

Condensed Consolidated Financial Statements
For the periods ended March 31, 2014 and 2013

ICTC Group, Inc. and Subsidiaries

Part I - Financial Information

Item 1. Financial Statements (unaudited)

Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Income	5
Condensed Consolidated Statements of Stockholders' Equity	6
Condensed Consolidated Statements of Cash Flows	7
Notes to Condensed Consolidated Financial Statements	8

Part 1 - Financial Information
Item 1. Financial Statements

ICTC Group, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	March 31, 2014 (Unaudited)	December 31, 2013 *
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,374,914	\$ 2,498,932
Accounts receivable, net of allowances of \$4,000	296,143	296,087
Accounts receivable, Broadband Initiatives Program grant funds**	413,435	-
Materials and supplies	47,253	41,770
Deferred income taxes	69,941	65,404
Prepaid tax benefit	(0)	18,998
Prepayments	97,883	105,710
	<u>3,299,569</u>	<u>3,026,901</u>
Noncurrent Assets		
Other investments	244,810	246,078
Equity method investments	1,757,259	1,645,569
Goodwill	1,772,179	1,772,179
	<u>3,774,248</u>	<u>3,663,826</u>
Telecommunications Plant and Equipment		
In service	22,533,634	22,191,949
Under construction	778,589	1,190,220
	<u>23,312,223</u>	<u>23,382,169</u>
Less accumulated depreciation and amortization	16,741,688	16,584,831
	<u>6,570,535</u>	<u>6,797,338</u>
	<u>\$ 13,644,352</u>	<u>\$ 13,488,065</u>

*Derived from audited financial statements

**See Note 5

ICTC Group, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

	<u>March 31,</u> <u>2014</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2013 *</u>
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 220,137	\$ 291,298
Current maturities of long-term debt	18,000	\$ 18,000
Accrued income taxes	24,656	-
Other current liabilities	276,724	253,059
Total current liabilities	539,517	562,357
Long-Term Debt		
Broadband Initiatives Program Loan**	478,466	483,400
Other long-term debt	2,071,800	2,071,800
Total Long-Term Debt	2,550,266	2,555,200
Other Liabilities		
Construction deposits	63,601	64,556
Deferred income taxes	2,282,494	2,285,419
Total other liabilities	2,346,095	2,349,975
Total liabilities	5,435,878	5,467,532
Stockholders' equity		
Preferred Stock: \$.0001 par value; 1,000,000 shares authorized		
No shares outstanding	-	-
Common Stock: \$.0001 par value; 2,000,000 shares authorized		
Issued and outstanding: 404,426	40	40
Additional paid in capital	1,759,992	1,759,992
Retained earnings	6,448,442	6,260,501
Total stockholders' equity	8,208,474	8,020,533
Total Liabilities and Stockholders' Equity	\$ 13,644,352	\$ 13,488,065

*Derived from audited financial statements

** See Note 5

ICTC Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Income

	<u>Three Months Ended March 31</u>	
	<u>2014</u>	<u>2013</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
Revenues		
Local telephone service revenue	\$ 117,819	\$ 111,227
Universal service and access revenue	546,244	574,864
Internet revenue	126,915	134,409
Facility lease revenue	124,115	123,456
Miscellaneous revenue	14,846	18,864
Total operating revenues	<u>929,940</u>	<u>962,819</u>
Costs and expenses		
Plant operations, excluding depreciation	369,042	360,649
Depreciation	156,856	178,416
Customer operations	55,659	43,281
Corporate operations	214,378	247,837
Operating taxes, other	1,268	3,875
Total operating expenses	<u>797,204</u>	<u>834,058</u>
Operating Income	<u>132,736</u>	<u>128,761</u>
Nonoperating Income (Expense)		
Dividend income	64,036	49,276
Other income (Loss)	-	-
Equity in earnings of investee	111,690	114,586
Total nonoperating income	<u>175,726</u>	<u>163,862</u>
Income Before Interest and Income Taxes	308,462	292,623
Interest Expense	<u>34,329</u>	<u>31,727</u>
Income Before Income Taxes	274,133	260,896
Income Tax Expense	<u>86,192</u>	<u>87,200</u>
Net Income	<u>\$ 187,941</u>	<u>\$ 173,696</u>
Basic and Diluted Weighted Average Common Shares Outstanding		
	404,426	404,426
Basic and Diluted Earnings Per Share	\$ 0.46	\$ 0.43

