows and its ability to continue as a going concern.

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

- i) On May 1, 2020, NTG signed an agreement for licensing a copy of Product IP Rights and Support with an Egyptian company, owned by a former Director of the Corporation. This Board-approved agreement allows this Egyptian company to purchase NTG Egypt's Enterprise business including a copy of the non-exclusive rights for the IP of two software products (Utility Billing and HMIS) for 1.2 million Egyptian pounds. The Enterprise revenue is approximately 3-4 million Egyptian pounds per year. The divesting of these non-core older technology legacy products allows NTG management to focus on core products and services going forward.



## Corporate Information

### **Board of Directors**

Ashraf Zaghloul  
Adel Zaghloul  
Kristine Lewis  
Nick Hamilton-Piercy  
Saleem Siddiqi

### **Officers**

Ashraf Zaghloul  
*Chair & Chief Executive Officer*

Kristine Lewis  
*President & Chief Financial Officer*

### **Registrar and Transfer Agent**

**Computershare Investor Services**  
100 University Ave., 8th Floor, North Tower  
Toronto, Ontario M5J 2Y1  
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Fax: 1-888-453-0330

### **Auditors**

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### **Legal Counsel**

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### **International Work**

### **Stock Exchange Listing**

The TSX Venture Exchange  
Trading Symbol: NCI

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