ICTC Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity

	Preferred Stock	Common Stock	Additional paid in Capital	Retained Earnings	Total
Balance, January 1, 2013	\$ -	\$ 40	\$ 1,759,992	\$ 5,527,940	\$ 7,287,972
Net income	-	-	-	732,561	732,561
Balance, Dec 31, 2013	<u>\$ -</u>	<u>\$ 40</u>	<u>\$ 1,759,992</u>	<u>\$ 6,260,501</u>	<u>\$ 8,020,533</u>
Balance, January 1, 2014	\$ -	\$ 40	\$ 1,759,992	\$ 6,260,501	\$ 8,020,533
Net income	-	-	-	187,941	187,941
Balance, March 31, 2014	<u>\$ -</u>	<u>\$ 40</u>	<u>\$ 1,759,992</u>	<u>\$ 6,448,442</u>	<u>\$ 8,208,474</u>

ICTC Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows

	Three Months Ended March 31	
	2014 (Unaudited)	2013 (Unaudited)
Operating Activities		
Net income	\$ 187,941	\$ 173,696
Adjustments to reconcile net income to net cash from operating activities		
Depreciation	156,856	178,416
Earnings from equity investments	(111,690)	(114,586)
Distributions received - equity investments	-	-
Deferred income taxes	(7,462)	(10,393)
Earnings from other investments	1,268	-
Change in current assets and current liabilities		
Accounts receivable	(56)	82,600
Materials and supplies	(5,483)	-
Prepaid income taxes	18,998	11,572
Prepayments	7,827	-
Accounts payable	(71,161)	62,658
Accrued income taxes	24,656	(92,407)
Other current liabilities	23,665	(18,421)
Net Cash from Operating Activities	225,359	273,135
Investing Activities		
Purchase of plant and equipment	68,992	(181,472)
Broadband Initiatives Program Grant funds received (restricted)	-	466,998
Grant funds to reimburse broadband stimulus project costs	(413,435)	-
Contributions in aid received	-	(614,676)
Change in restricted cash	-	-
Net Cash used for Investing Activities	(344,443)	(329,150)
Financing Activities		
Advances on long term debt - Broadband Initiatives Program	-	204,942
Advances on other long-term debt	-	-
Principal payments on long-term debt	(4,934)	(92)
Net Cash from (used for) Financing Activities	(4,934)	204,850
Net Change in Cash and Cash Equivalents	(124,018)	148,835
Cash and Cash Equivalents, Beginning of Period	2,498,932	2,320,250
Cash and Cash Equivalents, End of Period	\$ 2,374,914	\$ 2,469,085
Supplementary Disclosures of Cash Flow Information		
Cash payments for interest	\$ 34,329	\$ 31,727
Cash payments for income taxes, net of refunds	\$ 50,000	\$ 190,000

Note 1 - Nature of Operations and Summary of Significant Accounting Policies

Organization

ICTC Group, Inc. (the "Company"), formerly named Sunshine PCS Corporation, serves as a holding company for Lynch Telephone II, LLC ("Lynch II") which serves as a holding company for Inter-Community Telephone Company LLC ("Inter-Community") and Valley Communications, Inc. ("Valley"). Inter-Community is a rural independent local telephone company ("RLEC") serving communities in southeastern North Dakota providing regulated telephone service; Valley provides internet and other non-regulated services. The Company operates in one business segment, telecommunications.

Basis of Presentation and Consolidation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted or condensed pursuant to such rules and regulations. In the opinion of management, the unaudited consolidated financial statements reflect all adjustments (consisting only of normal and recurring accruals) considered necessary for the fair presentation of the financial statements and present fairly the results of operations, financial position and cash flows for the interim periods presented. These unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto contained in our annual audit for the year ended December 31, 2013.

The consolidated financial statements include the accounts of Lynch II, Inter-Community and Valley. All assets and liabilities of the Subsidiaries are consolidated with the assets and liabilities of the Company. All significant inter-company accounts have been eliminated.

Regulatory Accounting

The Company's public utility activities are regulated by the Federal Communications Commission (FCC). The North Dakota Public Service Commission does not regulate RLEC's with fewer than 8,000 access lines, such as Inter-Community. The Company follows the Federal Communication Commission's (FCC) Uniform System of Accounts, Part 32 of the FCC Rules and Regulations.

Where applicable, this regulated accounting recognizes the economic effects of rate regulation by recording costs and a return on investment; as such, amounts are recovered through rates authorized by regulatory authorities. Criteria that would give rise to the discontinuance of regulatory accounting practices include (1) increasing competition restricting the Company's wireline business' ability to establish prices to recover specific costs and (2) significant changes in the manner in which rates are set by regulators from cost based regulation to another form of regulation. The Company periodically reviews the applicability of regulatory accounting guidelines based on the developments in its current regulatory and competitive environments.

Accounting Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of Business and Credit Risk

The Company provides telephone, internet and other nonregulated services on account to its customers located in southeastern North Dakota. The Company also provides access service on account to various long distance companies, which provide toll service to the Company's customers.

The FCC has proposed significant changes to the rules affecting the revenues of rural telecommunications carriers. The Company serves high cost rural areas and receives a significant portion of revenues from federal support mechanisms and access revenues from long distance carriers. The Company's revenues are significantly dependent on the continuation and level of such support mechanisms.

The Company's cash balances are maintained in bank depositories and periodically exceed federally insured limits.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all cash deposits with an original maturity of three months or less to be cash and cash equivalents.

Accounts Receivable

Trade receivables are uncollateralized customer obligations due under normal trade terms requiring payment within 30 days from the invoice date. The receivables are non-interest bearing. Payments on trade receivables are applied to the applicable unpaid invoices. The carrying amount of the trade receivables is reduced by an amount that reflects management's best estimate of the amounts that will not be collected.

Materials and Supplies

Inventories are stated at the lower of average cost or market.

Investments

Investments in limited liability companies (LLC's) are accounted for using the equity method. Under the equity method, the investment is initially recorded at cost, then reduced by the dividends and increased or decreased by the investor's proportionate share of the investee's net earnings or loss. All other investments are stated at cost.

Goodwill

Goodwill is tested annually for impairment, or more frequently, if deemed necessary. The Company tests goodwill for impairment using a two-step process. The first step is a screen for potential impairment in which the Company determines its fair value based on a number of subjective factors, including: (a) appropriate weighting of valuation approaches (income approach, market approach and comparable company approach), (b) estimates of our future cost structure, (c) discount rates for estimated cash flows, (d) selection of peer group companies for our market approach, (e) required level of working capital, (f) assumed terminal value, and (g) time horizon of cash flow forecasts. The Company estimates the fair value using Level 3 inputs as defined in the fair value hierarchy.

If such tests indicate potential impairment due to the carrying value of the reporting unit exceeding its fair value, then a second step measures the amount of impairment, if any. The Company performed the required annual tests as of December 31, 2013, and determined that there was no impairment at that time. There were no impairment losses recorded during the periods ending March 31, 2014 and 2013.

Telecommunications Plant and Equipment

Additions to plant and equipment are recorded at cost, which includes contracted work, direct labor and materials, and allocable overheads. When units of plant and equipment are retired, sold, or otherwise disposed of in the ordinary course of business, their average book cost less net salvage is charged to accumulated depreciation. Maintenance and repair costs and the replacement and renewal of items determined to be less than units of plant and equipment are charged to expense.

Depreciation

The majority of the Company's plant and equipment is plant used for the wireline telephone business. Depreciation is based on the composite group remaining life method and straight-line composite rates. This methodology provides for the recognition of the cost of the remaining investment in telephone plant and equipment less anticipated positive net salvage value, over the remaining asset lives. When depreciable telephone plant is replaced or retired, the carrying amount of such plant is deducted from the respective accounts and charged to accumulated depreciation and no gain or loss is recognized. Use of this methodology requires the periodic revision of depreciation rates. In the evaluation of asset lives, multiple factors are considered, including expected future retirements, technology changes and the adequacy of depreciation reserves.

Impairment of Long-Lived Assets

Long-lived assets, such as telecommunications plant, and purchased intangibles subject to amortization, are reviewed from impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset group to estimated undiscounted future cash flows expected to be generated by the asset group. If the carrying amount of an asset group exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset group exceeds the fair value of the asset group. There were no asset impairments recorded during the periods ended March 31, 2014 and 2013.

Income Taxes

The Company will file federal and state income tax returns on a consolidated basis. All income taxes reflected by the Company have been computed on a separate return basis. The Company follows the liability method of accounting for income taxes, under which deferred income tax assets and liabilities are determined based on the difference between financial reporting and income tax bases of assets and liabilities using the enacted marginal tax rates and laws expected to be in effect when the differences are expected to reverse. Temporary differences result primarily from depreciation and certain accruals.

The Company has evaluated whether it was necessary to recognize any benefit from uncertain tax positions in currently open tax periods and determined that there are no material uncertainties within its filed tax returns. As of March 31, 2014 and December 31, 2013, the unrecognized tax benefit accrual was zero. The Company would recognize future accrued interest and penalties related to unrecognized tax benefits in income tax, if incurred. Generally, the Company is no longer subject to Federal and state tax examinations by tax authorities for years prior to 2009.

Government Grants

The Company receives grant money from the Broadband Initiatives Program administered by RUS (Note 5). Government grants will be accrued as a receivable when we determine we have complied with the conditions attached to the grant arrangement. Government grants received in advance are recorded as Deferred Broadband Initiatives Program grant funds on the Balance Sheet. Grants received for reimbursement of capital expenditures is accounted for as a deduction from the cost of the asset. Depreciation is calculated and recorded based on our net investment. The impact of the grant is reflected in earnings as a reduction in depreciation. Grant funds received are shown as inflows in the investing activities section of the Consolidated Statements of Cash Flows.

Revenue Recognition

Telephone service revenue is primarily derived from regulated local, intrastate and interstate access services and recognized as services are provided.

Local access revenues come from providing local telephone exchange services and are billed to local end-users in advance in accordance with tariffs approved by the state regulatory commission. Such advance billings are initially deferred and recognized as revenue when earned.

Revenue that is billed in arrears includes nonrecurring intrastate and interstate network access services, nonrecurring local services and long distance services. The earned but unbilled portion of this revenue is recognized as revenue in the period that the services are provided.

Revenue from intrastate access is based on tariffs approved by the state regulatory commission. Revenue from interstate access is derived from settlements with NECA. NECA was created by the FCC to administer access rates and revenue pooling on behalf of local exchange carriers who elected to participate in a pooling environment. Interstate settlements, including amounts received under Universal Service Fund mechanisms, are determined based on the Company's cost of providing telecommunications service, including investments in specific types of infrastructure and operating expenses and taxes.

Interstate access revenue recognition is based on management's estimate of the final earning settlement of the NECA pools. For the NECA Common Line pool, the 2014 and 2013 rates-of-return are expected to equal the authorized rate-of-return of 11.25%; therefore, interstate revenues were increased to reflect the additional revenues which are expected to be received from NECA once the Common Line pool settlements are finalized.

The Company also leases use of telecommunications facilities on a short term basis to other telecommunications companies. Revenue from the leases is recognized monthly when earned.

Other ancillary revenues, derived from the provision of directory advertising and billing and collection services, are recognized as services are provided based on the rates under the respective contract. Non-regulated operations are included in other income in the accompanying consolidated statements of income.

Advertising Costs

Advertising costs are expensed as incurred.

Sales Taxes

The Company has customers in North Dakota and its municipalities in which those governmental units impose a sales tax on certain sales. The Company collects those sales taxes from its customers and remits the entire amount to the various governmental units. The Company's accounting policy is to exclude the tax collected and remitted from revenue and cost of revenue.

Fair Value of Financial Instruments

The carrying value of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable, and long-term notes payable approximate their fair value as of March 31, 2014 and December 31, 2013.

The cost investments are carried at historical cost due to no readily determinable fair value for those instruments being available. Management believes there has been no other than temporary impairment in the investments.

Earnings per Common Share

The Company computes net income per common share in accordance with the provision included in ASC 260, *Earnings per Share* ("ASC 260"). Under ASC 260, basic and diluted income per share is computed by dividing net income available to stockholders by the weighted average number of common shares and common share equivalents outstanding during the period. Basic income per common share excludes the effect of potentially dilutive securities, while diluted income per common share reflects the potential dilution that would occur if securities or other contracts to issue common shares were exercised for, converted into or otherwise resulted in the issuance of common shares. The company had no potentially dilutive common share equivalents outstanding at March 31, 2014 and December 31, 2013.

Reclassifications

Certain reclassifications have been made to the 2013 consolidated financial statement presentation in order to conform to the 2014 consolidated financial statement presentation. The reclassifications had no effect on net income or equity.

Recent Accounting Pronouncements

We reviewed all significant newly issued accounting pronouncements and determined they are either not applicable to our business or that no material effect is expected on our financial position and results of operations.

Note 2 - Telecommunications Plant and Equipment

Depreciation and amortization expense for the three months ended March 31, 2014 and 2013 was \$156,856 and \$178,416 respectively.

Note 3 - Equity Method Investments

	March 31, 2014 <u>(Unaudited)</u>	<u>December 31, 2013</u>
Dakota Carrier Network, LLC (3.433% ownership at equity)	<u>\$ 1,757,259</u>	<u>\$ 1,645,569</u>

The Company recognized equity earnings from Dakota Carrier Network, LLC of \$111,690 and \$114,586 during the three months ended March 31, 2014 and 2013 respectively. The Company received no distributions during the three months ended March 31, 2014 and 2013.

ICTC Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
March 31, 2014

Condensed financial information of Dakota Carrier Network, LLC is as follows:

	<u>March 31,</u> 2014 <u>(Unaudited)</u>	<u>December 31,</u> 2013 <u>(Unaudited)</u>
Assets		
Current assets	\$ 3,599,911	\$ 5,118,983
Other assets	1,168,823	1,283,676
Property, net	42,859,175	42,770,075
Total Assets	<u>\$ 47,627,909</u>	<u>\$49,172,734</u>
Liabilities and Members' Equity		
Current liabilities	\$ 464,425	\$ 1,237,174
Members' equity	47,163,484	47,935,560
Total Liabilities and Members' Equity	<u>\$ 47,627,909</u>	<u>\$49,172,734</u>
	<u>Three months ended Mar 31,</u> 2014 <u>(Unaudited)</u>	<u>2013</u> <u>(Unaudited)</u>
Operations		
Revenues	\$ 11,303,628	\$ 11,225,800
Expenses	8,256,983	7,885,937
Net income	<u>\$ 3,046,645</u>	<u>\$ 3,339,863</u>

Note 4 - Long-Term Debt

The Company has subordinated notes with former shareholders for \$2,071,800 as of June 30, 2013 and December 31, 2012. The Company restructured the interest rate on the notes from 8% to 6% effective January 1, 2012, and the maturity date was extended to December 31, 2022. Interest on the notes is paid quarterly. The notes may be prepaid at any time without penalty.

During the three months ended March 31, 2014, the Company received no advances on the Broadband Initiatives Program Loan. See Note 5 for additional information relating to the loan/grant agreement. The loan is due in monthly payments of principal and interest over 23 years at interest rates of 2.7324% and 3.643%. The funds advanced were deposited into a pledged deposit account, the disbursements from which are restricted by the provisions of the loan/grant agreement. The loan/grant agreement also includes certain financial and other covenant requirements.

It is estimated that principal repayments on the Company's debt for the next five years will be as follows:

Years Ended March 31,

2014	18,000
2015	19,000
2016	20,000
2017	21,000
2018	22,000

Note 5 - Broadband Initiatives Program

The Company was awarded a stimulus loan and grant pursuant to the American Recovery and Reinvestment Act of 2009 to finance the construction of a broadband infrastructure project in rural areas. The \$2,338,651 project is expected to be completed during 2014. The project is being funded through a broadband loan from the Rural Utilities Service (RUS) of \$713,289, and a grant through the Broadband Initiatives Program administered by RUS, of \$1,625,362. Construction costs related to the project through March 31, 2014 were \$2,241,352 including \$86,335 in accounts payable as of March 31, 2014. The Company has received \$502,177 in advances on the broadband loan and \$1,144,304 in grant funds relating to the project and has recorded a receivable of \$413,435 for grants related to eligible costs incurred through March 31, 2014. The Company has applied the grant funds against construction costs.

Note 6 - Stockholders' Equity

On April 15, 2013, the Company announced that it had received notice from CIBL, Inc. ("CIBL"), that CIBL had acquired the voting rights to an additional 46,000 shares. With this action, CIBL now has voting control of the company through its control of a total of 207,552 shares of ICTC's class A stock or 51.3% of the 404,426 Class A shares that are currently outstanding.

On September 24, 2013, the Company filed an amended and restated certificate of incorporation pursuant to sections 242 and 245 of the Delaware General Corporation Law. The amendment included changing the authorized preferred stock from 44,500 shares at \$1.00 par value to 1,000,000 shares at \$.0001 par value. The amendment also eliminated the 9,000,000 shares of Class B authorized stock and reduced the 20,000,000 Class A shares authorized to 2,000,000 shares authorized.

Note 7 - Subsequent Events and Other

The Company has evaluated subsequent events through April 30, 2014.